BUDGET 2023

Budget Review

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

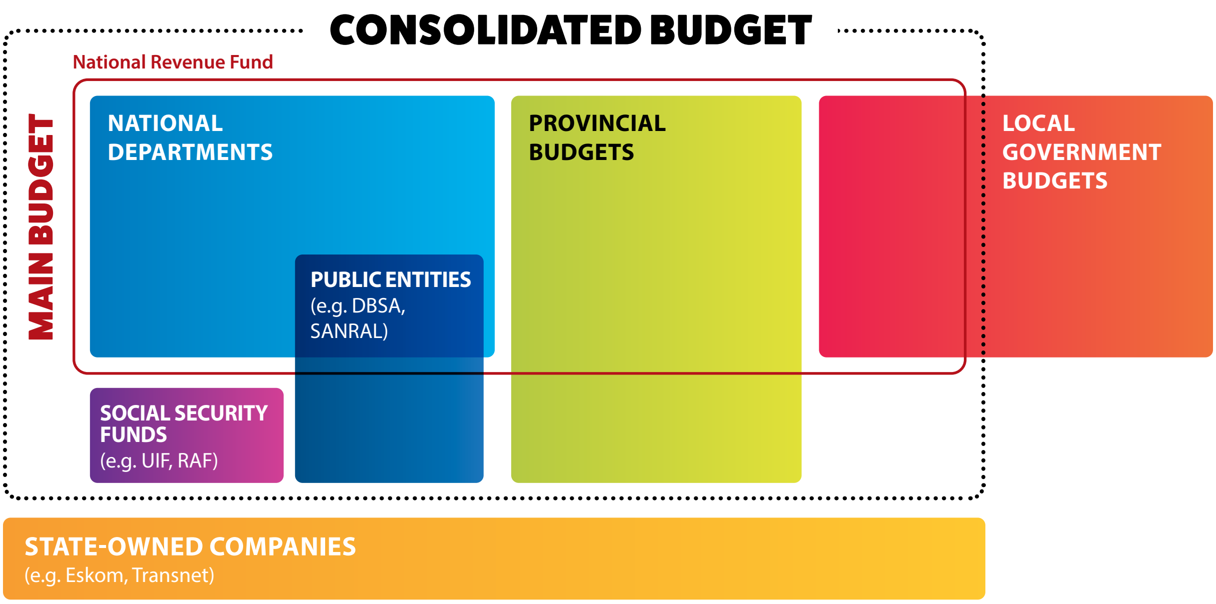
ABOUT THE BUDGET REVIEW

The *Budget Review* explains the policy considerations underlying the numbers presented in the budget. Some familiarity with budget terminology is helpful in reading the publication. Several terms are explained below. A glossary of financial and economic terms is also provided at the back of this publication.

The *Budget Review* describes three frameworks. The **fiscal framework** sets out government's revenue and spending projections – taking into account the economic outlook – and forecasts the budget balance for the next three years. If spending exceeds revenue, government has a budget deficit, which must be financed by borrowing. When government borrows money it issues a bond, which entitles the holder to interest payments, referred to in the *Budget Review* as debt-service costs. The **division of revenue** shows how taxes and other resources raised by national government will be shared between national, provincial and local government. The **medium-term expenditure framework** provides details of government's three-year spending plans.

The Constitution states that all money received by national government must be paid into the **National Revenue Fund**. This includes tax revenue and money government borrows when it incurs a budget deficit. Government's finances are presented in two ways that highlight different aspects of the budget – the **main budget** and the **consolidated budget**.

The main budget shows all expenditure financed from the National Revenue Fund. It covers most spending by national departments and their agencies, and transfers made to provincial and local government. These transfers are either in the form of an **equitable share** – which can be used as the province or municipality chooses – or a **conditional grant**, which can only be used for a particular purpose set by Parliament. In general, money can only be withdrawn from the National Revenue Fund with parliamentary approval. Parliament votes on proposed **appropriations** for each government department. Exceptions to this rule are called **direct charges** withdrawn from the National Revenue Fund in terms of the Constitution or legislation. Examples include the provincial equitable share allocation and interest payments on government debt.



The consolidated budget provides a broader view of the public finances. It includes the main budget and spending financed by sources that are not part of the National Revenue Fund, such as taxes raised by provinces for their own use. The consolidated budget includes the spending of **social security funds**, such as the Unemployment Insurance Fund, which are largely funded through statutory levies or contributions. It also includes more than 180 **public entities**, such as the Development Bank of Southern Africa. Most public entities are funded from the main budget, but some raise their own revenue through user charges. The consolidated budget excludes **state-owned companies**, such as Eskom and Transnet, which are defined as companies in which the state is the major or sole shareholder. Their revenue comes from the sale of goods and services on the market. About one-third of local government revenue is transferred from the National Revenue Fund. The remaining two-thirds come from property rates and utility bills, and these are also excluded from the consolidated budget.

Budget Review

2023

National Treasury

Republic of South Africa

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The *Budget Review* is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

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2023/24 HIGHLIGHTS

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ECONOMIC OUTLOOK

- Real GDP is projected to grow by 2.5 per cent in 2022 and growth is expected to slow over the medium term, averaging 1.4 per cent, as a result of persistent power cuts, deteriorating rail and port infrastructure, and a weaker global outlook.
- The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook.
- Higher economic growth and a durable recovery in the economic activity require a stable macroeconomic framework, complemented by rapid implementation of economic reforms and improved state capability.
- 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. Several reforms are under way in tandem to improve the performance of the transport sector, specifically freight rail and to improve the capability of the state.

BUDGET FRAMEWORK

- Government will achieve a main budget primary surplus in 2022/23. Main budget non-interest expenditure will grow, on average, slightly above consumer price index inflation in the outer two years of the medium-term expenditure framework period.
- The consolidated budget deficit will decline from 4.6 per cent of GDP in 2021/22 to 4.2 per cent of GDP in 2022/23, reaching 3.2 per cent of GDP in 2025/26.
- The Eskom debt relief, amounting to R254 billion, will require a step change in public debt which will result in government debt stabilising at 73.6 per cent of GDP in 2025/26, later and at a higher level than in the 2022 Medium Term Budget Policy Statements.
- Servicing debt requires an increasing share government's available resources. Debt-service costs as a per cent of main budget revenue will increase from 18 per cent in 2022/23 to 19.8 per cent in 2025/26 and is expected to average R366.8 billion a year over the medium term.

SPENDING PROGRAMMES

- Total consolidated government spending will amount to R7.08 trillion over the next three years, of which 51 per cent or R3.6 trillion is allocated for the social wage.
- The 2023 Budget allocates additional funding totalling R227 billion over the next three years. The additional funds are mainly to extend the COVID-19 social relief of distress grant until 31 March 2024, improve investment in local and provincial government infrastructure, and support safety and security, education and health services.
- The learning and culture function is allocated R1.43 trillion over the next three years – the largest proportion (24 per cent) of total allocated spending.
- Community development is the fastest growing function, averaging 8 per cent annually over the medium term, mainly due to the allocation of additional funds for the local government equitable share and for infrastructure.

TAX PROPOSALS

- Government proposes tax relief totalling R13 billion in 2023/24 to support the clean energy transition, increase the electricity supply and limit the impact of consistently high fuel prices.
- R4 billion in relief is provided for individuals that install solar panels, and R5 billion to companies through an expansion of the renewable energy tax incentive.
- Inflation-related adjustments to the personal income tax tables, the retirement tax tables, and transfer duties are provided.
- Excise duties on alcohol and tobacco will increase in line with expected inflation of 4.9 per cent. The rate for sparkling wine is pegged at 3.2 times that of natural unfortified wine.
- As in the 2022 Budget, government again proposes no changes to the general fuel levy or the Road Accident Fund levy.
- To limit the impact of the energy crisis on food prices, the diesel fuel levy refund will be extended to manufacturers of foodstuffs for a period of 2 years, from 1 April 2023 until 31 March 2025.

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KEY BUDGET STATISTICS

A full set of 2023 Budget data can be found in the statistical tables at the back of the *Budget Review*. The data on this page may differ from the statistical annexure due to classification, definition and rounding.

BUDGET REVENUE, 2023/24

R billion	
TAX REVENUE	**1 787.5**
of which:	
Personal income tax	640.3
Corporate income tax	336.1
Value-added tax	471.5
Taxes on international trade and transactions	76.6
Non-tax revenue	**51.6**
Less: SACU payments	-79.8
Main budget revenue	**1 759.2**
Provinces, social security funds and public entities	199.7
Consolidated budget revenue	**1 958.9**
As percentage of GDP	
Tax revenue	25.5%
Main budget revenue	25.1%

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Household consumption	1.2	-5.9	5.6	2.8	1.0	1.5	1.8
Gross fixed-capital formation	-2.1	-14.6	0.2	4.2	1.3	3.8	3.5
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**
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

CONSOLIDATED FISCAL FRAMEWORK

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			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%*
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%*
Gross domestic product	**5 699.2**	**5 606.7**	**6 287.6**	**6 651.3**	**7 005.7**	**7 452.4**	**7 938.5**

DIVISION OF NATIONALLY RAISED REVENUE

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Estimate	Medium-term estimates		
DIVISION OF AVAILABLE FUNDS							
National departments	749.8	790.5	823.0	854.4	828.6	835.7	877.9
Provinces	613.4	628.8	660.8	694.6	695.1	720.5	754.7
Local government	123.0	137.1	135.6	147.8	164.0	174.4	183.3
Provisional allocation not assigned to votes	-	-	-	-	1.5	3.9	4.0
Non-interest allocation	**1 486.2**	**1 556.4**	**1 619.4**	**1 696.8**	**1 689.1**	**1 734.4**	**1 819.9**
PERCENTAGE SHARES							
National departments	50.4%	50.8%	50.8%	50.4%	49.1%	48.3%	48.3%
Provinces	41.3%	40.4%	40.8%	40.9%	41.2%	41.6%	41.6%
Local government	8.3%	8.8%	8.4%	8.7%	9.7%	10.1%	10.1%

CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2023/24

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	231.5	34.0	13.0	31.0	0.0	**309.5**
Post-school education and training	13.6	2.3	1.8	117.9	0.0	**135.6**
Arts, culture, sport and recreation	4.4	3.5	1.2	2.9	0.0	**12.0**
Health	163.6	76.1	13.3	6.2	0.0	**259.2**
Social protection	15.8	9.1	0.5	260.7	0.0	**286.2**
Social security funds	5.6	5.8	1.7	79.1	0.1	**92.4**
Community development	18.2	16.2	99.9	125.3	0.1	**259.7**
Industrialisation and exports	11.1	7.2	6.5	15.7	0.0	**40.5**
Agriculture and rural development	12.1	7.2	6.1	2.4	0.0	**27.8**
Job creation and labour affairs	3.8	11.0	0.3	9.5	0.0	**24.6**
Economic regulation and infrastructure	25.7	53.8	32.6	4.3	8.5	**124.9**
Innovation, science and technology	5.4	3.8	2.8	7.8	0.0	**19.8**
Defence and state security	28.4	13.5	1.5	9.3	0.0	**52.7**
Police services	85.7	20.4	4.1	1.8	0.0	**112.1**
Law courts and prisons	34.8	13.8	1.9	1.0	0.0	**51.4**
Home affairs	6.5	3.3	1.0	0.4	0.0	**11.1**
Executive and legislative organs	8.4	5.4	1.3	1.7	0.0	**16.8**
Public administration and fiscal affairs	23.6	16.3	2.8	5.6	0.0	**48.4**
External affairs	3.0	2.5	0.5	2.2	0.2	**8.4**
Payments for financial assets						**4.1**
Debt-service costs					340.5	**340.5**
Contingency reserve						**5.0**
Total	**701.2**	**305.2**	**192.8**	**685.0**	**349.5**	**2 242.6**

Note: Payments for financial assets are not shown in the table, but are included in the row totals.

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2023/24 EXPENDITURE

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CONSOLIDATED GOVERNMENT EXPENDITURE R2.24 TRILLION

R1.35 TRILLION SOCIAL SERVICES

R237.6 bn ECONOMIC DEVELOPMENT

Economic regulation and infrastructure	R124.9 bn
Industrialisation and exports	R40.5 bn
Agriculture and rural development	R27.8 bn
Job creation and labour affairs	R24.6 bn
Innovation, science and technology	R19.8 bn

R457.1 bn LEARNING AND CULTURE

Basic education	R293.7 bn
National Student Financial Aid Scheme	R50.1 bn
University transfers	R45.1 bn
Skills development levy institutions	R24.3 bn
Education administration	R18.5 bn
Technical & vocational education and training	R13.3 bn

R227.3 bn PEACE AND SECURITY

Police services	R112.1 bn
Defence and state security	R52.7 bn
Law courts and prisons	R51.4 bn
Home affairs	R11.1 bn

R259.2 bn HEALTH

District health services	R113.1 bn
Central hospital services	R48.6 bn
Other health services	R46.1 bn
Provincial hospital services	R40.2 bn
Facilities management and maintenance	R11.3 bn

R73.6 bn GENERAL PUBLIC SERVICES

Public administration and fiscal affairs	R48.4 bn
Executive and legislative organs	R16.8 bn
External affairs	R8.4 bn

R259.7 bn COMMUNITY DEVELOPMENT

Municipal equitable share	R96.5 bn
Human settlements, water and electrification programmes	R61.7 bn
Public transport	R53.2 bn
Other human settlements and municipal infrastructure	R48.2 bn

R340.5 bn DEBT-SERVICE COSTS

R5.0 bn CONTINGENCY RESERVE

R378.5 bn SOCIAL DEVELOPMENT

Old-age grant	R99.1 bn
Social security funds	R92.4 bn
Child-support grant	R81.9 bn
Other grants	R72.9 bn
Provincial social development	R21.4 bn
Policy oversight and grant administration	R10.9 bn

FOREWORD

The 2023 Budget marks a significant step forward in re-establishing sustainable public finances. This year, government will achieve a main budget primary surplus – meaning that revenue exceeds non-interest spending – for the first time since 2008/09. Next year, the consolidated budget deficit will narrow to 4 per cent of GDP – the lowest since 2019/20.

In the context of geopolitical conflicts, climate change, debilitating power cuts and mounting spending pressures, these achievements might be easy to overlook – but they should not be easily dismissed.

South Africa suffered enormous damage over the decade of state capture. Soon thereafter, major shocks – the COVID-19 pandemic, an outbreak of public violence and the escalating electricity crisis – dealt additional blows to the economy, and put the already strained national budget under more pressure.

Healthy public finances can help us build a prosperous future. Yet today South Africa spends more to service its debt than it does on health, social development, or peace and security. There has also been a tendency to favour recurrent expenditure over investment, weakening our growth potential even further. Over time, stronger public finances will enable government to spend less on debt service, which consumes 18 cents of every rand of revenue, and spend more on developmental priorities, including public infrastructure.

The 2023 Budget proposes R254 billion in debt relief to Eskom. This arrangement, subject to strict conditions, will relieve extreme pressure on the utility's balance sheet, enabling it to conduct necessary maintenance. It also supports restructuring the electricity market to help South Africa establish a stable, uninterrupted power supply as it transitions to a clean energy future. The scale of Eskom debt relief increases government borrowing, resulting in debt stabilising later than projected in the 2022 *Medium Term Budget Policy Statement*. Public debt is now set to stabilise at 73.6 per cent of GDP in 2025/26 and decline thereafter.

In 2022, the economy is estimated to have grown by 2.5 per cent, supported by high commodity prices and strong third-quarter performances in agriculture and services. In 2023, however, global growth is expected to slow, commodity prices are declining and there is no immediate end in sight to power cuts.

The economy needs massive private investment to grow and thrive. To support investment, government continues to provide a clear and stable macroeconomic framework. Reforms to cut red tape, improve efficiency and encourage investment are under way, with a focus on electricity and transport. But faster implementation is needed to lift economic growth.

Budget allocations strengthen state capability, increase infrastructure investment, and boost the fight against crime and corruption. The social wage continues to receive the bulk of public resources through the budget. Prudent fiscal management and well-considered trade-offs must be important features of future budgets if these gains are to be maintained.

I would like to thank Cabinet, the Minister and Deputy Minister of Finance, Parliament's Standing Committee on Finance, the Standing Committee on Appropriations, the Budget Council and my government counterparts for their contributions to this budget. I want to extend my heartfelt appreciation to the dedicated and hardworking National Treasury team, who always strive to deliver on the vision outlined in our Constitution.

Ismail Momoniat
Acting Director-General

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2023 BUDGET REVIEW

NAVIGATING AN UNEVEN ECONOMIC RECOVERY

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In brief

- 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.
- 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.

OVERVIEW

Government is navigating difficult domestic and global economic conditions with stable, balanced and clear policies that support faster growth and address emerging fiscal risks. The fiscal consolidation strategy proposed in the 2020 *Medium Term Budget Policy Statement* (MTBPS) has enabled government to stabilise the public finances in the context of several shocks and a highly uncertain economic outlook. While maintaining this prudent stance, government will continue to protect the social wage, invest in infrastructure and strengthen the criminal justice system, without resorting to tax rate increases that could harm economic growth.

Prolonged and debilitating power failures, a weaker performance among the world's largest economies and persistently higher inflation are expected to reduce South Africa's GDP growth from 2.5 per cent in 2022 to 0.9 per cent in 2023. Meanwhile, the fiscal position has improved. A primary surplus will be achieved in 2022/23 and is projected to reach 1.7 per cent of GDP in 2025/26, while the consolidated deficit is set to narrow from 4.2 per cent of GDP to 3.2 per cent in 2025/26.

A central proposal of the 2023 Budget, which will carry through over the medium-term expenditure framework (MTEF) period, is to provide substantial debt relief to Eskom. This arrangement, subject to strict conditions, will relieve extreme pressure on the utility's balance sheet. The debt relief will support a broader industry restructuring. Establishing a competitive electricity market will enable South Africa to ensure a stable, uninterrupted power supply as it transitions to a clean energy future. The arrangement, which will enable Eskom to pay down its debt and interest obligations over the next three years, will increase government's borrowing requirement.

POLICIES FOR AN UNCERTAIN ECONOMIC OUTLOOK

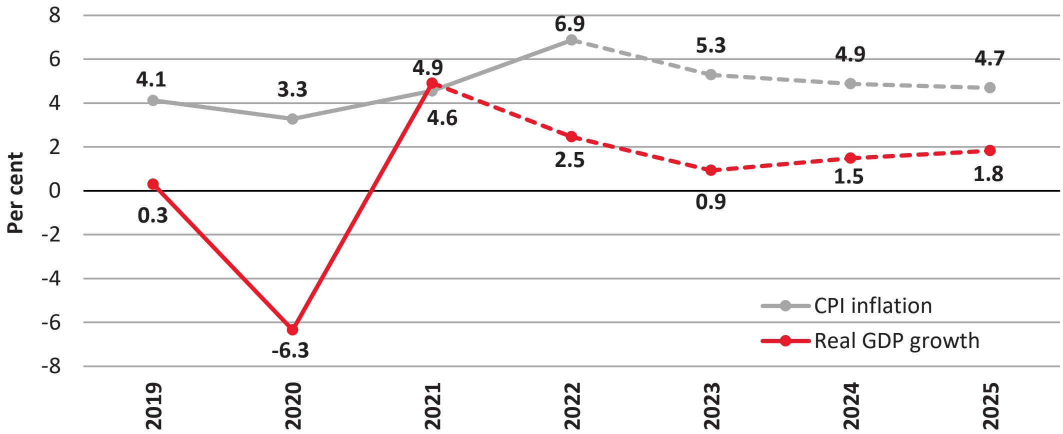
The post-pandemic period has been characterised by an uneven recovery. In 2021, the economy grew by 4.9 per cent after accounting for inflation. The 2022 growth estimate has been revised upwards to 2.5 per cent from 1.9 per cent at the time of the 2022 MTBPS. However, projected economic growth for 2023 has been revised downwards to the lowest level since 2020.

Countervailing factors have made it difficult to assess the economic outlook:

- Prolonged power failures and poor operational performance of transport industries continue to hamper operations and investment in manufacturing, mining and agriculture.
- Global inflation reached 8.8 per cent in 2022. A concerted effort by central banks to combat inflation has led to the strengthening of the US dollar, higher borrowing and debt-service costs for government and other borrowers, lower investment and consumer demand, and lower growth.
- The reopening of China's economy, and the consequent pick-up in global trade and demand, may counteract downside factors weighing on the global outlook.

GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate of 1.4 per cent at the time of the MTBPS, recovering slowly to 1.8 per cent in 2025. This rate of economic expansion is well below the pace required to generate significant employment growth and support national development.

Figure 1.1 Real GDP growth and CPI inflation



Source: National Treasury and Statistics South Africa

Macroeconomic stability, structural reforms and state capability

Three policies support the economic growth agenda. The first is ensuring a clear and stable macroeconomic framework; the second is implementing reforms in key areas of the economy, particularly energy and transport; and the third is improving state capability.

The 2023 Budget reduces the consolidated budget deficit to 3.2 per cent of GDP in 2025/26 – its lowest level since 2017/18 – and maintains fiscal buffers through a contingency reserve, an unallocated reserve and a rising primary budget surplus. In this way, policy settings prevent the build-up of systemic risks to the financial system and broader economy, protecting the value of savings and building confidence for investors.

As outlined in Chapter 2, the economic reform agenda is making progress. Over the last year, additional steps have been taken to liberalise the electricity sector and encourage private investment. Power generation regulations have been relaxed, with businesses and municipalities given greater freedom to generate power and implement greener solutions. Eskom debt relief will reduce financial pressure on the utility, enabling it to conduct necessary maintenance. Government is pursuing greater competition in transport and logistics through third-party access to the freight rail sector.

Over the next three years, additions to expenditure are designed to ease conditions for economic activity and cushion poor households from the effects of weak economic growth. Apart from the one-year extension of the *COVID-19 social relief of distress grant*, additional allocations prioritise education, health, safety and security, and infrastructure-related spending. The budget will boost public investment, with budgets for buildings and fixed structures growing, on average, by 18.9 per cent annually over the MTEF period.

ESKOM DEBT RELIEF

The 2023 Budget proposes large-scale debt relief for Eskom, as outlined in the box below. This arrangement will require a significant increase in public debt. Gross loan debt will rise from R4.73 trillion in 2022/23 (71.1 per cent of GDP) to R5.84 trillion (73.6 per cent of GDP) in 2025/26 and will decline thereafter. Although the stock of government debt will increase, the fiscal balance will nevertheless continue to improve over the medium term. The main budget fiscal deficit will decrease from 4.5 per cent of GDP in 2022/23 to 3.3 per cent of GDP in 2025/26.

Eskom debt-relief arrangement

Eskom's operational failures are intertwined with its untenable financial position. Since 2008/09, government has provided the utility with R263.4 billion in bailouts. These allocations have failed to stem the collapse of Eskom's balance sheet and operations. The utility imposes an enormous drain on the economy and its debt stands at an unsustainable R423 billion. Government guarantees R350 billion of this debt, which is at risk of default – a contingent liability that raises South Africa's risk premium and borrowing costs.

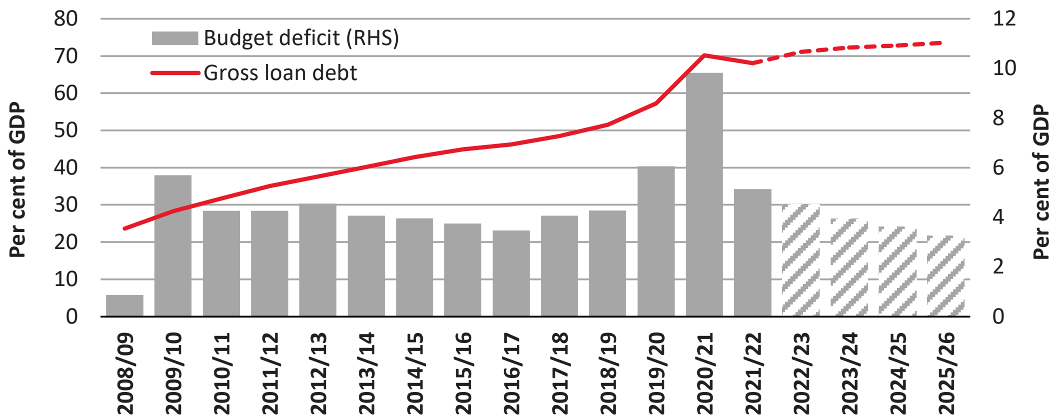
Government proposes to provide Eskom with debt relief of R254 billion (about R168 billion in capital and R86 billion in interest) over the next three years. The goal is to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support 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.
- In 2025/26, government will directly take over up to R70 billion of Eskom's loan portfolio.

This arrangement has been the subject of extensive consultation with Eskom and its stakeholders. Annexure W3 (online) reviews the provision of debt relief and spells out the strict conditions governing the arrangement. Its success rests on the implementation of key reforms that address the inadequacies of the transmission network and performance of existing power stations, which form part of the following obligatory conditions:

- Eskom, the National Treasury and the Department of Public Enterprises have agreed to design a mechanism for building new transmission infrastructure that will allow for extensive private-sector participation in the development of the transmission network.
- The National Treasury has appointed an international consortium with extensive experience in the operations of coal-fired power stations to review all plants in Eskom's coal fleet and advise on operational improvements. The review is scheduled to conclude by mid-2023. Eskom is required to implement the operational recommendations emanating from this independent assessment. This will include a determination of which plants can be resuscitated to original equipment manufacturers' standards, following which Eskom must concession all these power stations with clear targets for the electricity availability factor and operations.

Figure 1.2 Fiscal ratios over the medium term



Source: National Treasury

CONSOLIDATING THE PUBLIC FINANCES

The 2022 MTBPS outlined three fiscal objectives:

- Reduce the budget deficit and stabilise debt as a percentage of GDP.
- Support economic growth by maintaining a prudent fiscal stance, directing resources towards infrastructure, and fighting crime and corruption.
- Reduce fiscal and economic risks, including through the Eskom debt-relief arrangement.

The fiscal balance will continue to improve over the medium term, with government non-interest spending below revenue. The consolidated fiscal deficit will narrow from 4.2 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. A small primary budget surplus is achieved in 2022/23.

The budget supports economic growth through higher public infrastructure investment. Government spending on buildings and fixed structures will increase from R62 billion in 2022/23 to R104.2 billion in 2025/26. To improve municipal water infrastructure, the Budget Facility for Infrastructure has approved projects to the value of R3.7 billion, and these are ready for implementation once the 2023 Appropriations Bill is enacted.

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, while additions of R1.3 billion and R100 million are made to the budget of the National Prosecuting Authority and the Special Investigating Unit, respectively.

Higher-than-anticipated revenues are split between new spending and reducing debt. The 2023 Budget tax proposals do not increase the overall tax burden, but continue to focus on broadening the base and confronting illicit activities. The South African Revenue Service is allocated additional funding to strengthen tax administration and collection, and combat the illicit economy.

Combating financial crimes and illicit activities

Since 2003 South Africa has been a member of the Financial Action Task Force (FATF), which sets global standards to combat money laundering and the financing of terrorism across national borders.

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 enactment of legislation in 2022 – the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act – addresses 15 of the 20 legislative deficiencies identified. 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. The 2023 Budget also allocates an additional R265.3 million to the Financial Intelligence Centre over the MTEF period to implement the recommendations of the State Capture Commission and the FATF.

At its February 2023 plenary, the FATF will pronounce on South Africa's progress and the extent to which it will face enhanced monitoring, including possible grey listing. Additional information is provided in Annexure E.

Risks to the fiscal outlook

The major fiscal risks are as follows:

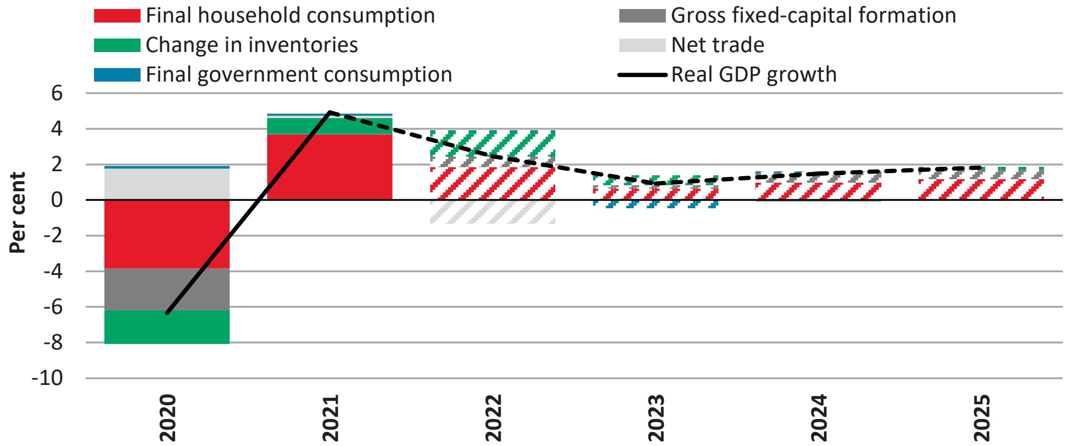
- Low or no economic growth, leading to lower tax revenues and simultaneous requests for fiscal support.
- Rising borrowing costs due to inflation and higher interest rates.
- Unaffordable public-service wage bill settlements.
- A replacement of the current *COVID-19 social relief of distress grant* with an unaffordable alternative.

SUMMARY OF THE 2023 BUDGET

Economic outlook

The economy is estimated to have grown by 2.5 per cent in real terms in 2022. However, largely as a result of intensive and persistent load-shedding, real GDP growth has been revised down to 0.9 per cent for 2023. Over the next three years, growth will average 1.4 per cent. Chapter 2 discusses the economic outlook and associated risks, provides details on government's economic growth strategy and reports on the status of previously announced reforms.

Figure 1.3 Macroeconomic outlook*



**Stacked bars indicate the contributions of each component to real GDP growth, while residual term has been omitted*
Source: National Treasury

Table 1.1 Macroeconomic outlook – summary

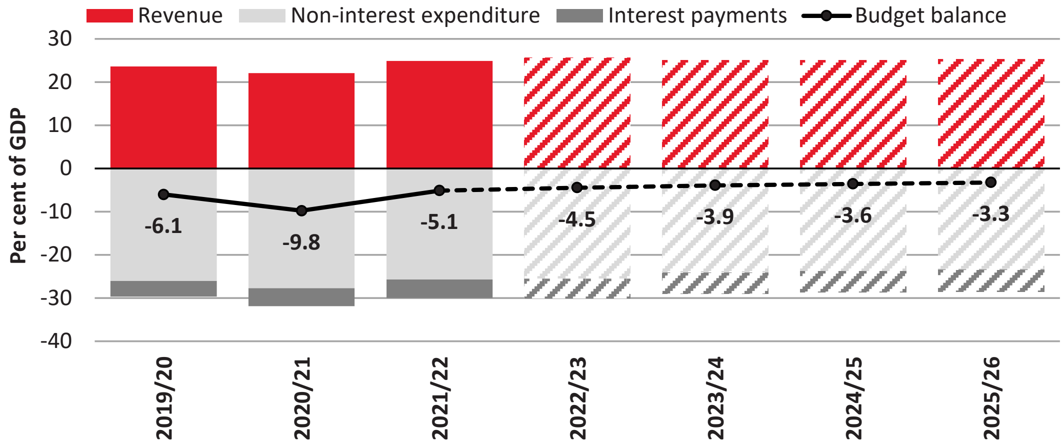
Real percentage growth	2022	2023	2024	2025
	Estimate	Forecast		
Household consumption	2.8	1.0	1.5	1.8
Gross fixed-capital formation	4.2	1.3	3.8	3.5
Exports	8.8	1.0	2.2	2.9
Imports	14.0	1.1	2.3	2.9
Real GDP growth	**2.5**	**0.9**	**1.5**	**1.8**
Consumer price index (CPI) inflation	6.9	5.3	4.9	4.7
Current account balance (% of GDP)	-0.4	-1.8	-2.0	-2.1

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available, it is denoted by "N/A"
Source: National Treasury, Reserve Bank and Statistics South Africa

Fiscal policy

The consolidated budget deficit is projected to continue declining over the MTEF period ahead, narrowing to 3.2 per cent in 2025/26. Gross loan debt, incorporating the Eskom debt-relief arrangement, will stabilise at 73.6 per cent of GDP in 2025/26. 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.

Figure 1.4 Main budget fiscal outlook



Source: National Treasury

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2022/23	2023/24	2024/25	2025/26
	Revised estimate	Medium-term estimates		
Revenue	**1 892.7**	**1 958.9**	**2 077.8**	**2 225.3**
	28.5%	*28.0%*	*27.9%*	*28.0%*
Expenditure	**2 168.8**	**2 242.6**	**2 359.7**	**2 477.4**
	32.6%	*32.0%*	*31.7%*	*31.2%*
Budget balance	**-276.1**	**-283.7**	**-282.0**	**-252.1**
	-4.2%	*-4.0%*	*-3.8%*	*-3.2%*

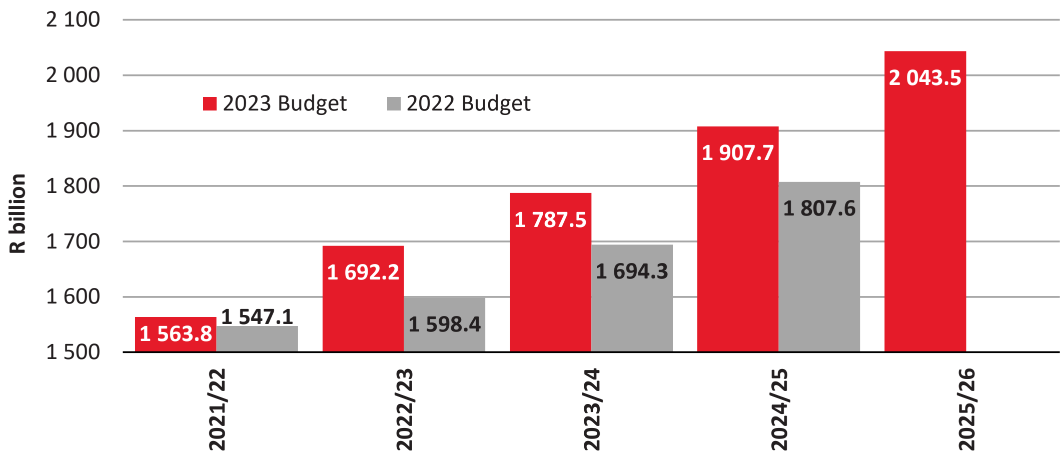
Source: National Treasury

Revenue trends and tax proposals

Gross tax revenue for 2022/23 is expected to reach R1.69 trillion – R93.7 billion higher than the 2022 Budget estimate. Tax relief totalling R13 billion supports the clean-energy transition, increases electricity supply and limits the impact of consistently high fuel prices. In addition, the budget provides inflation-related adjustments to the personal income tax tables, the retirement tax tables, and alcohol and tobacco duties.

South Africa's broad-based tax system keeps tax rates at a level consistent with promoting economic growth. Although no new tax rate increases are proposed in the 2023 Budget, new spending policies, such as a possible extension of or significant increase in the cost of expanded social protection programmes, may prompt a reconsideration.

Figure 1.5 Medium-term gross tax revenue outlook



Source: National Treasury

Table 1.3 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		
Increase in excise duties on alcohol	–	
Increase in excise duties on tobacco	–	
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

Medium-term spending plans

The consolidated spending budget amounts to R7.08 trillion over the next three years. A majority of this amount – R3.6 trillion – is allocated to the social wage: combined public spending on health, education, housing, social protection, transport, employment and local amenities.

Additions to baselines since the 2022 Budget amounting to R227 billion are proposed over the medium term. These increases support infrastructure, crime fighting, health and education. Debt-service costs account for an average of 17.1 per cent of main budget expenditure over the medium term.

Table 1.4 Consolidated government expenditure by function

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

1. Consisting of national and provincial government, social security funds and selected public entities. Refer to Annexure W2 on the National Treasury website for a full list of entities included
Source: National Treasury

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.

Table 1.5 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%*

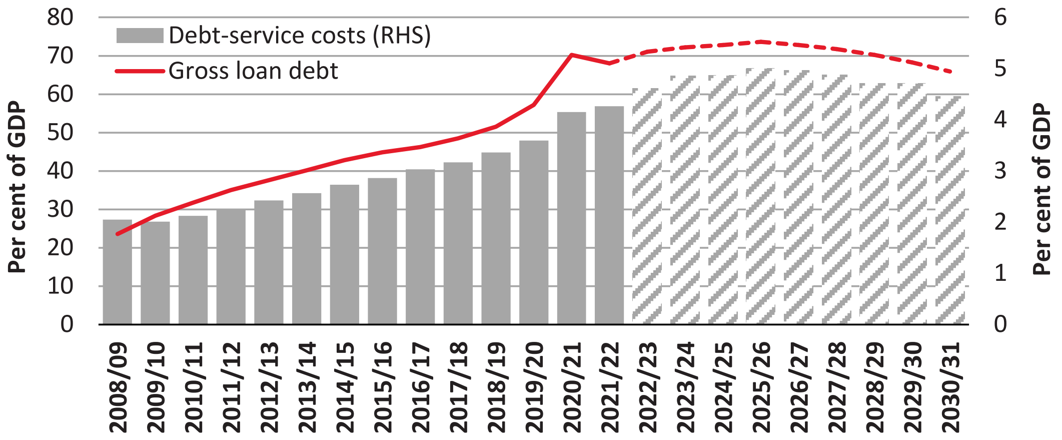
Source: National Treasury

Government debt and contingent liabilities

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. Debt will rise as a percentage of GDP, but will stabilise at 73.6 per cent in 2025/26, before declining for the rest of the decade.

Debt-service costs will also rise, due to rising market lending rates and Eskom debt relief.

Figure 1.6 Gross loan debt and debt-service costs



Source: National Treasury

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2022/23	2023/24	2024/25	2025/26
Gross loan debt	**4 727.4**	**5 060.2**	**5 423.7**	**5 843.0**
	71.1%	*72.2%*	*72.8%*	*73.6%*
Debt-service costs	**307.2**	**340.5**	**362.8**	**397.1**
	4.6%	*4.9%*	*4.9%*	*5.0%*

Source: National Treasury

Financial position of state-owned companies

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.

Table 1.7 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

BUDGET DOCUMENTATION

The 2023 *Budget Review* is accompanied by several other documents and submissions to Parliament. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Eskom Debt Relief Bill
- The Estimates of National Expenditure.

These and other fiscal and financial publications, including the People's Guide to the Budget, are available at www.treasury.gov.za.

2

2023 BUDGET REVIEW

ECONOMIC OUTLOOK

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- South Africa is expected to register better-than-expected GDP growth of 2.5 per cent in 2022, largely due to strong agriculture and services sector growth in the third quarter.
- GDP growth is expected to decline over the medium term, averaging 1.4 per cent, as a result of persistent power cuts, deteriorating rail and port infrastructure, and a weaker global outlook.
- 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 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.

OVERVIEW

South Africa's economy grew by an estimated 2.5 per cent in 2022 – an upward revision from 1.9 per cent in the 2022 *Medium Term Budget Policy Statement* (MTBPS). However, the medium-term growth outlook has deteriorated. 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.

Inadequate electricity supply remains the most immediate and significant constraint to production, investment and employment. This is compounded by disruptions to and underinvestment in freight and logistics networks, which erode competitiveness. Rising inflation has constrained household spending and raised the cost of living.

Global growth is expected to slow in 2023. Central banks 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.

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 under way, and improved state capability.

ENHANCING ECONOMIC GROWTH

The domestic economy experienced persistently weak fixed investment, high unemployment and low growth for most of the decade preceding the COVID-19 pandemic. Anaemic growth over this period was largely the result of longstanding structural weaknesses in the economy, including inefficiency in network industries (electricity, logistics, water and telecommunications), inadequate competition, poor educational outcomes and skills mismatches, and the perpetuation of apartheid spatial legacies. Combined with recent economic shocks, these structural problems undermine the country's growth potential and social fabric. Addressing these problems requires structural reforms, increased investment and measures to improve the economy's resilience.

Government continues to provide a stable macroeconomic policy framework, underpinned by a flexible exchange rate, inflation targeting and sustainable fiscal policy, to encourage investment. This framework mitigates the domestic impact of global shocks. Low and stable inflation safeguards purchasing power, particularly for low-income households that are most adversely affected by rising prices. Fiscal policy works to stabilise the public finances, reducing the economy-wide cost of borrowing and creating the fiscal space needed to respond to economic shocks when they occur.

In tandem with policy settings to encourage investment, accelerated implementation of structural reforms is needed to lift the rate at which the economy can grow. The most pressing reforms are required in electricity and freight rail, where inadequate capacity is a brake on economic activity. Numerous reforms in other sectors are under way through Operation Vulindlela and the economic recovery plan.

Update on the economic recovery plan

In the last year, government has made progress implementing its economic recovery plan:

- Government established the National Energy Crisis Committee (NECOM) to coordinate a response to the electricity crisis, bring an end to power cuts and accelerate new energy generation. The licensing requirement for embedded generation projects has been lifted and the pipeline has grown to over 100 projects with more than 9 000 megawatts (MW) of capacity.
- To create an enabling environment, the work visa system is being updated. A remote worker visa and a special dispensation for high-growth start-ups will be introduced. Amendments are being finalised to the Businesses Act (1991) to reduce regulatory constraints for small businesses.
- To promote industrial growth, eight masterplans are being implemented. The agriculture and agro-processing masterplan was signed in May 2022 and aims to grow output by R32 billion in the agriculture, forestry and fishing sector by 2030. The cultural and creative industries masterplan was approved by Cabinet in August 2022.
- The presidential employment initiative has created over 1 million short-term jobs over the past two years. The next cohort of 255 000 young people will take up posts as school assistants in over 22 000 schools from 1 February 2023.
- Rollout of critical infrastructure is under way in water and sanitation, energy and transport. Projects worth R134.2 billion are in procurement, R232.3 billion are in construction and R3.9 billion have been completed.

Tackling the electricity crisis

Eskom's generation fleet continues to perform poorly due to maintenance backlogs in old power stations and design flaws in new plants. The failure to address grid constraints and meet approval requirements, as well as increasing costs, have resulted in lower-than-expected capacity being procured from the Renewable Energy Independent Power Producer Procurement Programme as well as the Risk Mitigation Independent Power Producer Procurement Programme. Onerous regulatory requirements that delay private generation have exacerbated the crisis. The total hours of power cuts increased from 1 165 in 2021 to 3 782 in 2022.

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. In the short term, NECOM aims to improve the availability of electricity and facilitate investment in generation capacity. If planned investments are implemented rapidly, 6 484 MW could be added to the grid over the next 24 months (Figure 2.1). Specific actions include:

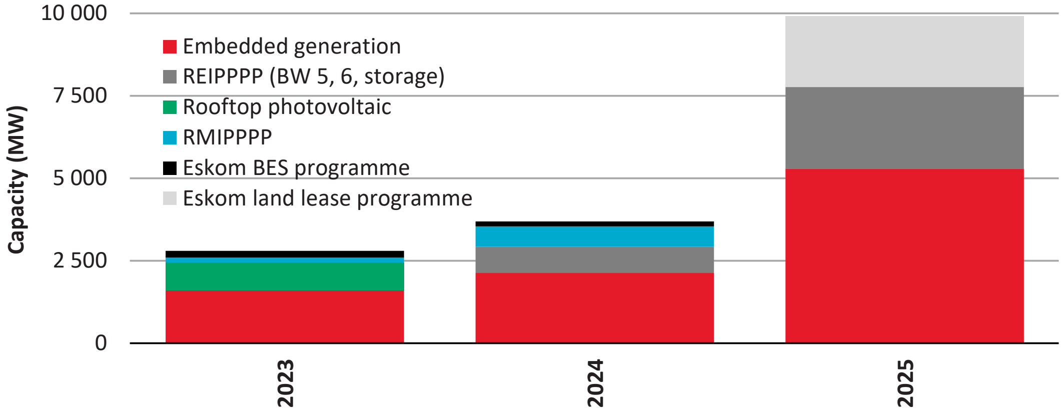
- Improving Eskom's plant performance, ensuring it procures power from existing independent power producers and importing power from neighbouring countries.
- Clearing regulatory obstacles by establishing a one-stop shop to bring electricity onto the grid more rapidly. This will be supported by the Energy Security Bill, which removes regulatory impediments for independent power producers.
- Supporting the rollout of rooftop solar for households with a tax incentive to encourage electricity generation and expanding the renewable energy tax incentive for business (see Chapter 4).
- Implementing a wheeling framework and grid capacity rules to provide certainty to private producers investing in energy projects.

Government's long-term objective is to restructure the electricity industry, while balancing energy security, efficiency and cost. Eskom is being unbundled into generation, transmission and distribution entities, with the establishment of the National Transmission Company of South Africa as a separate subsidiary through the amendment of the Electricity Regulation Act (2006).

Eskom debt relief

The 2023 Budget proposes to provide Eskom with debt relief amounting to R254 billion over the next three years. 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 the relief package support the broader restructuring of South Africa's electricity industry. Details are set out in Chapter 3 and online Annexure W3.

Figure 2.1 Additional projected capacity from renewable energy investment (2023–2025)

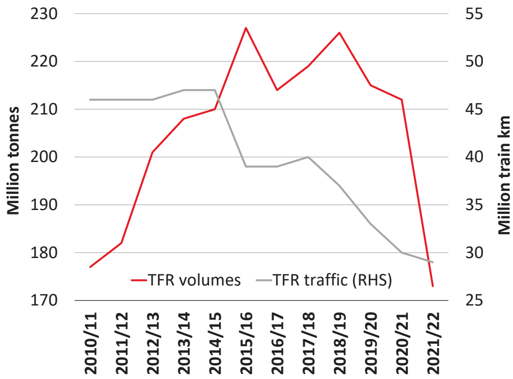


**REIPPPP: Renewable Energy Independent Power Producer Procurement Programme, RMIPPPP: Risk Mitigation Independent Power Producer Procurement Programme, BES: battery energy storage*
Source: Selected NECOM interventions, National Treasury calculations

Addressing transport and logistics constraints

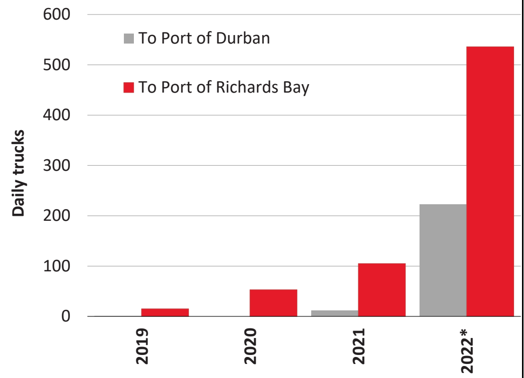
Constraints in logistics have negatively affected economic growth and employment. More than a quarter of long-distance freight traffic has shifted to roads in the past five years as a result of severe deterioration in the freight rail network. This is due in large part to historical underinvestment in the network.

Figure 2.2 Transnet freight rail volumes and train km



Source: Railway Safety Regulator; Jaap van der Merwe

Figure 2.3 Average daily coal trucks: Port of Durban and Richards Bay



**2022 includes data up until October*
Source: South African Freight Demand Model

Several reforms are under way to support recovery in the transport sector. The Economic Regulation of Transport Bill, which will establish the transport regulator, has been tabled in Parliament. Transnet is taking steps to improve operations in key corridors. Software upgrades, for example, will increase efficiency through better signalling. Additional interventions required include steps to prevent theft and vandalism; resolving legal challenges in relation to locomotive procurement; and granting third-party access to the rail network, which is now in the pilot phase. The operations and infrastructure management functions of Transnet Freight Rail are due to be separated by October 2023. This is intended to facilitate competition and improve pricing.

Strengthening state capability

The 2023 Budget targets improved investment planning by government, alongside significant increases in infrastructure expenditure (see Annexure D). It also makes allocations to strengthen the fight against crime and corruption. Support is provided to address the State Capture Commission recommendations, and to bolster anti-money-laundering and counter-terror-financing activities (see Chapter 5). These actions are critical to ensuring that limited public resources are not lost to criminality and graft, but are instead used to lay the foundations of a more resilient economy.

GLOBAL OUTLOOK

Global growth is expected to slow in 2023 to 2.9 per cent, with significant risks to the outlook tilted largely to the downside. 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. Despite declining economic growth, labour markets in advanced economies remain fairly resilient. Manufacturing purchasing managers' indices in major advanced economies and some emerging market economies contracted in the second half of 2022. In particular, China's manufacturing activity was adversely affected by its zero-COVID policy and troubled real estate sector. The removal of China's zero-COVID policy in December 2022 will support a gradual rebound in economic activity this year.

Table 2.1 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

Heightened geopolitical uncertainty from the war in Ukraine has resulted in persistent price increases. Indications are that headline inflation in both advanced and emerging market economies has peaked, although it is still elevated because food and energy prices remain high by historical standards. The International Monetary Fund projects that global consumer price inflation will fall from 8.8 per cent in 2022 to 6.6 per cent in 2023 before easing to 4.3 per cent in 2024. Global inflation averaged 3.6 per cent in the decade preceding the pandemic.

South Africa has benefited from a strong rebound in global economic activity and elevated commodity prices. However, the external support is expected to dissipate in 2023 with the slowdown in global demand and a broad-based easing of commodity prices (Figure 2.6). Coal prices have eased significantly but remain well above pre-pandemic levels. Near-term demand for coal and iron ore is expected to decline, while easing supply constraints in the automotive industry will support medium-term demand for platinum group metals. Meanwhile, the gold price reflects its "safe-haven" status as global uncertainties persist.

Figure 2.4 Global manufacturing PMIs*

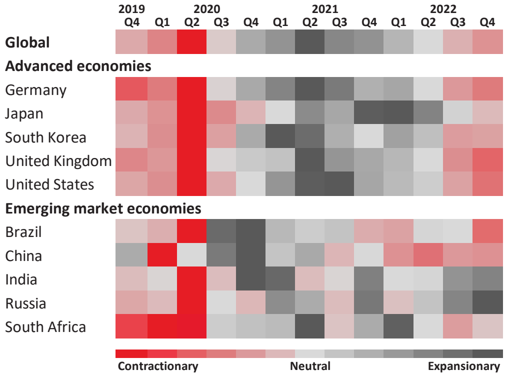


Figure 2.5 Selected inflation and monetary policy rates

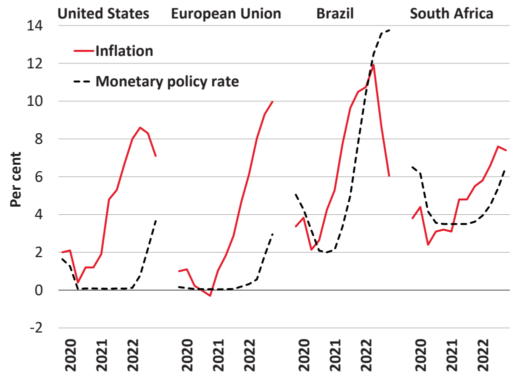


Figure 2.6 Selected global commodity prices

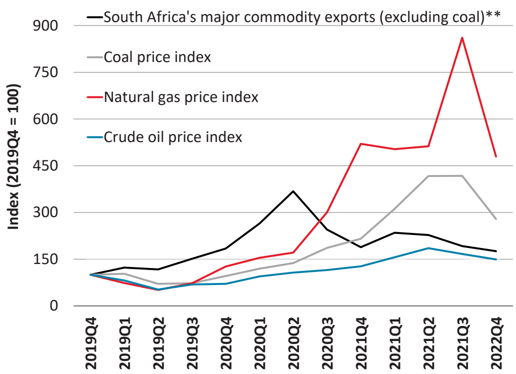
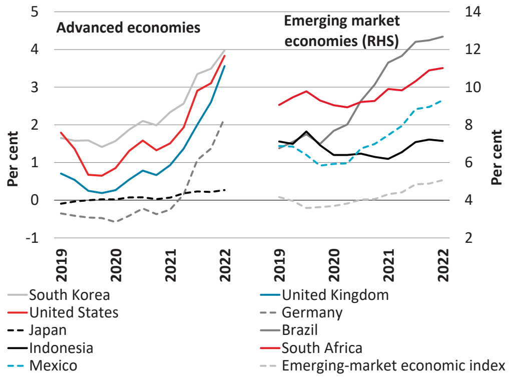


Figure 2.7 Selected 10-year bond yields



**Grey indicates expansionary and red indicates contractionary manufacturing activity*
***Trade weighted index includes gold, iron ore, platinum, palladium and rhodium*
Source: Bloomberg, IMF Primary Commodity Prices

The US dollar strengthened against major currencies for most of 2022. As the pace of monetary policy tightening in the United States moderates, this trend is expected to reverse, with a weaker dollar in 2023.

Higher interest rates and slowing global growth weighed on global equity markets and bond yields for most of 2022 before a late recovery in the fourth quarter, given signals of a slower pace of monetary policy tightening. Domestically, the South African 10-year bond yield has declined since the 2022 MTBPS in line with global trends and an improved fiscal position, despite persistent domestic structural constraints.

DOMESTIC OUTLOOK

The National Treasury forecasts real economic growth of 2.5 per cent in 2022 compared with 1.9 per cent projected in the 2022 MTBPS.

Real GDP outperformed expectations in the third quarter of 2022. However, weaker global support, frequent and prolonged power cuts, elevated inflation and higher borrowing costs will constrain growth in 2023.

Table 2.2 Macroeconomic performance and projections

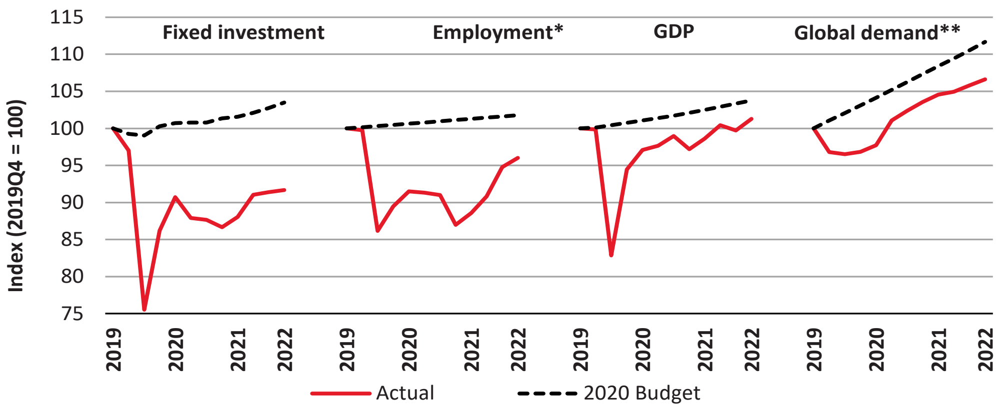
Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Final household consumption	1.2	-5.9	5.6	2.8	1.0	1.5	1.8
Final government consumption	2.1	0.8	0.6	0.3	-2.2	0.4	0.0
Gross fixed-capital formation	-2.1	-14.6	0.2	4.2	1.3	3.8	3.5
Gross domestic expenditure	1.4	-8.0	4.8	3.8	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

GDP growth is projected to be 0.9 per cent in 2023 and to average 1.4 per cent through 2025. Disruptive power cuts are expected to continue for most of 2023 and energy constraints are likely to remain a drag on productive capacity for at least the next two years. The urgent implementation of energy reforms outlined in this chapter could materially improve growth over the medium term.

Although output has recovered, the persistent scarring impact of the pandemic on employment and investment decisions continues to weigh on the recovery (Figure 2.8).

Figure 2.8 Post-pandemic recovery in economic activity



**Employment projection based on trend projection from 2016 to 2019*
***Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2020 & January 2023)*
Source: IMF, National Treasury and Statistics South Africa

Employment

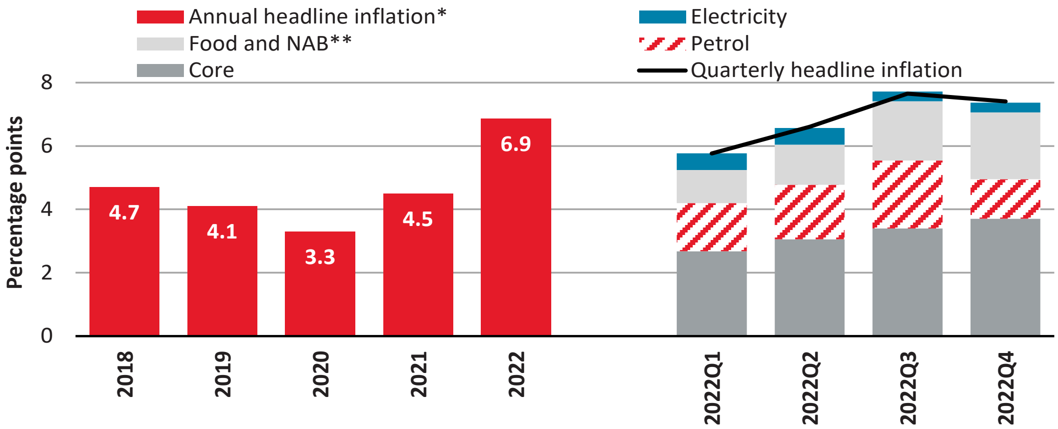
After losing 2.3 million jobs to the pandemic, the economy has regained 1.6 million jobs. There were 655 000 fewer people employed in the third quarter of 2022 than in the fourth quarter of 2019. After peaking at 34.9 per cent in the third quarter of 2021, the official unemployment rate declined marginally to 32.9 per cent in the third quarter of 2022. Among the 7.7 million people unemployed in the third quarter of 2022, about a quarter were individuals who lost their jobs and slightly less than half were new entrants into the labour force who could not find work. Nearly 60 per cent of the 7.7 million individuals were youth aged between 15 and 34.

The employment recovery remains subdued in the finance and business services, construction, transport and communications, and trade, catering and accommodation sectors. Although employment growth in the first three quarters of 2022 expanded by 4.6 per cent compared with the same period in 2021, the number of people employed is on par with the levels recorded in the first half of 2016. The pace of job creation is expected to moderate in 2023, before rising gradually over the medium term.

Inflation

Headline inflation peaked in the third quarter and averaged 6.9 per cent during 2022. Inflation is projected is estimated to ease to 5.3 per cent in 2023. Global crude oil and domestic food prices remain sources of inflationary pressure. Electricity prices have been revised up by 4.6 per cent over the medium term compared to the 2022 MTBPS and are projected to average 14 per cent from 2023 to 2025, following the regulator’s approval of an 18.7 per cent tariff for Eskom in 2023/24. The gradual broadening of price pressures in the economy is evident in core inflation, which is expected to average 5.2 per cent in 2023 compared with 4.3 per cent in 2022. Headline inflation is expected to ease to 4.9 per cent in 2024 and 4.7 per cent in 2025 as core inflation moderates over the medium term.

Figure 2.9 Annual headline inflation and contributions to quarterly headline inflation



**Per cent change*
***NAB: non-alcoholic beverages*
Source: Statistics South Africa

Household consumption

Household consumption is estimated to have grown by 2.8 per cent in 2022, following an expansion of 5.6 per cent in 2021. After buoyant growth in the first half of the year, household consumption contracted in the third quarter of 2022, reflecting the impact of inflationary erosion of consumers' purchasing power. Credit extended to households has supported the recovery in consumer spending, but rising borrowing costs are likely to slow credit extension in the near term. Individuals without access to employment and income have received some support through the *COVID-19 social relief of distress grant*, which will continue until the end of 2023/24.

Household consumption is expected to average 1.4 per cent from 2023 to 2025. By the end of 2025, the moderation in inflation will improve the purchasing power of households, alongside the gradual recovery in employment.

Investment

Gross fixed-capital formation grew in the third quarter of 2022, led by the public sector. Total investment remains R59.9 billion below pre-pandemic levels – with private investment accounting for R50.7 billion of the shortfall.

Firms remain under strain given challenging domestic business conditions. Following an expansion of a mere 0.2 per cent in 2021, gross fixed-capital formation is estimated to have grown 4.2 per cent in 2022, mainly driven by private investment in machinery and equipment. Gross fixed-capital formation is estimated to slow to 1.3 per cent in 2023 as weaker global demand and tighter global financial conditions constrain foreign investment. The electricity crisis will weigh on investment decisions and reduce profitability through lost production and increased operating costs. Delays in the rollout of infrastructure through the independent power producer programmes will support investment later than anticipated at the time of 2022 MTBPS. However, as new energy comes online over the medium term, the energy constraint will ease, improving overall business sentiment and stimulating fixed investment.

Balance of payments

The current account surplus of 3.7 per cent of GDP recorded in 2021 is expected to reverse to a small deficit of 0.4 per cent of GDP in 2022, driven by slowing net trade gains. The trade surplus in the first three quarters of 2022 narrowed by more than half compared with the same period in 2021, as the value of imports outpaced that of exports. In the near term, weaker external demand, the easing of export commodity prices, and electricity and logistical constraints will limit export volume growth. A slowdown in domestic activity will constrain import volume growth in 2023, while demand for imports will gradually improve over the medium term. The current account deficit is expected to average 2 per cent of GDP from 2023 to 2025. In the near term, the financial account will be vulnerable to capital outflows from global monetary policy tightening and market volatility.

Macroeconomic assumptions

The forecast incorporates the assumptions outlined in Table 2.3. Global demand is expected to expand by 3.2 per cent in 2023. The export commodity price index is anticipated to decline further in 2023. After averaging 4.1 per cent in 2022, the sovereign risk premium is expected to ease to 3.8 per cent in 2023 and 3.6 per cent in 2024. This decline reflects a slower-than-anticipated pace of tightening in global monetary policy, South Africa's fiscal consolidation and progress in alleviating domestic structural constraints. Compared with the 2022 MTBPS forecast, food prices are revised higher in the near term.

Table 2.3 Assumptions informing the macroeconomic forecast

Percentage change	2020	2021	2022	2023	2024	2025
	Actual		Estimate	Forecast		
Global demand[1]	-3.4	6.2	3.2	3.2	3.4	3.5
International commodity prices[2]						
Oil	41.8	70.7	100.8	82.9	78.2	74.3
Gold	1 769.5	1 799.8	1 801.5	1 935.5	2 028.3	2 085.5
Platinum	883.2	1 090.8	961.0	1 050.8	1 072.7	1 099.1
Coal	65.2	125.2	271.1	149.6	141.2	133.8
Iron ore	108.1	158.2	120.7	118.3	112.3	108.4
Palladium	2 192.7	2 398.2	2 107.5	1 797.0	1 856.3	1 897.8
Food inflation	4.5	6.1	9.2	7.0	4.4	4.5
Sovereign risk premium	4.9	3.5	4.1	3.8	3.6	3.4
Public corporation investment	-22.7	10.7	10.4	5.0	8.1	6.5

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2023)
2. Bloomberg futures prices as at 30 January 2023
Source: National Treasury

Economic scenarios

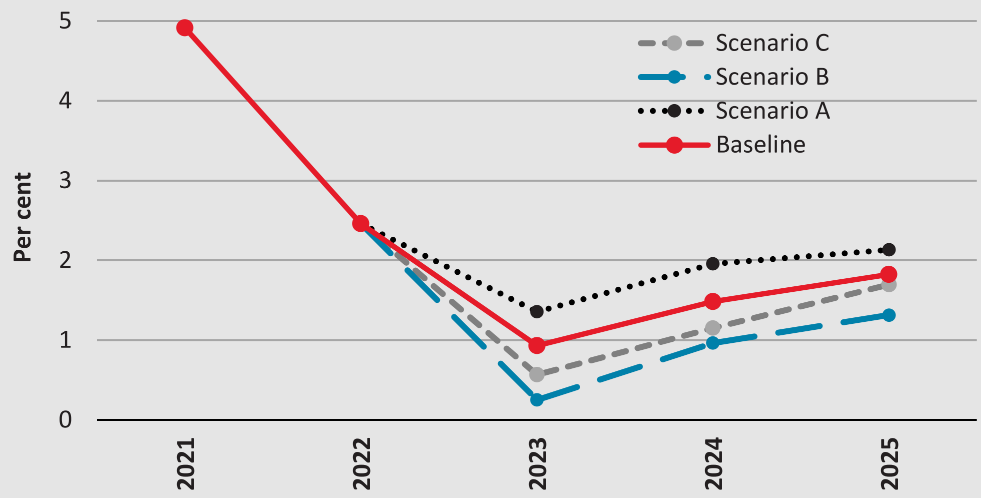
The National Treasury has modelled three scenarios against the baseline economic forecast.

The upside **Scenario A** assumes the full implementation of NECOM interventions to resolve the electricity crisis. These result in the elimination of load-shedding by the end of 2023 and support an additional R173 billion in medium-term investment. A stable electricity supply boosts business operations, supports export-intensive industries, stimulates consumer spending and raises the rate at which the economy can grow. In the upside energy scenario, growth averages 1.8 per cent from 2023 to 2025.

In the downside **Scenario B**, power cuts intensify in 2023 and 2024, with further delays in procuring new generation capacity. This deterioration erodes the economy's potential growth rate, especially in the short run. Real GDP growth slows to 0.2 per cent in 2023, only recovering to 1.3 per cent in 2025.

The downside **Scenario C** considers the impact of a sharper global slowdown in 2023 and a more tepid recovery in 2024, assuming several global risks discussed below materialise. Tighter financial conditions in emerging market and developing economies and heightened global risk aversion reduce demand for South African financial assets, while inflation remains elevated. Weaker global demand among South Africa's main trading partners lowers exports. GDP growth is estimated to slow to 0.6 per cent in 2023 before reaching 1.7 per cent by 2025. Growth is projected to average 1.1 per cent from 2023 to 2025.

Figure 2.10 GDP growth scenarios



Source: National Treasury

Risks to the domestic growth outlook

Risks to the global outlook remain elevated, and 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, led by 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.

SECTOR PERFORMANCE AND OUTLOOK

Agriculture

Gross value added in agriculture contracted by 4.9 per cent over the first three quarters of 2022 compared with the same period in 2021, mainly due to base effects after two years of strong growth. The sector faced higher input costs for fertiliser and fuel, market access constraints and heavy rains during 2022. Despite the contraction, the sector is still performing well, but the electricity crisis poses a risk to growth in the livestock, grains and horticulture subsectors. Although there is a risk of flooding in some areas, the sector is expected to register a strong performance in 2023.

Mining

Despite elevated commodity prices, mining sector gross value added contracted by 6.9 per cent in the first three quarters of 2022 compared with the same period in 2021. While sales values benefited from the favourable prices, production volumes of gold, platinum group metals and iron ore declined. Output was affected by operational challenges – including safety stoppages and logistics disruptions – along with power cuts, persistent freight rail constraints, and labour action. Growth will remain under pressure as a result of high input costs, persistent structural challenges and increased crime.

Manufacturing

Gross value added in the manufacturing sector was 0.2 per cent higher in the nine months to September 2022 compared with the same period in 2021. Manufacturing continues to operate below pre-pandemic levels. Weak global demand and supply chain constraints remain a challenge. Logistics disruptions, coupled with high cost pressures and intense load-shedding, are expected to weigh on the sector, particularly in the iron and steel, non-ferrous metals, chemicals, electrical equipment, wood and paper subsectors.

Construction

Gross value added fell by 4.7 per cent in the first three quarters of 2022 compared with the same period in 2021. Despite signs of recovery in the third quarter, the real value of the sector is still similar to that of 2007 and well below pre-pandemic levels. Weak investment, low confidence, unsustainable undercutting on tender prices and an increase in organised crime underpin the prolonged poor performance. The outlook for 2023 looks slightly more optimistic as public and private investment in capital infrastructure begins to materialise.

Utilities

Gross value added was 2.3 per cent lower in the first nine months of 2022 compared with the same period in 2021, reflecting continued deterioration in energy availability as power cuts reached record levels. Other constraining factors include rising tariffs, which are necessary for Eskom's financial sustainability but risk lowering demand, illegal connections, non-payment for services and ageing infrastructure.

Transport and communications

The sector grew by 8.9 per cent in the first nine months of 2022 compared with the same period in 2021. The expansion was supported by increased freight transportation, higher passenger traffic and continued demand for digital services. Initiatives to update and improve the usage of mobile telecommunications radio frequency spectrum should support the communications sector. The transport sector will remain under pressure until Transnet reforms begin to take effect.

Finance and business services

Finance, real estate and business services grew by 4 per cent in the first nine months of 2022 compared with the same period in 2021. The strong performance was largely driven by increased economic activity in financial intermediation, insurance, real estate and business services. This reflects, in part, an improvement in consumer creditworthiness in the wake of the pandemic lockdowns. A grey listing of South Africa by the Financial Action Task Force would have negative consequences for growth prospects in 2023.

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.

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3

2023 BUDGET REVIEW

FISCAL POLICY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Government remains focused on stabilising public debt and ensuring sustainable public finances.
- Government debt is projected to stabilise at 73.6 per cent of GDP in 2025/26. Debt-service costs as a share of revenue are expected to peak in the same year.
- The economic outlook has weakened compared with projections in the 2022 *Medium Term Budget Policy Statement* (MTBPS). Revenue performance and projections, however, exceed 2022 Budget estimates. These funds will be used to strengthen the social wage and infrastructure investment, narrow the budget deficit, and address fiscal and economic risks.
- Government will achieve a main budget primary surplus in 2022/23. Main budget non-interest expenditure will grow slightly above consumer price index (CPI) inflation in the outer two years of the medium-term expenditure framework (MTEF) period. The consolidated budget deficit is expected to narrow from 4 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.
- Eskom debt relief amounting to R254 billion will enable the entity to focus on necessary investment and maintenance as part of broader energy sector reforms, but this requires a step change in public debt.

OVERVIEW

In the context of a weak domestic growth outlook, high inflation and an uneven global economic recovery, fiscal policy remains focused on stabilising public debt and ensuring sustainable public finances.

South Africa's public debt remains high. Debt-service costs will mount over the medium term, peaking as a proportion of revenue in 2025/26. In this context, a prudent fiscal policy stance works to reduce the proportion of public resources absorbed by debt-service costs and reallocate these resources to more productive activities over time. This is intended to promote economic growth, reduce risks of fiscal distress and ensure the sustainable provision of essential services in line with policy priorities.

Spending allocations will be targeted towards specific policy priorities rather than broad baseline adjustments. The 2023 Budget proposals direct resources to infrastructure and supporting the social wage – combined public spending on health, education, housing, social protection, transport, employment and local amenities. Government is also reducing fiscal and economic risks through targeted conditional in-year support to key public entities and by providing debt relief to Eskom to promote security of energy supply. The consolidated budget deficit is projected to narrow from 4 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.

The Eskom debt-relief arrangement implies a step change in the stock of government debt. Gross government debt is now projected to stabilise three years later and at a higher level (73.6 per cent of GDP) than projected in the 2022 MTBPS. The revised projection is also the result of marginally lower nominal GDP, higher interest costs and a weaker exchange rate.

Nevertheless, South Africa's fiscal position has improved since 2021/22, largely due to consolidation measures, economic recovery and accelerated GDP inflation. A main budget primary surplus – meaning revenue exceeds non-interest expenditure – is expected from the current year onwards. Revenue projections in the current year and total projections over the medium term have been revised up since the 2022 MTBPS. Alongside projected underspending, this improves the primary balance in 2022/23. Over the medium term, higher main budget primary surpluses, relative to the 2022 MTBPS estimates, reflect higher projected revenue and reduced non-interest spending.

Figure 3.1 Nominal GDP growth and CPI inflation estimates

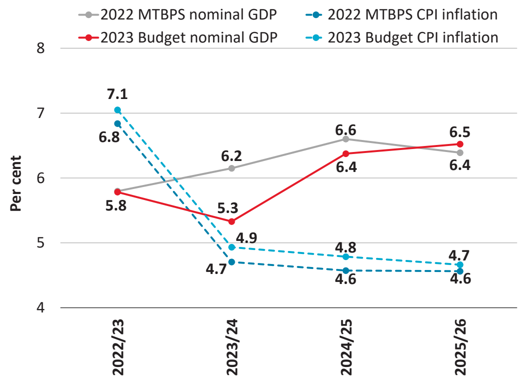


Figure 3.2 Real growth in non-interest expenditure

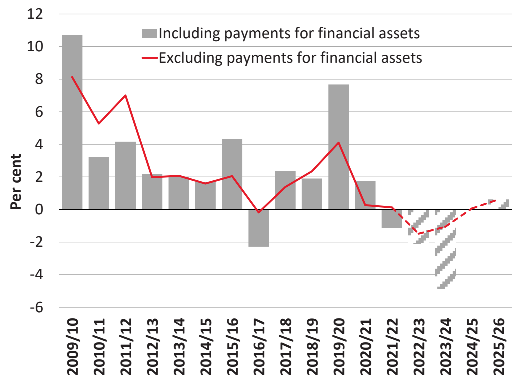


Figure 3.3 Main budget primary balance

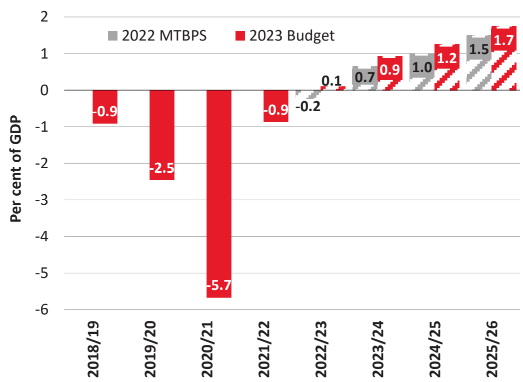
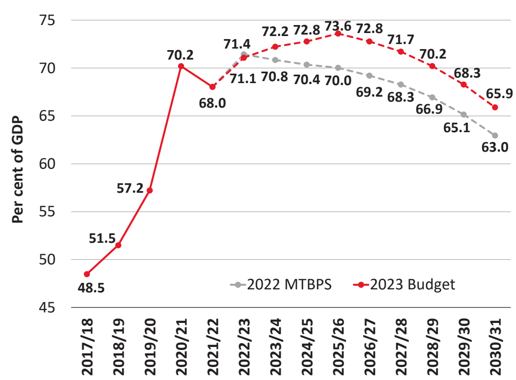


Figure 3.4 Gross debt-to-GDP outlook



Source: National Treasury

The medium-term fiscal strategy prioritises reducing the budget deficit and stabilising debt as a share of GDP, supporting economic growth, and reducing fiscal and economic risks. Risks to the fiscal framework include weaker-than-expected global and domestic economic growth, the introduction of unfunded spending programmes, and higher borrowing costs and public-service wage costs.

PUBLIC FINANCES: OUTCOMES AND PROJECTIONS

Historical fiscal trends

Government spending has exceeded revenue since the 2008 global financial crisis. From 2008/09 to 2021/22, consolidated government spending, on average, consistently grew faster than GDP and consolidated revenue, mainly driven by the public-service wage bill, rising debt-service costs and transfers to households (Figure 3.5). Spending growth was not matched by efficiency gains. The composition of spending also deteriorated, with infrastructure investment declining as a proportion of total expenditure (Figure 3.6). This in turn meant that spending was increasingly oriented to current consumption rather than investment that would support long-term economic growth.

Figure 3.5 Average real growth, 2008/09—2021/22

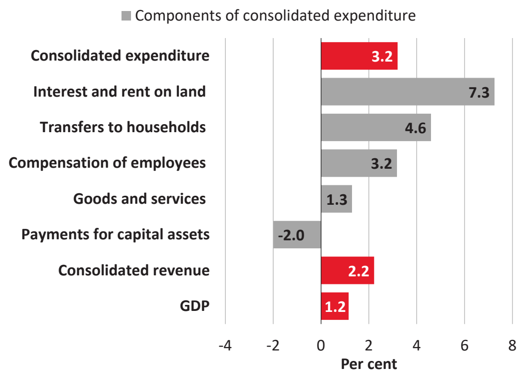
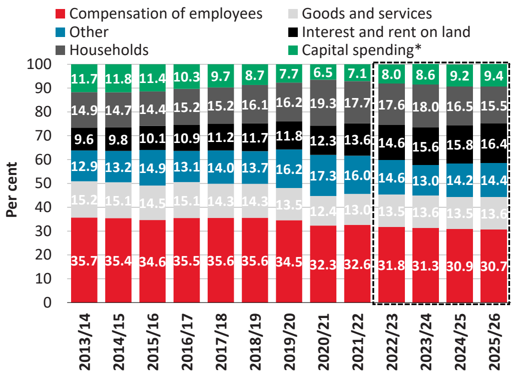


Figure 3.6 Composition of consolidated government spending



*Includes payments for capital assets and capital transfers

Source: National Treasury

Rising expenditure unmatched by revenue growth has led to primary deficits. Fiscal consolidation efforts succeeded in narrowing the primary deficit to 0.9 per cent of GDP in 2018/19 (Figure 3.7), but this trend reversed during the pandemic. As a percentage of GDP, gross loan debt increased by 44 percentage points between 2009/10 and 2021/22 (Figure 3.8). In other words, government debt increased much faster than the growth of the economy and newly issued debt has become more expensive to service. Interest payments on debt now consume 18 cents of every rand of revenue that government collects.

Figure 3.7 Main budget deficit

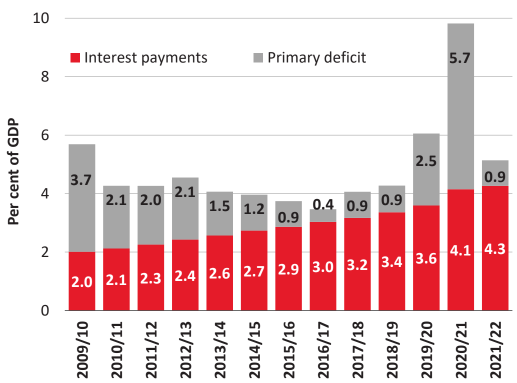
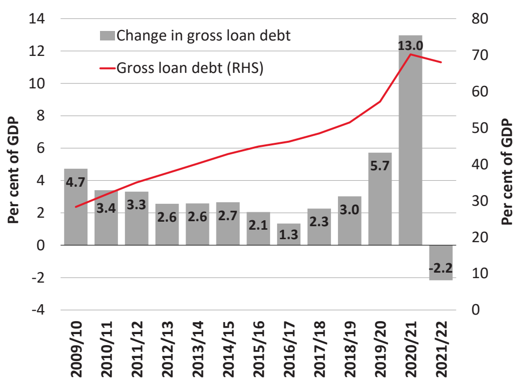


Figure 3.8 Change in gross loan debt-to-GDP ratio



Source: National Treasury

Over the past several years, government's efforts to narrow the deficit and stabilise debt have been interrupted by several shocks that required urgent fiscal intervention, including the COVID-19 pandemic and state-owned company failures. These pressures were managed by reallocating funding within the budget and establishing firm spending ceilings.

Nevertheless, fiscal policy has made some headway in consolidating the public finances. Attaining a primary budget surplus in the current financial year marks a significant achievement. Over time, stabilising debt and reducing debt-service costs will enable government to shift expenditure to policy priorities. It will also reduce the economy-wide cost of borrowing, supporting investment and growth more broadly. However, the size of the debt and elevated borrowing costs in a low-growth, high-inflation environment requires a rising primary surplus over the medium term.

Medium-term fiscal strategy and outlook

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 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.

Implications of Eskom debt-relief arrangement for the fiscal framework

The 2023 Budget proposes a debt-relief arrangement for Eskom that will enable the utility to conduct the necessary investment and maintenance, and supports structural reform of the electricity sector.

Over a three-year period, government will make available debt relief amounting to R254 billion to cover Eskom's debt obligations. The support will take the form of a loan from the National Revenue Fund to Eskom with strict conditions attached and a direct debt takeover of a portion of Eskom's loan portfolio. Upon complying with the conditions, the loan will be converted to state-owned equity. Government guarantees for Eskom debt will be reduced in line with this transaction.

The transaction will be authorised by special legislation and will be recorded on the balance sheets of both government and Eskom. This implies an increase in government debt. The Eskom funding provision of R66 billion over the MTEF period in the 2022 MTBPS is used to offset the government borrowing requirement and is recorded as part of financing rather than expenditure. The net impact on the fiscal framework is a reduction in non-interest expenditure and an increase in debt-service costs. Additional details appear in Chapter 7 and (online) Annexure W3.

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. In this regard, vulnerable households continue to receive support —

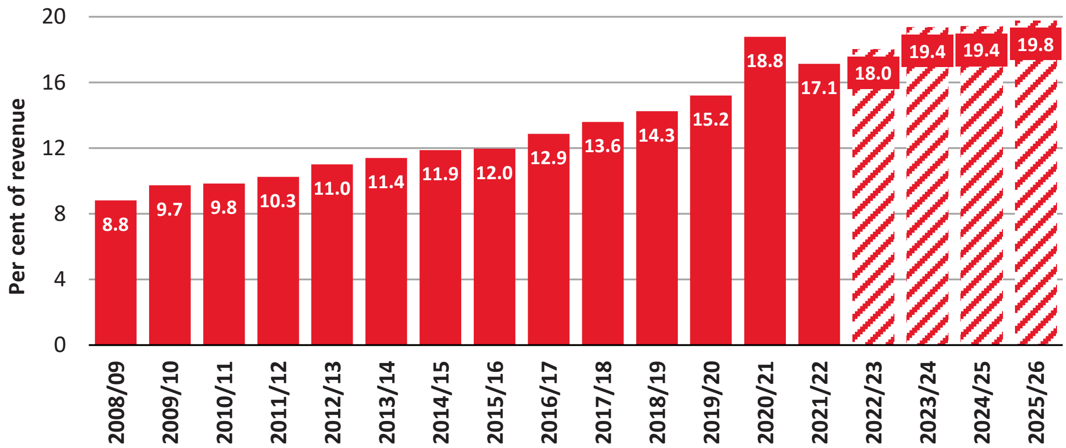
60.2 per cent of consolidated non-interest spending goes to the social wage over the 2023 MTEF period. Key baselines for the delivery of services are gradually being restored, without making unaffordable permanent commitments.

Main budget non-interest expenditure will grow on average by 0.3 per cent in real terms in the outer two years of the MTEF period. The future of the *COVID-19 social relief of distress grant*, which is currently funded until 31 March 2024, remains under discussion. Government will make a decision in line with its commitment to sustainable public finances. Any permanent increase in expenditure, such as a new social grant, will need to be matched by permanent revenue increases or spending reductions elsewhere.

Over the MTEF period, government will increase infrastructure budgets and improve the composition of spending. 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. Additional information appears in Annexure D.

Funding is provided for the carry-through costs of the 2022/23 wage increase. In addition, the Budget provides for pay progression and other benefits. Future wage negotiations will aim to strike a balance between remuneration increases and the need for additional staff in services such as education, health and police. The Department of Public Service and Administration, working with the National Treasury and other national departments, is conducting a review across government to propose a single remuneration framework aligned with the principles of fair, equitable and sustainable remuneration in the public sector, excluding state-owned companies.

Figure 3.9 Debt-service costs as a share of main budget revenue



Source: National Treasury

Debt-service costs as a proportion of main budget revenue are expected to peak in 2025/26 (Figure 3.9) and the budget deficit narrows over the medium term. The debt-to-GDP ratio stabilises in the same year. Over time, debt stabilisation will allow government to reduce the crowding-out of essential services imposed by debt-service costs.

The rising primary budget surplus and the contingency reserve serve as fiscal buffers over the medium term, as does the unallocated reserve in the outer two years of the MTEF period (see Table 3.8).

CHANGES IN REVENUE AND EXPENDITURE

Revenue

Relative to the 2022 MTBPS, gross tax revenue projections for 2022/23 have been revised up by R10.3 billion. This revision mainly reflects improvements in corporate and personal income taxes, dividends tax and customs duties, partially offset by lower net value-added tax estimates. Medium-term revenue projections are R6 billion higher than the 2022 MTBPS estimates. No tax proposals to raise additional revenue are included in the estimates.

Table 3.1 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

Since the 2022 MTBPS, medium-term non-tax revenue estimates have been revised up by R4.5 billion, driven by higher departmental receipts partially offset by lower mineral and petroleum royalties. Projections of National Revenue Fund receipts have been revised up by R3.1 billion over the MTEF period due to higher expected revaluation profits on foreign-currency transactions.

Payments to the Southern African Customs Union have been revised up by R1.6 billion per year in 2024/25 and 2025/26 compared with the 2022 MTBPS estimates, mainly due to better performance in customs duties. Compared with 2022 Budget estimates, main budget revenue is projected to improve by R192.9 billion between 2023/24 and 2024/25. This significant increase in revenue collections and projections mainly reflects resilient personal incomes and corporate profitability, as well as revisions to major tax bases.

Table 3.2 Revisions to main budget revenue estimates

R billion/percentage of GDP	2023/24			2024/25			2025/26
	2023 Budget	Deviation from the 2022 MTBPS	Deviation from the 2022 Budget	2023 Budget	Deviation from the 2022 MTBPS	Deviation from the 2022 Budget	2023 Budget[2]
Revenue							
Gross tax revenue	1 787.5	-1.4	93.2	1 907.7	0.4	100.1	2 043.5
Non-tax revenue	40.5	2.1	12.8	41.4	1.4	12.8	43.3
SACU[1]	-79.8	-0.1	-13.3	-86.5	-1.6	-21.1	-80.1
National Revenue Fund receipts	11.1	3.2	6.3	5.5	1.1	2.1	1.1
Main budget revenue	**1 759.2**	**3.7**	**99.0**	**1 868.1**	**1.3**	**93.9**	**2 007.7**
	25.1%			*25.1%*			*25.3%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments
2. The main budget revenue for 2025/26 estimated in the 2023 Budget is R5.2 billion higher when compared to the 2022 MTBPS
Source: National Treasury

The fiscal position is affected by various pressures over the MTEF period. Government debt will continue to increase, largely due to the Eskom debt-relief arrangement. Against this backdrop, it is prudent to allow a portion of higher-than-expected revenue to be used to reduce the fiscal deficit rather than for new spending. Compared with the 2022 Budget, over the next two years 57 per cent of higher-than-expected revenue will be used to reduce the fiscal deficit. As the deficit is reduced, the borrowing requirement of government will be under less pressure due to the higher debt redemptions and Eskom debt relief. This will help to prevent a dramatic increase in debt and debt-service costs or the need for harmful spending cuts, should the revenue projections not materialise.

Expenditure

The projected additional revenue enables government to respond to some immediate spending pressures while continuing to stabilise the public finances. Table 3.3 presents changes to in-year main budget non-interest expenditure 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. Details appear in the *Estimates of National Expenditure*.

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 South African Airways to assist the business rescue process and R2.4 billion to the South African Post Office to implement its turnaround plan will reduce contingent liabilities. The Land Bank remains in financial distress and the process to finalise a solution is ongoing. The R5 billion that was retained in the 2022/23 contingency reserve in the 2022 MTBPS will be allocated to the Land Bank with conditions attached to its use.

Table 3.3 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

Table 3.4 outlines 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.

Table 3.4 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 Budget	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

Table 3.5 Main budget expenditure ceiling

R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
2020 MTBPS	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585		
2021 Budget	1 418 399	1 504 656	1 514 934	1 521 721	1 530 664		
2021 MTBPS	1 418 456	1 487 388	1 570 890	1 552 268	1 558 725	1 627 154	
2022 Budget		1 487 399	1 575 002	1 630 905	1 613 671	1 686 932	
2022 MTBPS		1 487 385	1 566 490	1 667 118	1 665 349	1 744 762	1 832 678
2023 Budget		**1 487 419**	**1 566 498**	**1 653 459**	**1 671 030**	**1 750 276**	**1 842 572**

Source: National Treasury

CONSOLIDATED FISCAL FRAMEWORK

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.

Table 3.6 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

Over the medium term, the composition of consolidated spending improves, continuing the shift towards capital rather than current spending.

Table 3.7 Consolidated operating and capital accounts

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		
OPERATING ACCOUNT							
Current revenue	**1 499.5**	**1 376.6**	**1 735.3**	**1 883.8**	**1 942.9**	**2 066.9**	**2 218.6**
Current payments	**1 601.8**	**1 745.6**	**1 821.7**	**1 949.9**	**2 040.8**	**2 097.8**	**2 191.3**
Compensation of employees	624.2	634.9	666.4	690.4	701.2	728.7	760.6
Goods and services	244.6	243.3	265.0	293.0	305.2	317.6	335.8
Interest payments	214.0	240.9	277.1	316.0	349.5	372.4	407.0
Current transfers and subsidies	519.0	626.6	613.2	650.5	685.0	679.1	687.9
Current balance	**-102.3**	**-369.1**	**-86.4**	**-66.1**	**-97.9**	**-31.0**	**27.3**
	-1.8%	*-6.6%*	*-1.4%*	*-1.0%*	*-1.4%*	*-0.4%*	*0.3%*
CAPITAL ACCOUNT							
Capital receipts	0.3	0.2	0.3	0.2	0.3	0.3	0.3
Capital payments	63.2	62.3	72.9	91.9	110.7	125.2	137.6
Capital transfers	76.0	65.4	71.9	80.7	82.1	92.4	95.0
Capital financing requirement	**-138.9**	**-127.4**	**-144.5**	**-172.4**	**-192.5**	**-217.4**	**-232.4**
	-2.4%	*-2.3%*	*-2.3%*	*-2.6%*	*-2.7%*	*-2.9%*	*-2.9%*
Financial transactions[1]	-46.4	-58.6	-61.4	-37.5	11.6	7.1	2.5
Contingency reserve	–	–	–	–	5.0	5.0	5.0
Unallocated reserve	–	–	–	–	–	35.7	44.5
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%*

1. Balance of transactions in financial assets and liabilities
Source: National Treasury

As a proportion of the total, compensation of employees and current transfers and subsidies are projected to moderate. Capital spending will increase from 8 per cent of total spending in 2022/23 to 9.4 per cent in 2025/26 (Figure 3.6). Capital payments and transfers grow by a nominal annual average of 10.5 per cent over the next three years.

ELEMENTS OF THE CONSOLIDATED BUDGET

The consolidated budget includes the main budget framework but also incorporates spending by provinces, social security funds and public entities financed from their own revenue sources.

Main budget framework

Table 3.8 summarises spending financed from the National Revenue Fund. In 2021/22, the main budget deficit reached 5.1 per cent of GDP compared with 5.5 per cent projected in the 2022 Budget. The 2022/23 main budget deficit is projected at 4.5 per cent of GDP, compared with 6 per cent in the 2022 Budget. Due to higher revenue and lower spending relative to the 2022 MTBPS projections, a main budget primary surplus and improved budget deficit are achieved in 2022/23. The deficit is expected to continue narrowing over the medium term from 3.9 per cent of GDP in 2023/24 to 3.3 per cent by 2025/26.

Table 3.8 Main budget 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							
Gross tax revenue after proposals	1 355.8	1 249.7	1 563.8	1 692.2	1 787.5	1 907.7	2 043.5
Non-tax revenue	27.6	26.3	40.5	50.5	40.5	41.4	43.3
SACU[1]	-50.3	-63.4	-46.0	-43.7	-79.8	-86.5	-80.1
National Revenue Fund receipts	12.8	25.8	6.1	4.6	11.1	5.5	1.1
Main budget revenue	**1 345.9**	**1 238.4**	**1 564.4**	**1 703.6**	**1 759.2**	**1 868.1**	**2 007.7**
	23.6%	*22.1%*	*24.9%*	*25.6%*	*25.1%*	*25.1%*	*25.3%*
Expenditure							
National departments	749.8	790.5	823.0	854.4	828.6	835.7	877.9
Provinces	613.4	628.8	660.8	694.6	695.1	720.5	754.7
Local government	123.0	137.1	135.6	147.8	164.0	174.4	183.3
Contingency reserve	–	–	–	–	5.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	1.5	3.9	4.0
Unallocated reserve	–	–	–	–	–	35.7	44.5
Non-interest expenditure	**1 486.2**	**1 556.4**	**1 619.4**	**1 696.8**	**1 694.1**	**1 775.1**	**1 869.4**
Debt-service costs	204.8	232.6	268.1	307.2	340.5	362.8	397.1
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 004.0**	**2 034.6**	**2 137.9**	**2 266.5**
	29.7%	*31.9%*	*30.0%*	*30.1%*	*29.0%*	*28.7%*	*28.6%*
Main budget balance	**-345.1**	**-550.6**	**-323.1**	**-300.4**	**-275.4**	**-269.9**	**-258.8**
	-6.1%	*-9.8%*	*-5.1%*	*-4.5%*	*-3.9%*	*-3.6%*	*-3.3%*
Primary balance	**-140.4**	**-318.1**	**-55.0**	**6.7**	**65.1**	**93.0**	**138.3**
	-2.5%	*-5.7%*	*-0.9%*	*0.1%*	*0.9%*	*1.2%*	*1.7%*

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

Source: National Treasury

Social security funds, public entities and provincial balances

Public entities – mainly the South African National Roads Agency Limited (SANRAL), the Water Trading Entity, the Trans-Caledon Tunnel Authority (TCTA), and the Passenger Rail Agency of South Africa (PRASA) – recorded a combined cash surplus of R37.4 billion in 2021/22. Much of this surplus will persist in the current financial year due to the R23.7 billion conditional allocation to SANRAL to settle maturing debt and debt-related obligations. However, a significant increase in infrastructure investments by PRASA, SANRAL and TCTA is projected to result in a deficit in the outer two years.

Social security funds ran cash deficits of R46.7 billion in 2020/21 due to the higher spending by the Unemployment Insurance Fund (UIF) in response to COVID-19. Social security funds are projected to run cash deficits until 2024/25 mainly driven by the UIF and Road Accident Fund. The social security funds are expected to return to a surplus position by 2025/26.

Table 3.9 Consolidated budget balances

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Main budget	-345.1	-550.6	-323.1	-300.4	-275.4	-269.9	-258.8
Social security funds	11.9	-46.7	-7.8	-11.2	-8.2	-8.5	16.1
Provinces	6.4	3.0	2.1	6.5	-1.0	-0.2	1.4
Public entities	39.9	39.8	37.4	29.0	0.9	-3.4	-10.6
RDP Fund[1]	-0.6	-0.5	-1.0	0.1	0.0	-0.0	-0.1
Consolidated budget balance	**-287.5**	**-555.1**	**-292.3**	**-276.1**	**-283.7**	**-282.0**	**-252.1**

1. Reconstruction and Development Programme Fund
Source: National Treasury

PUBLIC-SECTOR BORROWING REQUIREMENT

In 2021/22, the public-sector borrowing requirement decreased to R314.9 billion or 5 per cent of GDP, reflecting the narrowing of the consolidated budget deficit. Borrowing requirements in 2022/23 are revised down by R113.6 billion to R325.8 billion (4.9 per cent of GDP), compared to the estimates published in the 2022 *Budget Review*. These revisions are largely driven by the lower projected consolidated budget deficit.

Table 3.10 Public-sector borrowing requirement[1]

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23			2023/24	2024/25	2025/26
	Outcome			Budget 2022	Budget 2023	Deviation	Medium-term estimates		
Main budget	345.1	550.6	323.1	387.2	300.4	-86.8	275.4	269.9	258.8
Social security funds	-11.9	46.7	7.8	7.1	11.2	4.0	8.2	8.5	-16.1
Provinces	-6.4	-3.0	-2.1	-3.6	-6.5	-2.8	1.0	0.2	-1.4
Public entities	-39.9	-39.8	-37.4	-4.3	-29.0	-24.7	-0.9	3.4	10.6
RDP Fund	0.6	0.5	1.0	0.2	-0.1	-0.3	-0.0	0.0	0.1
Consolidated government	**287.5**	**555.1**	**292.3**	**386.6**	**276.1**	**-110.6**	**283.7**	**282.0**	**252.1**
National borrowing for Eskom debt-relief arrangement	–	–	–	–	–	–	78.0	66.2	110.2
Consolidated borrowing requirement	**287.5**	**555.1**	**292.3**	**386.6**	**276.1**	**-110.6**	**361.7**	**348.1**	**362.3**
	5.0%	*9.9%*	*4.6%*	*6.0%*	*4.2%*		*5.2%*	*4.7%*	*4.6%*
Local authorities[2]	**8.6**	**6.8**	**7.0**	**13.8**	**10.3**	**-3.4**	**13.0**	**13.9**	**13.4**
	0.2%	*0.1%*	*0.1%*	*0.2%*	*0.2%*	–	*0.2%*	*0.2%*	*0.2%*
State-owned companies[3]	**54.1**	**32.9**	**15.6**	**39.0**	**39.4**	**0.4**	**11.3**	**13.3**	**20.6**
	0.9%	*0.6%*	*0.2%*	*0.6%*	*0.6%*	–	*0.2%*	*0.2%*	*0.3%*
Borrowing requirement	**350.1**	**594.8**	**314.9**	**439.4**	**325.8**	**-113.6**	**385.9**	**375.3**	**396.3**
	6.1%	*10.6%*	*5.0%*	*6.8%*	*4.9%*	–	*5.5%*	*5.0%*	*5.0%*

1. A negative number reflects a surplus and a positive number a deficit
2. 2021/22 is an adjusted budget estimate, as the outcome is still being audited
3. Comprises Eskom, South African Airways (SAA), Transnet, Airports Company South Africa (ACSA) and Denel. Eskom, SAA, ACSA and Denel are not projecting to borrow in 2022/23 and over the medium term.
South African National Roads Agency Limited and Trans-Caledon Tunnel Authority are included in consolidated government net borrowing
Source: National Treasury

Over the medium term, however, the borrowing requirement is revised higher due to borrowing for the Eskom debt-relief arrangement. The borrowing requirement projections for 2023/24 and 2024/25 are now estimated to average R380.6 billion, relative to an average of R356.5 billion in the 2022 Budget.

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.

CONCLUSION

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. Maintaining a prudent fiscal stance and achieving debt stabilisation will, over time, allow government to shift resources from servicing debt to meeting national development objectives.

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4

2023 BUDGET REVIEW

REVENUE TRENDS AND TAX PROPOSALS

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

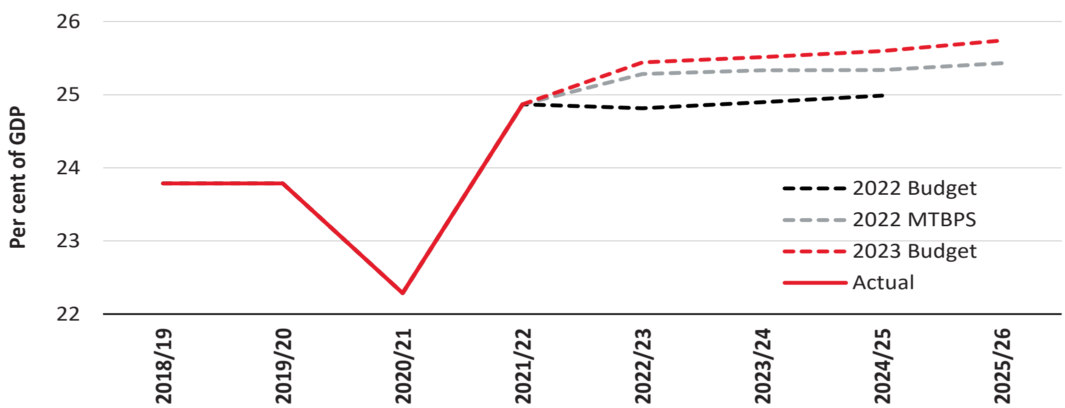
- A strong revenue performance in 2022/23 was driven by elevated commodity prices, and a continued recovery from the pandemic among manufacturing and financial firms.
- Over the next three years, revenue is expected to grow by R351 billion, reaching R2.04 trillion in 2025/26.
- The tax-to-GDP ratio increases from 25.4 per cent to 25.7 per cent over this period.
- The 2023 Budget provides tax relief amounting to R13 billion in 2023/24. Of this amount, R9 billion is provided to encourage households and businesses to invest in renewable energy, supporting the clean energy transition and addressing the electricity crisis.

OVERVIEW

Over the past year, revenue collection has remained strong despite an uneven economic recovery. Tax revenue for 2022/23 is expected to reach R1.69 trillion, an upward revision of R10.3 billion from the 2022 *Medium Term Budget Policy Statement* (MTBPS) estimate. The tax-to-GDP ratio continues to recover from COVID-19-induced lows and is projected to reach 25.4 per cent in 2022/23.

Income and profits have proven more resilient than anticipated a year ago. Corporate income tax collections from mining remain large in historical terms due to elevated – although declining – commodity prices. Higher profitability in the services sector has supported corporate and dividends tax collections. Personal income tax collection has been buoyed by a recovery in earnings and improving employment levels. Growth in import prices supported noteworthy collections in import value-added tax (VAT) and customs duties. VAT refund payments exceeded 2022 Budget expectations due to increased zero-rated exports from manufacturers. Enhanced tax administration has also contributed to additional revenue collection during the recovery period.

Figure 4.1 Tax-to-GDP ratio



Source: National Treasury and SARS

The medium-term revenue outlook has improved slightly due to higher tax receipts in 2022/23. However, the scope of power cuts and weak global growth pose significant risks to the outlook.

REVENUE COLLECTION AND OUTLOOK

A broad-based recovery in tax collections was sustained in the second half of 2022/23. Growth in corporate tax collections has been driven by manufacturing and financial firms.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2021/22			2022/23			Percentage
	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	change[3]
Taxes on income and profits	**910 107**	**912 870**	**2 764**	**894 300**	**989 877**	**95 577**	**8.4%**
Personal income tax	553 529	553 951	422	587 907	601 649	13 742	8.6%
Corporate income tax	318 380	320 447	2 067	269 931	344 944	75 013	7.6%
Dividends tax	32 182	33 429	1 247	30 450	38 515	8 065	15.2%
Other taxes on income and profits[4]	6 015	5 042	-972	6 011	4 768	-1 243	-5.4%
Skills development levy	**18 933**	**19 336**	**403**	**20 619**	**21 238**	**619**	**9.8%**
Taxes on property	**19 693**	**22 033**	**2 339**	**20 291**	**22 656**	**2 364**	**2.8%**
Domestic taxes on goods and services	**541 296**	**549 806**	**8 510**	**600 732**	**581 871**	**-18 861**	**5.8%**
Value-added tax	383 724	390 895	7 171	439 681	426 283	-13 398	9.1%
Specific excise duties	48 212	49 705	1 493	51 864	55 228	3 364	11.1%
Health promotion levy	2 211	2 182	-28	2 355	2 320	-35	6.3%
Ad valorem excise duties	4 276	4 725	449	4 406	4 461	55	-5.6%
Fuel levy	89 884	88 889	-995	89 113	79 131	-9 982	-11.0%
Other domestic taxes on goods and services[5]	12 990	13 410	420	13 313	14 448	1 135	7.7%
Taxes on international trade and transactions	**57 042**	**59 719**	**2 678**	**62 505**	**76 535**	**14 030**	**28.2%**
Customs duties	55 821	57 994	2 173	61 095	74 176	13 081	27.9%
Health promotion levy on imports	78	78	-1	86	114	28	46.4%
Diamond export levy	92	170	78	89	151	62	-11.1%
Export tax	302	407	105	473	819	347	101.0%
Miscellaneous customs and excise receipts	748	1 071	322	763	1 276	513	19.2%
Gross tax revenue	**1 547 071**	**1 563 754**	**16 684**	**1 598 447**	**1 692 177**	**93 729**	**8.2%**
Non-tax revenue[6]	47 964	46 602	-1 362	33 280	55 078	21 798	18.2%
of which:							
Mineral and petroleum royalties	*27 979*	*28 456*	*478*	*18 554*	*25 483*	*6 928*	*-10.5%*
Less: SACU[7] payments	-45 966	-45 966	–	-43 683	-43 683	–	-5.0%
Main budget revenue	**1 549 068**	**1 564 390**	**15 322**	**1 588 044**	**1 703 571**	**115 527**	**8.9%**
Provinces, social security funds and selected public entities	172 235	186 215	13 980	182 601	189 176	6 575	1.6%
Consolidated budget revenue	**1 721 303**	**1 750 605**	**29 302**	**1 770 645**	**1 892 747**	**122 102**	**8.1%**

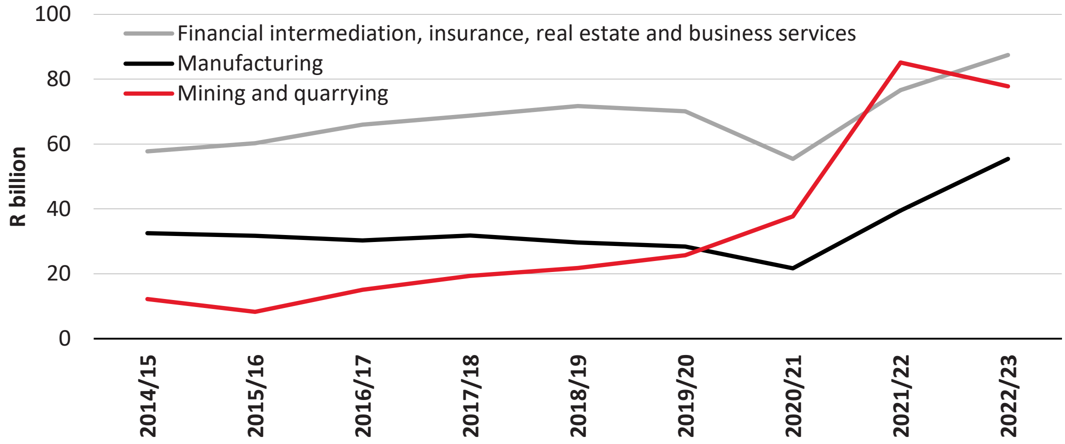
1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2022 Budget Review estimates
3. Percentage change between outcome in 2021/22 and revised estimate in 2022/23
4. Includes interest on overdue income tax and interest withholding tax
5. Includes turnover tax for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

Elevated commodity prices have boosted mining tax revenue. Tax revenue collections for 2022/23 are expected to exceed the 2022 Budget estimate by R93.7 billion and the 2022 MTBPS estimate by R10.3 billion.

Previous forecasts assumed that corporate income tax collections from mining would decline rapidly in line with commodity price expectations. Although the extended period of elevated prices has led to revenue surpluses over the last two years, these are expected to be temporary and the current tax revenue outlook assumes that these prices will gradually decline. A continuation of high prices would likely result in future revenue overruns.

The mining sector accounts for nearly 30 per cent of provisional corporate tax collections in 2022/23 – significantly higher than its average share before 2020/21. Relative to 2021/22, the contribution declined mainly because of a sustained fall in production and declining terms of trade. Collections from the finance and manufacturing sectors remained strong, in part because economic growth exceeded expectations, supporting the better-than-expected corporate tax performance.

Figure 4.2 Provisional corporate income tax collections by sector, 1 April–31 January



Source: National Treasury and SARS

Net VAT collections for 2022/23 have been revised down compared with 2022 Budget expectations. Larger-than-expected VAT refund payments associated with zero-rated manufactured exports offset robust growth in import VAT. Domestic VAT is projected to outpace previous estimates but persistent inflationary pressures and rising borrowing costs may erode consumer spending power, curtailing domestic demand. Stronger growth in specific excise duties has been limited as collections in cigarettes and cigarette tobacco remain below pre-pandemic levels. Fuel levy collections are also projected to fall short of 2022 Budget expectations due to fuel levy relief of about R10.5 billion provided during the first half of 2022/23.

Over the past three years, during the pandemic and its immediate aftermath, government applied conservative assumptions in revenue forecasting. Over this period, several risks have materialised, including accelerated power cuts, weaker global economic conditions and lower domestic growth expectations. However, these were more than offset by sustained collection from all major tax bases, buoyed predominantly by the favourable commodity cycle, the broad return to work and a resumption of international trade in key supply chains. A portion of the revenue improvement is also due to improved tax compliance and tax administration. Although international trade and employment gains are likely to be sustained, they will be partially offset by an expected decline in commodity prices and moderating compliance improvements.

Table 4.2 Budget revenue[1]

R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[2]	772 685	718 180	912 870	989 877	1 021 213	1 089 123	1 172 033
of which:							
Personal income tax	*527 633*	*487 011*	*553 951*	*601 649*	*640 300*	*696 624*	*752 627*
Corporate income tax	*211 522*	*202 123*	*320 447*	*344 944*	*336 119*	*345 434*	*369 477*
Skills development levy	18 486	12 250	19 336	21 238	23 027	24 816	26 846
Taxes on property	15 980	15 947	22 033	22 656	23 863	25 384	27 040
Domestic taxes on goods and services	492 283	455 867	549 806	581 871	642 765	687 208	731 032
of which:							
VAT	*346 761*	*331 197*	*390 895*	*426 283*	*471 477*	*505 409*	*537 868*
Taxes on international trade and transactions	56 322	47 455	59 719	76 535	76 588	81 195	86 506
Gross tax revenue	**1 355 766**	**1 249 711**	**1 563 754**	**1 692 177**	**1 787 456**	**1 907 727**	**2 043 456**
Non-tax revenue[3]	40 384	52 053	46 602	55 078	51 583	46 859	44 310
of which:							
Mineral and petroleum royalties	*11 830*	*14 228*	*28 456*	*25 483*	*22 469*	*22 701*	*24 072*
Less: SACU[4] payments	-50 280	-63 395	-45 966	-43 683	-79 811	-86 505	-80 059
Main budget revenue	**1 345 870**	**1 238 369**	**1 564 390**	**1 703 571**	**1 759 229**	**1 868 080**	**2 007 707**
Provinces, social security funds and selected public entities	173 756	170 866	186 215	189 176	199 678	209 707	217 619
Consolidated budget revenue	**1 519 626**	**1 409 235**	**1 750 605**	**1 892 747**	**1 958 907**	**2 077 788**	**2 225 326**
As percentage of GDP							
Tax revenue	*23.8%*	*22.3%*	*24.9%*	*25.4%*	*25.5%*	*25.6%*	*25.7%*
Main budget revenue	*23.6%*	*22.1%*	*24.9%*	*25.6%*	*25.1%*	*25.1%*	*25.3%*
GDP (R billion)	*5 699.2*	*5 606.7*	*6 287.6*	*6 651.3*	*7 005.7*	*7 452.4*	*7 938.5*
Tax buoyancy	*1.00*	*4.82*	*2.07*	*1.42*	*1.06*	*1.06*	*1.09*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividends tax, interest withholding tax and interest on overdue income tax
3. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
4. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and SARS

Medium-term revenue outlook

The medium-term outlook reflects a moderate improvement based on three factors:

- After revenue overruns of R198.6 billion and R93.7 billion in the past two budgets, the buoyancy of tax revenue for a given level of economic growth is expected to be slightly higher over the medium term.

- The projected revenue surplus for 2022/23, from strong collections in personal income taxes in particular, translates into marginally better revenue estimates for the outer years.
- The nominal GDP forecast results in moderate reductions to key variables used in the forecast, such as the wage bill, compared with the 2022 MTBPS projections.

Notwithstanding a weaker medium-term growth outlook and further tax relief proposed in this budget, the tax-to-GDP ratio is expected to reach 25.7 per cent by 2025/26. Higher revenue collection requires sustained investment and economic growth. Gross tax revenue collections are expected to increase by 5.6 per cent, 6.7 per cent and 7.1 per cent over the next three years as economic growth gradually improves. This translates into gross tax revenue increasing from an anticipated R1.69 trillion in 2022/23 to R2.04 trillion in 2025/26.

TAX POLICY

Since 1994, South Africa has constructed a broad-based tax system where rates were low to promote economic growth. The objective was to avoid short-term revenue increases from households and businesses, and instead focus on sustainable revenue mobilisation over the long term to boost national development.

Between 2015 and 2020, substantial revenue shortfalls and lower economic growth, which had not fully recovered since the global financial crisis, necessitated increases in tax rates to create a sustainable fiscal position. However, growth and revenue collections continued to disappoint. Since the 2020 Budget, government has avoided further increases in tax rates.

Tax increases are often put forward as the natural response to cover expected revenue shortfalls, but in a highly unpredictable or low-growth economic environment, such increases carry significant risks. Research in South Africa – including two United Nations University World Institute for Development Economics Research papers – has indicated that tax increases can impede economic activity and the negative impact is more pronounced when growth is weak. For this reason, government intends to avoid tax increases while the economy is recovering from recent shocks.

Over the past three years, government has focused on measures to protect the tax base and reforms aimed at improving equity, efficiency, certainty and simplicity. The review of tax incentives, following the advice of the Davis Tax Committee, has led to a number of incentives being discontinued because there was little evidence of any additional benefit. But each incentive needs to be assessed on its own merits, and the refinement and expansion of some incentives in the 2023 Budget demonstrates that the tax system can help to address particular market failures, such as a lack of research and development or inadequate electricity generation capacity.

An efficient, effective tax administration that builds trust to increase voluntary compliance is a cornerstone of South Africa's progressive tax system.

SARS renewal

The South African Revenue Service (SARS) celebrated its 25th anniversary in October 2022. SARS continues to enhance its service offering as it rebuilds from the period of state capture. Over the past three years it has strengthened revenue collection and worked to ensure that its systems, officials and leadership are capacitated to improve the taxpayer's experience, increase compliance and generate additional tax revenue. In November 2022, SARS finalised the reparation process for current and former employees as recommended by the Nugent Commission of Inquiry. It continues to build a tax administration that collects tax receipts in an efficient and fair manner.

TAX PROPOSALS

The 2023 Budget provides tax relief totalling R13 billion to support the clean energy transition, increase electricity supply and limit the impact of consistently high fuel prices. In addition, the budget provides inflation-related adjustments to the personal income tax tables, the retirement tax tables, transfer duties and excise duties for alcohol and tobacco.

As shown in Table 4.3, R4 billion in relief is provided for households that install solar panels, R5 billion is provided to companies through an expansion of the renewable energy incentive and there is no increase in the fuel levies, resulting in R4 billion in tax foregone.

Table 4.3 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

Expansion of the renewable energy tax incentive

The tax incentive available for businesses to promote renewable energy will be temporarily expanded to encourage rapid private investment to alleviate the energy crisis. The current incentive allows businesses to deduct the costs of qualifying investments over a one- or three-year period, which creates a cash flow benefit in the early years of a project. Businesses are able to deduct 50 per cent of the costs in the first year, 30 per cent in the second and 20 per cent in the third for qualifying investments in wind, concentrated solar, hydropower below 30 megawatts (MW), biomass and photovoltaic (PV) projects above 1 MW. Investors in PV projects below 1 MW are able to deduct 100 per cent of the cost in the first year.

Under the expanded incentive, businesses will be able to claim a 125 per cent deduction in the first year for all renewable energy projects with no thresholds on generation capacity. The adjusted incentive will only be available for investments brought into use for the first time between 1 March 2023 and 28 February 2025. For a business with positive taxable income, the deduction will reduce its tax liability. For example, a renewable energy investment of R1 million would qualify for a deduction of R1.25 million. Using the current corporate tax rate, this deduction could reduce the corporate income tax liability of a company by R337 500 in the first year of operation.

Rooftop solar tax incentive

To increase electricity generation, government is also proposing a rooftop solar incentive for individuals to invest in solar PV. Individuals will be able to receive a tax rebate to the value of 25 per cent of the cost of any new and unused solar PV panels. To qualify, the solar panels must be purchased and installed at a private residence, and a certificate of compliance for the installation must be issued from 1 March 2023 to 29 February 2024.

The rebate is only available for solar PV panels, and not inverters or batteries, to focus on the promotion of additional generation. It can be used to offset the individual's personal income tax liability for the 2023/24 tax year up to a maximum of R15 000 per individual. For example, an individual who purchases 10 solar panels at a cost of R40 000 can reduce their personal income tax liability for the 2023/24 tax year by R10 000.

Fuel levies

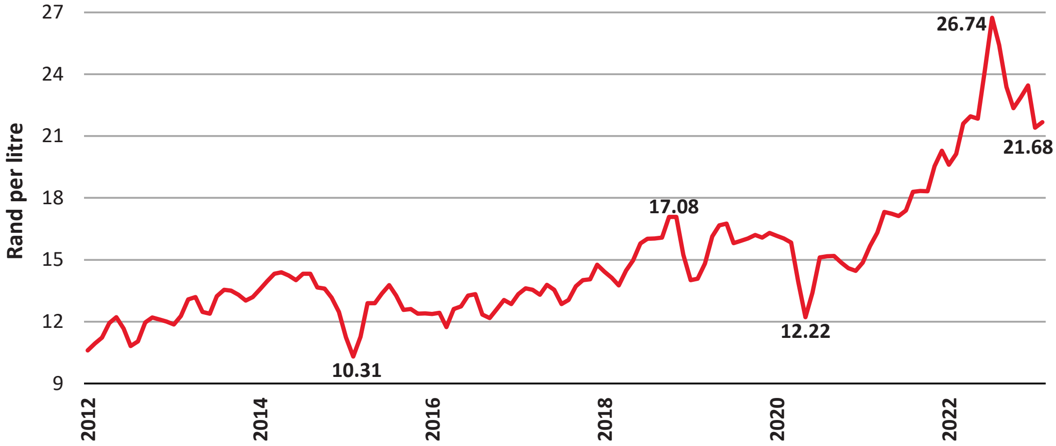
South Africa's fuel prices are driven by international crude oil prices, supply-demand balances and the rand-dollar exchange rate. Largely as a result of steep increases in world market prices, South Africa has experienced relatively high fuel prices in the past year, with inland unleaded petrol remaining above R20 per litre for most of 2022.

Table 4.4 Total combined fuel taxes on petrol and diesel

Rands/litre	2021/22		2022/23		2023/24	
	93 octane	Diesel	93 octane	Diesel	93 octane	Diesel
General fuel levy	3.85	3.70	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.18	2.18	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.08	0.09	0.09	0.10	0.10	0.11
Total	**6.15**	**6.01**	**6.16**	**6.02**	**6.17**	**6.03**
Pump price[2]	18.55	16.31	22.81	23.21	21.38	21.32
Taxes as percentage of pump price	*33.2%*	*36.9%*	*27.0%*	*25.9%*	*28.9%*	*28.3%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2021/22 and 2022/23 years. The 2023/24 figure is the Gauteng pump price in February 2023. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Figure 4.3 Price of 95 unleaded petrol in Gauteng



Source: National Treasury and SARS

To reduce pressure on households and businesses, no changes were made to the general fuel levy or the Road Accident Fund (RAF) levy in the 2022 Budget. Additional temporary relief was provided for four months at a cost of R10.5 billion. In 2023/24, government will again keep these levies unchanged, leading to revenue foregone of R4 billion.

Extension of diesel fuel levy refund

Government implemented the diesel refund system in 2000 to provide full or partial relief for the general fuel levy and the RAF levy to primary sectors. The refund system is in place for the farming, forestry, fishing and mining sectors. In light of the current electricity crisis, a similar refund on the RAF levy for diesel used in the manufacturing process (such as for generators) will be extended to the manufacturers of foodstuffs. This will take effect from 1 April 2023, with refund payments taking place once the system is developed, and will be in place for two years until 31 March 2025. This relief is implemented to limit the impact of power cuts on food prices.

Personal income tax thresholds

The personal income tax tables are reviewed annually to ensure that inflation does not automatically push personal income taxpayers into higher tax brackets. The 2023/24 tax brackets will be adjusted in line with the expected inflation rate of 4.9 per cent.

Table 4.5 Personal income tax rates and bracket adjustments

2022/23		2023/24	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R226 000	18% of each R1	R0 - R237 100	18% of each R1
R226 001 - R353 100	R40 680 + 26% of the amount above R226 000	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R353 101 - R488 700	R73 726 + 31% of the amount above R353 100	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R488 701 - R641 400	R115 762 + 36% of the amount above R488 700	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R641 401 - R817 600	R170 734 + 39% of the amount above R641 400	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R817 601 - R1 731 600	R239 452 + 41% of the amount above R817 600	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		**Rebates**	
Primary	R16 425	Primary	R17 235
Secondary	R9 000	Secondary	R9 444
Tertiary	R2 997	Tertiary	R3 145
Tax threshold		**Tax threshold**	
Below age 65	R91 250	Below age 65	R95 750
Age 65 and over	R141 250	Age 65 and over	R148 217
Age 75 and over	R157 900	Age 75 and over	R165 689

Source: National Treasury

As a result, the annual tax-free threshold for a person under the age of 65 will increase to R95 750. If the brackets were not adjusted, revenue would have increased by about R15.7 billion. Relief mainly benefits middle-income households. Medical tax credits will increase from R347 to R364 per month for the first two members, and from R234 to R246 per month for additional members.

Table 4.6 Estimates of individuals and taxable income, 2023/24

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	**Number**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R96[1]	7 545 020	–	292.2	–						
R96 - R150	1 528 990	21.5	182.0	6.2	14.9	2.3	-1.1	5.7	13.8	2.2
R150 - R250	1 505 950	21.1	292.0	9.9	22.0	3.3	-1.4	7.3	20.6	3.2
R250 - R350	1 248 123	17.5	370.1	12.5	48.5	7.4	-2.2	11.3	46.3	7.2
R350 - R500	1 233 846	17.3	516.3	17.4	89.5	13.6	-3.3	16.7	86.2	13.5
R500 - R750	842 653	11.8	506.4	17.1	113.9	17.3	-3.6	18.3	110.3	17.2
R750 - R1 000	354 263	5.0	305.1	10.3	84.3	12.8	-2.2	11.2	82.1	12.8
R1 000 - R1 500	244 586	3.4	294.3	9.9	92.8	14.1	-2.5	12.8	90.3	14.1
R1 500 +	163 702	2.3	493.6	16.7	193.9	29.4	-3.3	16.7	190.6	29.8
Total	**7 122 113**	**100.0**	**2 959.9**	**100.0**	**660.0**	**100.0**	**-19.7**	**100.0**	**640.3**	**100.0**
Grand total	**14 667 133**		**3 252.1**		**660.0**		**-19.7**		**640.3**	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

Adjustment of transfer duty and retirement tax tables

As part of the periodic reviews of monetary values in tax tables, the brackets for transfer duties, retirement fund lump sum benefits and retirement fund lump sum withdrawal benefits will all be adjusted upwards by 10 per cent to compensate for inflation. Tax rates remain unchanged. The rates shown in tables 4.7 to 4.9 are effective from 1 March 2023.

Table 4.7 Transfer duty rate adjustments

2022/23		2023/24	
Property value (R)	Rates of tax	Property value (R)	Rates of tax
R0 - R1 000 000	0% of property value	R0 - R1 100 000	0% of property value
R1 000 001 - R1 375 000	3% of property value above R1 000 000	R1 100 001 - R1 512 500	3% of property value above R1 100 000
R1 375 001 - R1 925 000	R11 250 + 6% of property value above R1 375 000	R1 512 501 - R2 117 500	R12 375 + 6% of property value above R1 512 500
R1 925 001 - R2 475 000	R44 250 + 8% of property value above R1 925 000	R2 117 501 - R2 722 500	R48 675 + 8% of property value above R2 117 500
R2 475 001 - R11 000 000	R88 250 + 11% of property value above R2 475 000	R2 722 501 - R12 100 000	R97 075 + 11% of property value above R2 722 500
R11 000 001 and above	R1 026 000 + 13% of property value above R11 000 000	R12 100 001 and above	R1 128 600 + 13% of property value above R12 100 000

Source: National Treasury

Table 4.8 Personal income tax rates: Retirement fund lump sum benefits

2022/23		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R500 000	0% of taxable income	R0 - R550 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000	R550 001 - R770 000	18% of taxable income above R550 000
R700 001 - R1 050 000	R56 700 + 27% of taxable income above R700 000	R770 001 - R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 050 001 and above	R141 750 + 36% of taxable income above R1 050 000	R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

Source: National Treasury

Table 4.9 Personal income tax rates: Retirement fund lump sum withdrawal benefits

2022/23		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R25 000	0% of taxable income	R0 - R27 500	0% of taxable income
R25 001 - R660 000	18% of taxable income above R25 000	R27 501 - R726 000	18% of taxable income above R27 500
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000	R726 001 - R1 089 000	R125 730 + 27% of taxable income above R726 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000	R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

Source: National Treasury

Base erosion and profit shifting: The two-pillar solution

The 2022 *Budget Review* announced that legislative amendments would be proposed to implement tax rules related to digitalisation and base erosion, flowing from South Africa's role in the Steering Group of the OECD/G20 Inclusive Framework. The framework has two pillars.

Pillar One focuses on the digital economy and is expected to establish a coherent and integrated approach to the tax treatment of multinationals, with the allocation of taxing rights among jurisdictions based on their market share. Currently, no final agreement has been reached on Pillar One and OECD guidelines for this pillar have not been finalised.

Pillar Two focuses on the remaining base erosion and profit shifting matters. It proposes an approach to ensure that all internationally operating businesses with global annual revenue of more than €750 million pay an effective tax rate of at least 15 per cent, regardless of where they are headquartered or which jurisdictions they operate in. A minimum effective tax rate for large multinationals is expected to apply in a number of countries from December 2023. During the 2023 legislative cycle, government will publish a draft position on the implementation of Pillar Two for public comment and draft legislation will be prepared for inclusion in the 2024 Taxation Laws Amendment Bill.

Two-pot retirement system

Following extensive public consultation, the first phase of legislative amendments to the retirement system is due to take effect on 1 March 2024. The intent of these amendments is to enable pre-retirement access to a portion of one's retirement assets, while preserving the remainder for retirement. Retirement fund contributions will remain deductible up to R350 000 per year or 27.5 per cent of taxable income per year – whichever is lower. Permissible withdrawals from funds accrued before 1 March 2024 will be taxed according to the lump sum tables. Withdrawals from the "savings pot" before retirement will be taxed at marginal rates. On retirement, any remaining amounts in the savings pot will be taxed according to the retirement lump sum table (for example, R550 000 is a tax-free lump sum on retirement).

Four areas required additional work: a proposal for seed capital, legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income. The first three matters will be clarified in forthcoming draft legislation. The final matter will be reviewed as a second phase of implementation.

Refining the research and development tax incentive

Government's tax policy instrument supporting early-phase research and development (R&D) is the R&D tax incentive. Following public consultation on a review of the incentive published in 2021, government proposes to:

- Extend the incentive for 10 years from 1 January 2024. There will be a six-month grace period for projects to commence before the application is submitted, to allow new and smaller applicants to gather information and potentially benefit from the incentive.
- Refine the definition of R&D to make it simpler to understand and administer, resulting in an easier application process for the incentive. The incentive should apply

only to activities aimed at resolving a scientific or technological uncertainty. For example, if a professional with appropriate knowledge and skills could resolve the uncertainty without R&D, then the incentive may not apply.

- Move the definition of R&D from an “end-result” approach (for example, it must be patentable) to incorporate principles of the OECD Frascati Manual, in which activities should be novel, uncertain, systematic and transferable and/or reproducible. This change recognises that, given the risk and uncertainty involved, applicants will not know how their R&D activities will unfold when applying for the incentive. It also removes a confusing requirement on innovation.
- Remove the exclusion for internal business processes – so that if an activity is investigative or experimental with the aim of resolving a scientific or technological uncertainty and it meets the proposed (revised) definition of R&D for the purposes of this incentive, it should be considered R&D – regardless of whether it is intended for sale or the use thereof is granted to connected parties.
- Allow the Commissioner of SARS to disclose certain information to the Minister of Higher Education, Science and Innovation to improve monitoring and evaluation.

Extending the urban development zone incentive

Public consultation as part of the policy review process for the urban development zone tax incentive will not be concluded before the 31 March 2023 sunset date. Further engagement is required to assess the incentive’s results – particularly to source and evaluate municipal data on its uptake. Relatively low compliance of municipalities with annual reporting requirements has delayed the review process. As a result, the incentive will be extended for two years to 31 March 2025 while its review process is completed.

Adjusting the minimum royalty rate for oil and gas companies

In 2021, a review of the tax regime for oil and gas companies was published for public comment. Following consultation, government proposes to retain the flexibility of the royalty rate, which is determined by profitability, rather than opt for a flat rate for these companies. This decision recognises that companies face varying costs and profit levels depending on whether they are, for example, operating in deep or shallow waters. However, to ensure that the country is adequately compensated for the loss of its finite resources, the minimum royalty rate will be increased from 0.5 per cent to 2 per cent, with the maximum remaining at 5 per cent.

Excise duties on alcoholic beverages and tobacco products

The guideline excise tax burdens for wine, beer and spirits are 11 per cent, 23 per cent and 36 per cent, respectively, of the weighted average retail price. Excise duties have increased more than inflation in recent years, resulting in a higher tax incidence. Government proposes to increase excise duties on alcohol in line with expected inflation of 4.9 per cent for 2023/24. Further, the rate for sparkling wine is realigned to the policy decision taken in 2016 to peg it at 3.2 times that of natural unfortified wine.

The guideline excise tax burden as a percentage of the retail selling price of the most popular brand within each tobacco product category is currently 40 per cent. Government proposes to increase the excise duties in line with expected inflation of 4.9 per cent for 2023/24. The alcohol review paper will be published soon after the budget, and the tobacco review paper will be published later in the year. Consultations on the excise policy for these products will take place after the release of the discussion papers.

Table 4.10 Changes in specific excise duties, 2023/24

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	4.9	–
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.9
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.9
Unfortified wine	R4.96 / litre	R5.20 / litre	4.9	–
Fortified wine	R8.36 / litre	R8.77 / litre	4.9	–
Sparkling wine	R16.52 / litre	R16.64 / litre	0.7	-4.2
Ciders and alcoholic fruit beverages	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	4.9	–
Spirits	R245.15 / litre of absolute alcohol (R79.06 / 750ml bottle)	R257.23 / litre of absolute alcohol (R82.96 / 750ml bottle)	4.9	–
Cigarettes	R19.82 / 20 cigarettes	R20.80 / 20 cigarettes	4.9	–
HTPs sticks	R14.87 / 20 sticks	R15.60 / 20 sticks	4.9	–
Cigarette tobacco	R22.28 / 50g	R23.38 / 50g	4.9	–
Pipe tobacco	R6.63 / 25g	R6.96 / 25g	4.9	–
Cigars	R110.93 / 23g	R116.40 / 23g	4.9	–

Source: National Treasury

Health promotion levy

To enable stakeholders in the sugar industry to restructure, given the challenges from greater regional competitive pressures and the effect of recent floods and public violence, there will be no increase in the health promotion levy in 2023/24 and 2024/25. Government will soon publish a discussion paper on the levy for consultation on proposals to extend the levy to pure fruit juices and lower the 4-gram threshold.

Carbon tax rates

South Africa is committed to achieving its Nationally Determined Contribution to reduce greenhouse gas emissions. The carbon tax plays an important role in mitigation. Effective 1 January 2023, the carbon tax rate increased from R144 to R159 per tonne of carbon dioxide equivalent. To ensure transparency and provide certainty, future adjustments to the tax rate are provided in the Carbon Tax Act (2019), as outlined in the 2022 Taxation Laws Amendments Act. In line with the carbon tax rate increase, the carbon fuel levy for 2023/24 will increase by 1c to 10c/l for petrol and 11c/l for diesel from 5 April 2023. The carbon tax cost recovery quantum for the liquid fuels refinery sector increased from 0.63c/l to 0.66c/l, effective from 1 January 2023.

Third-party data and personal income tax administration reform

The pay-as-you-earn (PAYE) and personal income tax administration reform announced in the 2020 Budget has given pensioners the option to agree to more accurate PAYE withholding rates to take account of multiple sources of income, as well as enabling 2.9 million individual taxpayers to be automatically assessed without the need to file personal income tax returns. The reform will continue over the medium term with a view to reducing the administrative burden for employers, payroll administrators and SARS, as well as individual salaried taxpayers. Work has commenced, in consultation with employers and representative organisations, to provide employer and employee data on a monthly basis in a fully automated fashion. Over time, the need for employer PAYE annual reconciliation is expected to fall away, and the reform will be extended to third-party data providers.

SARS administration

Over the period ahead, SARS intends to review the VAT administrative framework to simplify and modernise the current system, in consultation with all affected parties. In line with SARS' strategic objective of providing clarity and certainty through instruments such as advance rulings, government also proposes to introduce a legislative framework to empower SARS to conclude bilateral advance pricing agreements.

TAX RESEARCH AND REVIEWS

Broadening the personal income tax base. As part of exploring the effect of remote work on the personal income tax regime, the National Treasury and SARS committed to a multi-year review of allowances. A discussion document will be released this year to outline workplace practices and policies, changes in the current environment and how different workplaces are affected by home office and travel allowance policies.

Adjustments for feed-in tariffs. The start of feed-in tariffs in some municipalities may require adjustments in the Income Tax Act (1962) to cater for additional revenue from electricity sales. The National Treasury and SARS will investigate the potential changes required.

CONCLUSION

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 with the higher cost of living and promote private investments in renewable energy. Government remains focused on ensuring that the tax system is fair, efficient and equitable.

5

2023 BUDGET REVIEW

CONSOLIDATED SPENDING PLANS

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Main budget non-interest spending increases by a net R128.4 billion over the medium-term expenditure framework (MTEF) period compared with the 2022 Budget.
- Additional funding is allocated mainly for the carry-through costs of the 2022/23 public-service wage increase, to improve investment in infrastructure and to support safety and security, education and health services.
- Consolidated government spending will increase from R2.17 trillion in 2022/23 to R2.48 trillion in 2025/26, growing at an average annual rate of 4.5 per cent.
- The social wage, which includes allocations for community development, employment programmes, health, education and social protection, will constitute an average of 60.2 per cent of total non-interest spending over the next three years.

OVERVIEW

Over the MTEF period, consolidated government expenditure will total R7.08 trillion, of which 51 per cent or R3.60 trillion is allocated for the social wage. The 2023 Budget allocates additional funding totalling R227 billion over the next three years. The additional funds are mainly to extend the *COVID-19 social relief of distress grant* until 31 March 2024, improve investment in local and provincial government infrastructure, and support safety and security, education and health services. As a result, main budget non-interest spending increases by a net total of R128.4 billion over the MTEF period compared to the projections included in the 2022 Budget.

Table 5.1 Social wage

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised	Medium-term estimates		
Community development	**152.5**	**162.2**	**165.1**	**177.9**	**207.0**	**222.9**	**234.5**
Housing development	28.8	23.7	27.0	27.0	28.2	29.6	31.2
Transport	25.3	25.9	29.4	31.7	40.5	45.1	48.5
Basic services and local government[1]	98.3	112.5	108.7	119.2	138.3	148.2	154.9
Employment programmes	**19.1**	**16.9**	**18.1**	**20.9**	**21.7**	**22.8**	**23.7**
Health	**205.5**	**222.7**	**228.5**	**238.1**	**236.0**	**244.8**	**256.3**
Basic education	**239.3**	**247.6**	**262.5**	**276.8**	**284.1**	**290.6**	**304.4**
Higher education and training	**44.4**	**44.3**	**55.1**	**61.1**	**64.2**	**68.9**	**72.0**
Social protection	**216.9**	**247.0**	**252.1**	**260.6**	**282.2**	**261.8**	**278.6**
of which: Social grants	*190.3*	*218.9*	*222.7*	*233.0*	*253.8*	*232.9*	*248.4*
Social security funds	**51.9**	**106.9**	**78.2**	**81.1**	**79.1**	**81.8**	**58.6**
Total	**929.7**	**1 047.7**	**1 059.7**	**1 116.6**	**1 174.2**	**1 193.7**	**1 228.3**
Percentage of non-interest spending	*58.0%*	*60.5%*	*59.7%*	*60.0%*	*61.7%*	*59.8%*	*59.0%*
Percentage of consolidated spending	*51.4%*	*53.3%*	*51.9%*	*51.5%*	*52.4%*	*50.6%*	*49.6%*

1. Includes local government equitable share

Source: National Treasury

Debt-service costs are the fastest-growing spending item over the MTEF period, averaging 8.9 per cent annual growth. These costs continue to crowd out spending on the social wage – for example, spending on social protection, health and community development is lower than on servicing government debt.

Compensation spending will increase from R690.4 billion in 2022/23 to R760.6 billion in 2025/26, growing at an average annual rate of 3.3 per cent, mainly due to the carry-through costs of the public-service wage increase implemented in 2022/23. Some departments and entities, such as in the peace and security function, have also been allocated additional funding to strengthen their capacity to improve service delivery.

No budget reductions are implemented over the MTEF period. Departments, with support from the National Treasury, need to continue to review spending to improve their efficiency. These reviews are particularly important in areas of the budget where there is persistent underspending and for non-performing and large programmes within departments. Departments will also continue to implement the findings from the reviews conducted in consultation with the National Treasury.

REVISIONS TO MAIN BUDGET SPENDING PLANS

Cost pressures and other policy priorities over the MTEF period are largely funded through reprioritisation and the reallocation of budgets within departments and function groups. In addition, the 2023 Budget allocates additional funding totalling R227 billion over the MTEF period. These funds mostly address shortfalls in compensation budgets for provincial education and health departments resulting from previous budget reductions; enable hiring of new staff in safety and security departments and entities to fight crime and corruption while improving service delivery; and improve infrastructure investment in local and provincial government.

Table 5.2 summarises additional funding allocated for spending pressures over the MTEF period. The single largest allocation in the first year is R36.1 billion to extend the *COVID-19 social relief of distress grant* by another year until 31 March 2024.

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. A total of R42.8 billion is allocated over the next three years to improve infrastructure.

Table 5.2 Spending pressures funded over the MTEF period

R million	2023/24	2024/25	2025/26	MTEF total
Carry-through of 2022/23 public-service wage increase	**14 973**	**15 198**	**15 426**	**45 597**
National	4 760	4 831	4 903	14 494
Provinces	10 214	10 367	10 523	31 104
Economic growth and employment	**624**	**620**	**500**	**1 744**
South African Revenue Service	500	500	500	1 500
South African Weather Service: operational funding	124	120	–	244
Infrastructure-related spending	**11 046**	**13 830**	**17 880**	**42 757**
Refurbishment of Parliament	1 000	500	500	2 000
SANRAL: strengthening and rehabilitation of non-toll network	–	1 500	3 750	5 250
Other infrastructure projects	645	365	300	1 311
Refurbishment backlog for provincial roads	1 500	2 250	3 375	7 125
SANParks infrastructure backlog	700	–	–	700
Budget Facility for Infrastructure project	7 201	9 215	9 955	26 371
Security cluster	**4 396**	**4 503**	**5 474**	**14 373**
Additional 5 000 police trainees per year	1 199	2 743	3 893	7 835
Border Management Authority	250	300	350	900
Mozambique deployment, prime mission equipment and navy defence systems	2 350	941	680	3 971
State Capture Commission and Financial Action Task Force	597	519	551	1 667
Service delivery	**16 095**	**17 568**	**20 238**	**53 902**
Local government equitable share	2 460	2 286	3 335	8 080
Health	7 536	7 832	8 103	23 471
Basic education sector	6 100	7 450	8 800	22 350
Department of Home Affairs digitisation project	**840**	**–**	**–**	**840**
COVID-19 social relief of distress grant	**36 081**	**–**	**–**	**36 081**
Social grants: increase in grant values	**5 890**	**9 114**	**14 572**	**29 575**
Other spending pressures	**1 075**	**504**	**569**	**2 149**
Total	**91 022**	**61 337**	**74 660**	**227 019**

Source: National Treasury

PROVISIONAL ALLOCATIONS

Provisional allocations included in the 2023 Budget amount to R1.5 billion in 2023/24, R3.9 billion in 2024/25 and R4 billion in 2025/26. Table 5.3 provides details of these allocations over the MTEF period.

Table 5.3 Provisional allocations not assigned to votes

R million	2023/24	2024/25	2025/26	MTEF total
Public entity: South African Social Security Agency	500	522	546	1 567
General buffer funds	5	63	8	76
Construction of the Tygerberg hospital	–	213	223	436
Construction of the Klipfontein hospital	–	60	63	123
South African Revenue Service	1 000	1 000	1 000	3 000
Infrastructure funding	–	2 043	2 138	4 181
Total	**1 505**	**3 901**	**3 977**	**9 383**

Source: National Treasury

CONSOLIDATED GOVERNMENT EXPENDITURE

Total consolidated government spending is expected to grow at an average annual rate of 4.5 per cent, from R2.17 trillion in 2022/23 to R2.48 trillion in 2025/26. The social wage will make up an average of 60.2 per cent of non-interest spending over this period, reflecting government's commitment to strengthening service delivery in areas such as community development, employment programmes, health, education and social protection.

Table 5.4 Consolidated government expenditure by function[1]

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Learning and culture	**446 731**	**457 085**	**476 546**	**497 267**	**24.3%**	**3.6%**
Basic education	301 970	309 464	316 591	331 279	16.3%	3.1%
Post-school education and training	133 098	135 605	148 321	153 904	7.4%	5.0%
Arts, culture, sport and recreation	11 663	12 015	11 634	12 085	0.6%	1.2%
Health	**259 445**	**259 200**	**268 907**	**281 303**	**13.8%**	**2.7%**
Social development	**357 787**	**378 543**	**361 338**	**356 987**	**18.6%**	**-0.1%**
Social protection	264 363	286 173	266 037	283 014	14.2%	2.3%
Social security funds	93 424	92 370	95 301	73 973	4.4%	-7.5%
Community development	**230 002**	**259 708**	**276 175**	**289 878**	**14.0%**	**8.0%**
Economic development	**221 821**	**237 605**	**259 324**	**277 141**	**13.2%**	**7.7%**
Industrialisation and exports	39 006	40 522	41 347	41 841	2.1%	2.4%
Agriculture and rural development	28 436	27 795	28 633	29 867	1.5%	1.6%
Job creation and labour affairs	23 875	24 583	26 070	27 128	1.3%	4.3%
Economic regulation and infrastructure	112 445	124 863	143 768	159 158	7.3%	12.3%
Innovation, science and technology	18 059	19 843	19 507	19 146	1.0%	2.0%
Peace and security	**227 800**	**227 340**	**236 267**	**247 406**	**12.1%**	**2.8%**
Defence and state security	52 418	52 726	52 812	54 838	2.7%	1.5%
Police services	112 512	112 066	119 244	125 358	6.1%	3.7%
Law courts and prisons	51 472	51 437	53 726	56 081	2.7%	2.9%
Home affairs	11 398	11 110	10 485	11 129	0.6%	-0.8%
General public services	**71 745**	**73 597**	**74 081**	**76 914**	**3.8%**	**2.3%**
Executive and legislative organs	15 406	16 813	16 311	16 830	0.8%	3.0%
Public administration and fiscal affairs	47 811	48 408	48 752	50 664	2.5%	2.0%
External affairs	8 528	8 376	9 018	9 420	0.5%	3.4%
Payments for financial assets	**46 313**	**4 052**	**3 577**	**3 895**		
Allocated by function	**1 861 642**	**1 897 129**	**1 956 215**	**2 030 791**	**100.0%**	**2.9%**
Debt-service costs	307 157	340 460	362 840	397 074		8.9%
Contingency reserve	–	5 000	5 000	5 000		
Unallocated reserve	–	–	35 693	44 533		
Consolidated expenditure	**2 168 799**	**2 242 589**	**2 359 749**	**2 477 398**		**4.5%**

1. The main budget and spending by provinces, public entities and social security funds financed from own revenue
Source: National Treasury

Debt-service costs will total R1.10 trillion over the MTEF period. These costs grow faster than spending in any function, at 8.9 per cent per year. Excluding debt-service costs, the community development function is the fastest-growing function, averaging 8 per cent annually, mainly due to the allocation of additional funds for the local government equitable share and for infrastructure.

In terms of economic classification, Table 5.5 shows that current payments constitute the largest share (61.2 per cent) of the budget, mainly driven by compensation of employees, which constitutes 31.4 per cent of total spending. Transfers and subsidies will increase from R731.2 billion in 2022/23 to R783 billion in 2025/26, growing at an annual average rate of 2.3 per cent. 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.

Table 5.5 Consolidated government expenditure by economic classification[1]

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Economic classification						
Current payments	**1 299 359**	**1 355 806**	**1 418 715**	**1 503 379**	**61.2%**	**5.0%**
Compensation of employees	690 374	701 165	728 747	760 608	31.4%	3.3%
Goods and services	292 955	305 185	317 591	335 793	13.7%	4.7%
Interest and rent on land	316 030	349 456	372 377	406 979	16.2%	8.8%
of which:						
Debt-service costs	*307 157*	*340 460*	*362 840*	*397 074*	*15.8%*	*8.9%*
Transfers and subsidies	**731 230**	**767 062**	**771 535**	**782 975**	**33.2%**	**2.3%**
Municipalities	162 604	177 626	188 811	198 204	8.1%	6.8%
Departmental agencies and accounts	27 260	27 859	26 227	26 413	1.2%	-1.0%
Higher education institutions	53 866	51 871	58 450	59 189	2.4%	3.2%
Foreign governments and international organisations	3 356	3 147	3 457	3 607	0.1%	2.4%
Public corporations and private enterprises	42 068	40 555	43 237	45 863	1.9%	2.9%
Non-profit institutions	41 825	42 149	40 807	42 540	1.8%	0.6%
Households	400 251	423 853	410 545	407 157	17.8%	0.6%
Payments for capital assets	**91 897**	**110 671**	**125 228**	**137 616**	**5.3%**	**14.4%**
Buildings and other fixed structures	61 956	77 433	94 243	104 235	4.0%	18.9%
Machinery and equipment	24 930	28 871	27 385	30 005	1.2%	6.4%
Other capital assets	5 011	4 367	3 600	3 376	0.2%	-12.3%
Payments for financial assets	**46 313**	**4 052**	**3 577**	**3 895**		
Total	**2 168 799**	**2 237 589**	**2 319 055**	**2 427 865**	**100.0%**	**3.8%**
Contingency reserve	–	5 000	5 000	5 000		
Unallocated reserve	–	–	35 693	44 533		
Consolidated expenditure	**2 168 799**	**2 242 589**	**2 359 749**	**2 477 398**		**4.5%**

1. The main budget and spending by provinces, public entities and social security funds financed from own revenue
Source: National Treasury

SPENDING PRIORITIES BY FUNCTION

Spending across functions supports the implementation of new and existing policy priorities. The learning and culture function receives more than 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).

Figure 5.1 Percentage of total MTEF allocation by function, 2023/24 – 2025/26

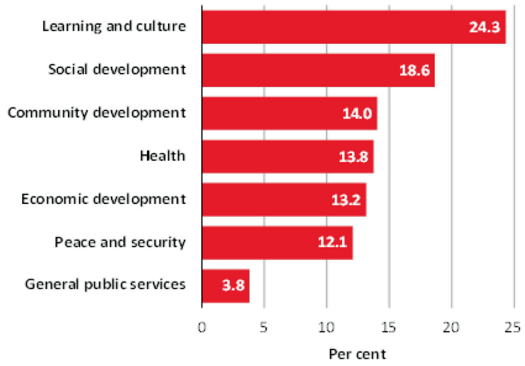
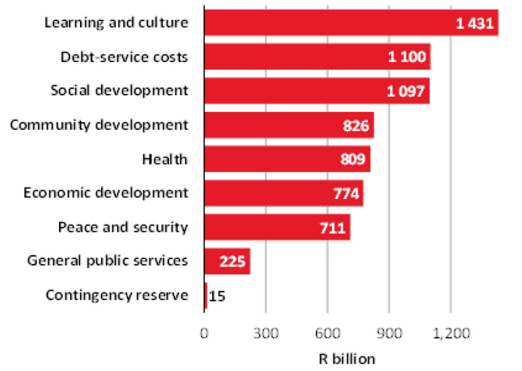


Figure 5.2 Total consolidated government expenditure, 2023/24 – 2025/26



Source: National Treasury

Learning and culture

This function allocates funding to basic and post-school education and training, as well as sport, arts and culture. The basic education sector receives 66.9 per cent of this funding over the MTEF period, of which compensation of employees accounts for just over half.

Additional funding of R20 billion is allocated through the provincial equitable share, mainly to cover shortfalls in basic education compensation budgets. Funding for the *national school nutrition programme grant* is increased by R1.5 billion over the MTEF period to ensure that the meals provided to learners meet nutritional requirements.

The *early childhood development grant* receives an additional R1.6 billion over the medium term to increase the number of children receiving the early childhood development subsidy, provide pre-registration support to early childhood development centres, and pilot a nutrition support programme and a results-based delivery model where the service provider is only paid for the outputs delivered. Additional funding of R198 million is allocated in 2023/24 to enable provision of early childhood development resource packages, which include daily activity plans linked to the National Curriculum Framework. Over the MTEF period, R30 million is allocated to improve the Department of Basic Education's oversight and capacity for managing the programme.

Departments are building their capacity to improve the planning, management and implementation of infrastructure projects and aligning budgets with their ability to spend. In 2023/24, R283.3 million is added to the *education infrastructure grant* to repair infrastructure damage to schools in the Eastern Cape and KwaZulu-Natal resulting from floods in April 2022, while a further R1.5 billion is allocated over the MTEF period for the Gauteng schools project, which aims to improve infrastructure in schools.

Table 5.6 Learning and culture expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Basic education	**301 970**	**309 464**	**316 591**	**331 279**	**66.9%**	**3.1%**
of which:						
Compensation of employees	223 656	231 482	239 793	250 254	50.4%	3.8%
of which:						
Provincial compensation of employees	*222 925*	*230 758*	*239 041*	*249 471*	*50.3%*	*3.8%*
Goods and services	35 093	33 986	33 161	34 828	7.1%	-0.3%
of which:						
Property payments	*5 792*	*5 652*	*5 618*	*6 005*	*1.2%*	*1.2%*
Workbooks and LTSM [1]	*6 433*	*5 857*	*6 588*	*6 886*	*1.4%*	*2.3%*
National school nutrition programme	*8 508*	*9 279*	*9 778*	*10 293*	*2.1%*	*6.6%*
Transfers and subsidies	31 212	31 104	29 056	31 145	6.4%	-0.1%
of which:						
Subsidies to schools [2]	*27 400*	*27 553*	*25 422*	*27 356*	*5.6%*	*-0.1%*
School infrastructure[3]	14 439	15 587	15 636	16 309	3.3%	4.1%
Early childhood development	9 133	9 671	10 271	10 969	2.2%	6.3%
of which:						
Early childhood development grant	*1 193*	*1 242*	*1 885*	*2 341*	*0.4%*	*25.2%*
Post-school education and training	**133 098**	**135 605**	**148 321**	**153 904**	**30.6%**	**5.0%**
of which:						
University subsidies	*42 846*	*44 477*	*46 370*	*48 448*	*9.7%*	*4.2%*
of which:						
Higher education institutions infrastructure	*3 510*	*673*	*4 750*	*3 239*	*0.6%*	*-2.6%*
National Student Financial Aid Scheme [4]	*47 456*	*50 099*	*54 231*	*56 686*	*11.3%*	*6.1%*
Technical and vocational education and training	*13 023*	*12 880*	*13 596*	*14 055*	*2.8%*	*2.6%*
of which:						
Compensation of employees	*7 532*	*8 094*	*8 452*	*8 829*	*1.8%*	*5.4%*
TVET infrastructure	*931*	*542*	*708*	*592*	*0.1%*	*-14.0%*
Subsidies	*4 560*	*4 245*	*4 436*	*4 634*	*0.9%*	*0.5%*
Community education and training	*2 348*	*2 728*	*2 929*	*3 070*	*0.6%*	*9.3%*
of which:						
Compensation of employees	*2 348*	*2 447*	*2 558*	*2 670*	*0.5%*	*4.4%*
CET infrastructure	*–*	*281*	*371*	*400*	*0.1%*	
Skills development levy institutions [5]	*23 397*	*24 275*	*25 980*	*27 950*	*5.5%*	*6.1%*
Arts and culture, sport and recreation	**11 663**	**12 015**	**11 634**	**12 085**	**2.5%**	**1.2%**
Total	**446 731**	**457 085**	**476 546**	**497 267**		**3.6%**

1. Learner and teacher support material
2. Includes some provision for LTSM and property payments for schools that manage their own budgets
3. Education infrastructure grant and the school infrastructure backlog grant
4. Total payments made from all income sources, including Funza Lushaka teacher bursaries and debt repayments from students
5. Spending of the 21 sector education and training authorities and the National Skills Fund
Source: National Treasury

The Department of Higher Education and Training has reprioritised R1.1 billion over the medium term to enable the community education and training (CET) sector to build its own infrastructure for learning and teaching, reducing its current reliance on basic education school infrastructure. Expenditure for the post-school education and training sector increases at an average annual rate of 5 per cent over the medium term, supporting universities, technical and vocational education and training (TVET) colleges, CET colleges and sector education and training authorities in delivering quality post-school education and training.

The arts, culture, sport and recreation sector is allocated R35.7 billion over the medium term to support sports in schools and preserve, develop and promote cultural, heritage and linguistic diversity, and build social cohesion.

Social development

This function is allocated R1.10 trillion over the MTEF period for social grants and welfare services, and to strengthen advocacy for the empowerment of women, youth and people living with disabilities. Social grants remain the largest spending area, constituting 88 per cent of spending in this function over the MTEF period.

Expenditure on social grants will increase from R233 billion in 2022/23 to R248.4 billion in 2025/26 due to increases in the number of recipients and the value of the grants. Excluding the *COVID-19 social relief of distress grant*, social grant coverage is expected to increase from about 18.6 million beneficiaries in March 2023 to 19.6 million beneficiaries by March 2026. The *child support grant* and *old age grant* together account for about 70 per cent of total grant expenditure over the MTEF period. These two grants will be provided to a total of 17.5 million beneficiaries in 2023/24. Social grants will increase in line with inflation over the medium term.

Table 5.7 Average monthly social grant values

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

Source: National Treasury

The *COVID-19 social relief of distress grant* will be extended for a year until 31 March 2024 to mitigate the impact of the slow economic recovery and increased poverty due to the COVID-19 pandemic. In 2023/24, R35.7 billion is allocated to the Department of Social Development to fund the grant, while R400 million is allocated to the South African Social Security Agency to administer it. Government is still considering alternative options to provide appropriate social protection for the working-age population that can replace or complement the current grant. Funds spent on the grant are lower than projected in 2022/23 due to improved means testing.

Over the MTEF period, the allocation for provincial departments of social development will increase at an average annual rate of 3.3 per cent, from R21.3 billion in 2022/23 to R23.5 billion in 2025/26.

Work to support the social and economic inclusion of women, youth and people living with disabilities will continue over the medium term. The Department of Women, Youth and Persons with Disabilities is allocated R2.7 billion over the next three years.

Table 5.8 Social development expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Social protection expenditure	**264 363**	**286 173**	**266 037**	**283 014**	**100.0%**	**2.3%**
of which:						
Social grants	*232 985*	*253 842*	*232 923*	*248 408*	*88.0%*	*2.2%*
of which:						
Child support	*77 179*	*81 878*	*87 320*	*93 034*	*31.4%*	*6.4%*
Old age [1]	*92 067*	*99 104*	*106 489*	*114 013*	*38.3%*	*7.4%*
Disability	*24 807*	*26 801*	*28 278*	*30 002*	*10.2%*	*6.5%*
Foster care	*4 062*	*3 791*	*3 544*	*3 362*	*1.3%*	*-6.1%*
Care dependency	*3 870*	*4 092*	*4 413*	*4 751*	*1.6%*	*7.1%*
Grant-in-aid	*1 896*	*2 107*	*2 473*	*2 822*	*0.9%*	*14.2%*
Social relief of distress	*29 104*	*36 070*	*406*	*424*	*4.4%*	
Provincial social development	21 257	21 386	22 437	23 451	8.1%	3.3%
Women, youth and persons with disabilities	992	1 036	821	858	0.3%	-4.7%
of which:						
Women's rights and advocacy	*132*	*125*	*131*	*137*	*0.0%*	*1.2%*
Administration and research	*151*	*147*	*155*	*159*	*0.1%*	*1.7%*
Youth and persons with disabilities	*709*	*764*	*535*	*562*	*0.2%*	*-7.5%*
Social security funds	**93 424**	**92 370**	**95 301**	**73 973**	**31.3%**	**-7.5%**
Road Accident Fund	50 322	51 877	53 726	30 324	16.3%	-15.5%
Unemployment Insurance Fund	32 801	29 764	30 404	32 017	11.0%	-0.8%
Compensation funds	10 301	10 728	11 171	11 632	4.0%	4.1%
Total	**357 787**	**378 543**	**361 338**	**356 987**	**100.0%**	**-0.1%**
Social grants as percentage of GDP	*3.5%*	*3.6%*	*3.1%*	*3.1%*		
Social grant beneficiary numbers by grant type (thousands)						
Child support	13 283	13 480	13 685	13 897	62.0%	1.5%
Old age[1]	3 872	3 982	4 094	4 212	18.5%	2.8%
Disability	1 051	1 063	1 075	1 088	4.9%	1.1%
Foster care	267	247	229	211	1.0%	-7.5%
Care dependency	159	164	169	174	0.8%	3.0%
COVID-19 SRD grant	7 971	8 496	–	–	12.8%	
Total	**26 604**	**27 432**	**19 252**	**19 582**	**100.0%**	**-9.7%**

1. Includes war veterans
Source: National Treasury

Health

The health function is allocated R809.4 billion over the MTEF period to support the provision of and equitable access to healthcare services. The sector will focus on addressing the accumulated backlog in core health services such as surgery, oncology, antiretroviral treatment and tuberculosis screening and treatment that resulted from disruptions to routine healthcare services due to the pandemic. COVID-19 services including vaccinations have now been integrated into general health services. As vaccine stock levels remain high, no separate allocation is made for vaccines in the 2023 Budget.

The 2023 Budget includes additional funding to the health function of R7.5 billion in 2023/24, R7.8 billion in 2024/25 and R8.1 billion in 2025/26. These amounts will be channelled through the provincial equitable share to help address service backlogs and alleviate critical funding pressures in healthcare personnel (potentially also to retain some of the additional staff recruited during the pandemic), medicine, laboratory services, medical supplies and other key goods and services. These arise partly from budget reductions following the pandemic-related economic downturn.

Table 5.9 Health expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Health expenditure	**259 445**	**259 200**	**268 907**	**281 303**	**100.0%**	**2.7%**
of which:						
Central hospital services	*50 482*	*48 564*	*50 462*	*52 073*	*18.7%*	*1.0%*
Provincial hospital services	*40 508*	*40 213*	*41 888*	*43 367*	*15.5%*	*2.3%*
District health services	*117 454*	*113 070*	*117 635*	*121 939*	*43.6%*	*1.3%*
of which:						
HIV, TB, malaria and community outreach	*24 135*	*23 935*	*25 009*	*26 130*	*9.3%*	*2.7%*
Emergency medical services	*9 589*	*9 656*	*9 773*	*10 085*	*3.6%*	*1.7%*
Facilities management and maintenance	*11 160*	*11 297*	*11 536*	*12 039*	*4.3%*	*2.6%*
Health science and training	*5 758*	*6 351*	*6 305*	*6 533*	*2.4%*	*4.3%*
National Health Laboratory Service	*11 607*	*13 812*	*14 099*	*14 911*	*5.3%*	*8.7%*
National Department of Health [1]	*5 857*	*5 928*	*6 547*	*6 956*	*2.4%*	*5.9%*
Total	**259 445**	**259 200**	**268 907**	**281 303**	**100.0%**	**2.7%**
of which:						
Compensation of employees	*164 381*	*163 576*	*168 824*	*175 408*	*62.7%*	*2.2%*
Goods and services	*75 391*	*75 171*	*78 827*	*83 299*	*29.3%*	*3.4%*
Transfers and subsidies	*6 556*	*6 189*	*6 536*	*6 739*	*2.4%*	*0.9%*
Buildings and other fixed structures	*6 890*	*7 610*	*8 289*	*8 429*	*3.0%*	*7.0%*
Machinery and equipment	*6 140*	*5 655*	*5 407*	*5 664*	*2.1%*	*-2.7%*

1. Excludes grants and transfers reflected as expenditure in appropriate sub-functional areas
Source: National Treasury

Additional funding is also allocated for the 2022/23 public-service wage increase and its carry-through costs over the MTEF period. Despite these additions, provincial health budgets remain under pressure and government will have to make difficult trade-offs to ensure that the sector is adequately resourced. Moreover, greater efficiency is needed to manage services within these budgets.

Funds totalling R349.7 million in 2023/24, R432.3 million in 2024/25 and R568.6 million in 2025/26 are allocated to the *national health insurance indirect grant* to enable construction of the Limpopo Central Hospital in Polokwane. With effect from 1 April 2023, the responsibility to provide port health services will be shifted from the Department of Health to the Border Management Authority. Accordingly, R512 million is shifted over the

MTEF period from the Department of Health to the Department of Home Affairs, which will facilitate the transfer of the funds to the authority.

Community development

Spending in this function will amount to R825.8 billion over the next three years mainly to support the provision of basic services, affordable housing and public transport, as well as promote spatial transformation and urban development. Because municipalities, provinces and public entities are responsible for providing the abovementioned services, transfers and subsidies are the largest spending item in the function, constituting 77.3 per cent of total expenditure.

The local government equitable share is expected to increase at an average annual rate of 9.3 per cent, from R83.7 billion in 2022/23 to R109.4 billion in 2025/26, mainly to provide for above-inflation escalation costs in bulk electricity and water supply. The equitable share includes allocations for the operational and maintenance costs associated with the provision of free basic services.

Table 5.10 Community development expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Community development	**230 002**	**259 708**	**276 175**	**289 878**	**100.0%**	**8.0%**
of which:						
Human settlements	*38 606*	*41 135*	*42 929*	*45 002*	*15.6%*	*5.2%*
Public transport, including commuter rail	*43 547*	*53 223*	*59 054*	*63 224*	*21.3%*	*13.2%*
Local government equitable share	*83 711*	*96 546*	*103 772*	*109 368*	*37.5%*	*9.3%*
Municipal infrastructure grant	*16 842*	*17 545*	*18 331*	*19 150*	*6.7%*	*4.4%*
Regional and local water and sanitation services	*10 844*	*15 584*	*16 430*	*16 025*	*5.8%*	*13.9%*
Electrification programmes	*6 023*	*6 328*	*6 619*	*6 912*	*2.4%*	*4.7%*
Total	**230 002**	**259 708**	**276 175**	**289 878**	**100.0%**	**8.0%**
of which:						
Compensation of employees	*17 456*	*18 195*	*18 917*	*19 576*	*6.9%*	*3.9%*
Goods and services	*16 239*	*16 180*	*16 842*	*17 563*	*6.1%*	*2.6%*
Transfers and subsidies	*183 240*	*201 830*	*213 241*	*223 186*	*77.3%*	*6.8%*
Buildings and other fixed structures	*6 798*	*11 524*	*14 545*	*15 365*	*5.0%*	*31.2%*
Machinery and equipment	*5 384*	*10 281*	*11 145*	*12 730*	*4.1%*	*33.2%*

Source: National Treasury

Additional allocations are made over the medium term for bulk infrastructure that will improve access to services through conditional grants in human settlements and water and sanitation. These include an additional R2.2 billion for the *urban settlements development grant* for construction of the Lufhereng housing project in the City of Johannesburg metro and the Avoca Node development in the eThekwini metro.

The *regional bulk infrastructure grant* in the Department of Water and Sanitation receives an additional R4.2 billion over the medium term for the implementation of a water security programme in the Nelson Mandela Bay metro and other water and sanitation supply programmes in other municipalities. More details on changes to conditional grants are provided in Chapter 6.

Financing disaster response

Effective disaster finance is increasingly important as part of the transition towards a climate-resilient economy and sustainable infrastructure. The National Treasury is intensifying its strategic role and coordination on climate responsiveness.

Recent events – including COVID-19, flooding and drought, and public violence – have highlighted inefficiencies in disaster response, and an overreliance on post-event allocations.

A recent diagnostic report by the National Treasury and the World Bank estimated the average funding gap for financing disaster response in South Africa at R2.3 billion. Redesigning on- and off-budget financing can reduce fiscal costs by about R100 million on average per shock event and R7.5 billion in the case of large shock events.

The diagnostic recommends several reforms to strengthen risk financing, including:

- Developing a national disaster risk financing policy, including strategic priorities for financing disaster response.
- Reviewing the post-disaster budget mobilisation process and amending grant frameworks to integrate disaster risk management.
- Strengthening municipal capacity to finance disaster risk, including through municipal insurance pools.
- Redesigning the suite of financing instruments to respond to disasters and exploring incentives for the private sector to offer non-life insurance to exposed communities.

These recommendations are being assessed and further developments will be outlined in the 2023 *Medium Term Budget Policy Statement*.

Economic development

This function allocates funding to departments and entities focused on promoting sustained and inclusive economic growth to address unemployment, poverty and inequality. Its expenditure will increase from R221.8 billion in 2022/23 to R277.1 billion in 2025/26 at an average annual rate of 7.7 per cent. The bulk of the funds are allocated for goods and services and capital expenditure.

Over the medium term, the Department of Small Business Development is allocated R2.8 billion as part of the Township and Rural Entrepreneurship Fund to support 120 000 township and rural enterprises. In addition, the department aims to improve local and international market access for small, medium and micro enterprises.

The Land Restitution Programme is allocated R12.5 billion over the MTEF period. Over the next three years, government will focus on finalising outstanding restitution claims and supporting resettled farmers to sustain productivity, create jobs and reduce poverty. To continue managing bio-security, increase agricultural production and manage natural resources, the Department of Agriculture, Land Reform and Rural Development is allocated R7.8 billion over the medium term.

Table 5.11 Economic development expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Economic regulation and infrastructure	**112 445**	**124 863**	**143 768**	**159 158**	**55.3%**	**12.3%**
of which:						
Water resource and bulk infrastructure	*27 544*	*34 092*	*38 368*	*48 801*	*15.7%*	*21.0%*
Road infrastructure	*61 758*	*68 298*	*79 303*	*85 484*	*30.1%*	*11.4%*
Environmental programmes	*8 646*	*9 855*	*10 245*	*10 769*	*4.0%*	*7.6%*
Job creation and labour affairs	**23 875**	**24 583**	**26 070**	**27 128**	**10.0%**	**4.3%**
of which:						
Employment programmes [1]	*20 927*	*21 666*	*22 820*	*23 712*	*8.8%*	*4.3%*
Industrialisation and exports	**39 006**	**40 522**	**41 347**	**41 841**	**16.0%**	**2.4%**
of which:						
Economic development and incentive programmes	*20 863*	*20 226*	*19 860*	*20 552*	*7.8%*	*-0.5%*
Innovation, science and technology	**18 059**	**19 843**	**19 507**	**19 146**	**7.6%**	**2.0%**
Agriculture and rural development	**28 436**	**27 795**	**28 633**	**29 867**	**11.1%**	**1.6%**
of which:						
Land reform	*1 154*	*1 113*	*1 180*	*1 230*	*0.5%*	*2.1%*
Agricultural land holding account	*1 159*	*1 203*	*1 069*	*1 156*	*0.4%*	*-0.1%*
Restitution	*3 818*	*3 947*	*4 174*	*4 358*	*1.6%*	*4.5%*
Farmer support and development	*3 683*	*3 687*	*3 856*	*4 032*	*1.5%*	*3.1%*
Total	**221 821**	**237 605**	**259 324**	**277 141**	**100.0%**	**7.7%**
of which:						
Compensation of employees	*55 937*	*58 061*	*61 115*	*64 162*	*23.7%*	*4.7%*
Goods and services	*73 160*	*83 025*	*88 515*	*93 520*	*34.2%*	*8.5%*
Transfers and subsidies	*46 035*	*43 371*	*45 483*	*46 636*	*17.5%*	*0.4%*
Buildings and other fixed structures	*30 211*	*38 082*	*50 085*	*58 579*	*19.0%*	*24.7%*
Machinery and equipment	*5 745*	*5 704*	*4 230*	*4 080*	*1.8%*	*-10.8%*

1. Includes the Expanded Public Works Programme, the Community Works Programme and the Jobs Fund
Source: National Treasury

Over the next three years, R18.9 billion is allocated to the Department of Trade, Industry and Competition for incentive programmes to stimulate business investment in machinery and equipment. Within the automotive investment scheme, R728.8 million is allocated for support to new energy vehicle initiatives. Collectively, these incentives are expected to unlock R83 billion in private-sector investment.

The Department of Science and Innovation is allocated R8.7 billion over the medium term for the development of human capital initiatives through postgraduate bursaries and scholarships, internships and support for emerging and established researchers. Over the same period, the Department of Forestry, Fisheries and the Environment is allocated R1.4 billion for the Waste Bureau to implement the national waste management strategy. The Department of Tourism is also allocated R180 million to support the pilot of the Tourism Equity Fund introduced in 2021.

Economic regulation and infrastructure

Roads account for the largest share of the function's budget at 30.1 per cent of expenditure over the medium term. The additional allocations of R7.1 billion and R5.3 billion for the rehabilitation of provincial roads, and to reduce the road rehabilitation and strengthening backlog on national roads, will result in spending on roads increasing from R61.8 billion in 2022/23 to R85.5 billion in 2025/26. The South African National Roads Agency Limited will increase the length of the network in active maintenance from 1 200 kilometres in 2022/23 to 2 400 kilometres in 2025/26, and the length of the network in active strengthening to 600 kilometres by 2025/26.

Government will spend R121.3 billion over the medium term on water infrastructure. This includes an additional R4.3 billion for the uMkhomazi water project, which augments water supply to various municipalities in KwaZulu-Natal. An additional R3 billion is allocated for the Department of Communications and Digital Technologies to implement the SA Connect broadband project, which aims to connect 5.8 million sites to high-speed internet by 2025/26.

Peace and security

The peace and security function is responsible for safety and security, including the criminal justice system and ports of entry. Its budget will increase from R227.8 billion in 2022/23 to R247.4 billion in 2025/26 at an average annual rate of 2.8 per cent. This is mainly due to the allocation of additional funding for the 2022/23 public-service wage increase and its carry-through costs over the MTEF period. The allocation will also support new hiring and strengthen maritime and ports security.

To strengthen frontline capacity mainly in police stations, the South African Police Service is allocated an additional R7.8 billion over the next three years to appoint 5 000 police trainees per year and absorb them once they successfully complete their training. The Department of Justice and Constitutional Development has reprioritised R27.5 million over the MTEF period to enhance support for victims of gender-based violence by appointing employees in the Thuthuzela care centres including coordinators, victim assistant officers and state advocates.

The National Prosecuting Authority is allocated R1.3 billion over the medium term to support implementation of the recommendation of the State Capture Commission and the outcomes of the Financial Action Task Force evaluation of South Africa's framework for combating money laundering and terrorism financing. The funding will be used to, among other things, appoint 120 new employees in the National Prosecutions Service and the Investigating Directorate, procure specialist prosecution services for complex matters (especially financial crimes), commission contracted forensic auditors and accountants to deal with high-priority asset forfeiture matters, establish a digital forensic data centre, provide close protection services and integrated security systems, and finance increased witness protection operational costs.

Table 5.12 Peace and security expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Defence and state security	52 418	52 726	52 812	54 838	22.6%	1.5%
Police services	112 512	112 066	119 244	125 358	50.2%	3.7%
Law courts and prisons	51 472	51 437	53 726	56 081	22.7%	2.9%
Home affairs	11 398	11 110	10 485	11 129	15.9%	-0.8%
Total	**227 800**	**227 340**	**236 267**	**247 406**	**100.0%**	**2.8%**
of which:						
Compensation of employees	*157 049*	*155 379*	*163 820*	*172 169*	*69.1%*	*3.1%*
Goods and services	*49 938*	*50 992*	*52 918*	*54 634*	*22.3%*	*3.0%*
Transfers and subsidies	*12 806*	*12 877*	*11 986*	*12 120*	*5.2%*	*-1.8%*
Buildings and other fixed structures	*2 774*	*2 903*	*2 795*	*2 884*	*1.2%*	*1.3%*
Machinery and equipment	*4 979*	*4 925*	*4 529*	*5 411*	*2.1%*	*2.8%*

Source: National Treasury

The Financial Intelligence Centre is allocated an additional R265.3 million over the MTEF period to implement the recommendations of the State Capture Commission and the Financial Action Task Force. The allocation will enable the entity to appoint 107 additional permanent personnel such as forensic accountants, inspectors, strategic analysts and enforcement officers to strengthen its capacity. 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.

Establishment of the Border Management Authority

In line with the Border Management Authority Act (2020), the Border Management Authority will be established as a Schedule 3A public entity with effect from 1 April 2023. Its mandate is to manage the legitimate movement of people and goods at borders and at ports of entry. It will also be responsible for enforcing border law and preventing illegal activities, including cross-border criminality, illegal crossing and undue delays in the movement of goods and services.

In order to successfully set up the Border Management Authority, assets and inventories need to be verified at ports of entry, and border functions and related staff – such as frontline immigration, health, environment and agriculture – need to be shifted from their current departments to the authority. Staff will also be seconded from other organs of state, where necessary, to strengthen capacity in the authority. To fund its operations over the MTEF period, the authority will receive additional funds amounting to R250 million in 2023/24, R300 million in 2024/25 and R350 million in 2025/26. A total of R3.3 billion has been shifted to the authority from the Department of Health; the Department of Forestry, Fisheries and the Environment; the Department of Agriculture, Land Reform and Rural Development; and the Department of Home Affairs.

To enhance security on South Africa's borders 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. In addition, R850 million is allocated in 2023/24 to support the deployment of the South African National Defence Force in Mozambique as part of the Southern African Development Community Mission in Mozambique.

General public services

This function helps to build a capable state. It is allocated R224.6 billion over the MTEF period, which is 3.8 per cent of the total budget for functions.

Over the MTEF period, R9 million will be shifted from the Department of Public Works and Infrastructure to the Project Management Office in the Presidency. The office supports other government departments to develop programmes that equip young people with skills and access to opportunities. The South African Revenue Service is allocated additional funding for capital projects to improve its information and communications technology and revenue collection capabilities.

The Department of Public Works and Infrastructure is allocated R200 million per year over the medium term to assist implementing agencies with high-priority project preparation. The project pipeline, which is managed by Infrastructure South Africa, includes over 150 public-sector projects across economic and social sectors. The funding will be used to develop the documents required by funding institutions, and facilitate employment-generating investments in infrastructure.

Over the medium term, R60 million has been reprioritised within the function to establish a permanent baseline for campaigns related to gender-based violence and femicide, anti-corruption and the economic recovery plan.

Table 5.13 General public services expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Executive and legislative organs	15 406	16 813	16 311	16 830	22.2%	3.0%
Public administration and fiscal affairs	47 811	48 408	48 752	50 664	65.8%	2.0%
External affairs	8 528	8 376	9 018	9 420	11.9%	3.4%
Total	**71 745**	**73 597**	**74 081**	**76 914**	**100.0%**	**2.3%**
of which:						
Compensation of employees	*34 071*	*35 074*	*35 237*	*36 245*	*0.0%*	*2.1%*
Goods and services	*23 114*	*24 218*	*25 137*	*26 610*	*0.0%*	*4.8%*
Transfers and subsidies	*10 769*	*9 722*	*9 819*	*10 182*	*0.0%*	*-1.8%*
Buildings and other fixed structures	*1 673*	*2 459*	*2 015*	*2 029*	*0.0%*	*6.6%*
Machinery and equipment	*1 179*	*1 128*	*876*	*888*	*0.0%*	*-9.0%*

Source: National Treasury

CONCLUSION

Over the next three years, consolidated spending will total R7.08 trillion, the majority of which is allocated for the social wage. Additional allocations are focused on funding short-term policy priorities and improving growth-enhancing investment. Government continues to reprioritise and review spending to meet policy priorities and improve efficiency.

6

2023 BUDGET REVIEW

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 6

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES

In brief

- Provinces and municipalities provide a range of critical social and economic services. Over the next three years, they will focus on improving service delivery.
- Over the medium-term expenditure framework (MTEF) period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48.6 per cent of nationally raised funds are allocated to national government, 41.5 per cent to provincial government and 10 per cent to local government.
- Direct transfers to provinces and municipalities over the medium term have been increased by R92.7 billion and R14.3 billion respectively. These funds help address various spending pressures.
- Government is strengthening the regulatory environment and support to subnational government to help address challenges in those spheres.

OVERVIEW

National government transfers more than half of nationally raised revenues to the nine provinces and 257 municipalities so they can perform their mandated functions. The 2023 Budget strikes a balance between building institutional capacity and ensuring real growth in transfers to provinces and municipalities to meet the needs of growing populations. The provinces are responsible for basic education, health, roads, human settlements, social development and agriculture. Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services.

The 2023 Budget increases allocations for all three spheres of government to assist with urgent spending pressures. Over the medium term, direct provincial allocations will increase by R92.7 billion to R2.17 trillion. This increase consists of R76.9 billion added to the provincial equitable share and R15.8 billion added to direct conditional grants. Local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in health, education and basic services, where the costs of providing services are rising.

DIVISION OF REVENUE

Transfers to provinces and local government are made through respective equitable shares and conditional grants. The equitable shares are determined by formulas that take into account demographic and developmental factors. Conditional grants are designed to achieve specific objectives, and provinces and municipalities must meet certain criteria to receive grants and fulfil conditions when spending them.

Table 6.1 sets out the division of revenue over the MTEF period. Over the next three years, of the funds available after providing for debt-service costs and the contingency reserve, 48.6 per cent is allocated to national government, 41.5 per cent to provincial government and 10 per cent to local government. National transfers to the provinces will increase from

R695.1 billion in 2023/24 to R754.7 billion in 2025/26. Over the MTEF period, provincial transfers will grow at an average annual rate of 2.8 per cent. In 2023/24, a total of R567.5 billion is allocated to the provincial equitable share and R127.5 billion to conditional grants.

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.

Table 6.1 Division of nationally raised revenue

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	**749.8**	**790.5**	**823.0**	**854.4**	**828.6**	**835.7**	**877.9**	**0.9%**
of which:								
Indirect transfers to provinces	*2.9*	*2.9*	*3.7*	*4.6*	*4.2*	*4.4*	*4.8*	*1.1%*
Indirect transfers to local government	*5.6*	*4.1*	*5.7*	*7.2*	*8.5*	*8.9*	*9.3*	*8.9%*
Provinces	**613.4**	**628.8**	**660.8**	**694.6**	**695.1**	**720.5**	**754.7**	**2.8%**
Equitable share	505.6	520.7	544.8	570.9	567.5	587.5	614.3	2.5%
Conditional grants	107.9	108.1	116.0	123.7	127.5	133.0	140.4	4.3%
Local government	**123.0**	**137.1**	**135.6**	**147.8**	**164.0**	**174.4**	**183.3**	**7.4%**
Equitable share	65.6	83.1	76.2	83.7	96.5	103.8	109.4	9.3%
Conditional grants	44.2	40.0	44.8	48.7	52.0	54.5	57.1	5.4%
General fuel levy sharing with metros	13.2	14.0	14.6	15.3	15.4	16.1	16.8	3.2%
Provisional allocation not assigned to votes[1]	–	–	–	–	1.5	3.9	4.0	
Non-interest allocations	**1 486.2**	**1 556.4**	**1 619.4**	**1 696.8**	**1 689.1**	**1 734.4**	**1 819.9**	**2.4%**
Percentage increase	*12.2%*	*4.7%*	*4.0%*	*4.8%*	*-0.5%*	*2.7%*	*4.9%*	
Debt-service costs	204.8	232.6	268.1	307.2	340.5	362.8	397.1	8.9%
Contingency reserve	–	–	–	–	5.0	5.0	5.0	
Unallocated reserve	–	–	–	–	–	35.7	44.5	
Main budget	**1 691.0**	**1 789.0**	**1 887.5**	**2 004.0**	**2 034.6**	**2 137.9**	**2 266.5**	**4.2%**
Percentage increase	*12.2%*	*5.8%*	*5.5%*	*6.2%*	*1.5%*	*5.1%*	*6.0%*	
Percentage shares								
National	*50.4%*	*50.8%*	*50.8%*	*50.4%*	*49.1%*	*48.3%*	*48.3%*	
Provinces	*41.3%*	*40.4%*	*40.8%*	*40.9%*	*41.2%*	*41.6%*	*41.6%*	
Local government	*8.3%*	*8.8%*	*8.4%*	*8.7%*	*9.7%*	*10.1%*	*10.1%*	

1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations
Source: National Treasury

The division of revenue redistributes substantial resources from urban areas to fund rural services, which are often provided at high cost. It also subsidises services to millions of poor households in towns and cities through allocations to urban municipalities and provinces. Metropolitan municipalities account for 70.1 per cent of personal income tax revenue but receive only 32.6 per cent of local government transfers. In contrast, the 61 mostly rural local municipalities account for only 5.7 per cent of personal income tax revenues but receive 27.3 per cent of transfers to local government.

Changes to conditional grants in the 2023 Budget include the discontinuation of the conditional emergency housing grants for provinces and municipalities. The baselines of these two grants are shifted to the Department of Human Settlements. This will allow the department to respond quickly in the event of an emergency housing need. Over the 2023 MTEF period, R1.6 billion has been allocated to the programme. This includes R523.3 million allocated in 2023/24, R546.8 million allocated in 2024/25 and R571.3 million allocated in 2025/26.

The *Explanatory Memorandum to the Division of Revenue* sets out the provincial and municipal allocations, details the equitable share formula and explains how the division takes into account the recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the *Budget Review* on the National Treasury website.

STRENGTHENING PARTNERSHIPS TO DEVELOP CAPABILITY

National government is taking two approaches to expanding the tools that provinces and municipalities can use to improve spending and service delivery. The first approach seeks to streamline existing capability development programmes within government and forge new partnerships to increase their effectiveness. The second approach entails supporting the capability to deliver infrastructure across state institutions.

The National Treasury has developed a comprehensive set of public financial management leadership development initiatives for provincial members of the executive council, heads of departments and senior officials in provinces. In collaboration with the National School of Government, the National Treasury is sponsoring public financial management leadership training for provincial executives. To date, 120 of 150 executives have received training and development through the school. National government is coordinating with subnational governments to ensure that each province has a fully functional public financial management and budgetary executive ready to deliver effective services within a changing public finance landscape and a fiscally constrained environment.

In 2022 the National Treasury piloted training on change leadership and transversal management under the Cities Support Programme. Going forward, the National School of Government will offer these courses to local governments and public service organisations. Through this partnership, the school also strengthens its relationships with existing institutions such as the Municipal Institute of Learning in eThekwini and the Tshwane Leadership and Management Academy.

Through the Infrastructure Delivery Management System, provinces have created infrastructure units and institutionalised best practices. To improve service delivery, national government is supporting the subnational institutionalisation of the system. Accredited training programmes are being implemented as part of capacity-building initiatives. These focus on planning, budgeting, supply chain management, performance and risk management. In addition, an Infrastructure Delivery Management System curriculum is being developed for qualifications at a higher certificate level aligned with the Higher Education Qualification Framework.

PROVINCIAL REVENUE AND SPENDING

Provinces are responsible for providing social services, including public basic education for 13.4 million learners and healthcare for 50.8 million South Africans who do not have private insurance. Most recipients access these services free of charge or at very low cost. Provinces do not have significant taxation powers, and transfers through division of revenue accounted for about 97 per cent of provincial revenues in 2021/22.

Over the MTEF period, R31.1 billion is added for employee compensation in the provincial equitable share for the carry-through costs of the 2022/23 public-service wage increase. Of this amount, R10.2 billion is added in 2023/24, R10.4 billion in 2024/25 and R10.5 billion in 2025/26. An additional R20 billion goes to the education sector over the medium term.

In the health sector, R23.5 billion is added over the medium term. This funding will be used for antiretroviral therapy and to address backlogs in tuberculosis and other healthcare services, mitigate wage pressures, and fund laboratory services, medicine and other goods and medical supplies. In 2023/24, R7.5 billion is allocated, followed by R7.8 billion in 2024/25 and R8.1 billion in 2025/26.

Table 6.2 Provincial equitable share

R million	2022/23	2023/24	2024/25	2025/26	Average annual MTEF growth
	Estimate	Medium-term estimates			
Eastern Cape	73 593	73 292	76 022	79 620	2.7%
Free State	31 727	31 380	32 369	33 735	2.1%
Gauteng	122 060	120 752	125 438	131 095	2.4%
KwaZulu-Natal	116 697	115 948	118 858	123 812	2.0%
Limpopo	65 241	65 349	67 974	71 502	3.1%
Mpumalanga	46 754	46 674	48 437	50 752	2.8%
Northern Cape	15 219	15 150	15 718	16 463	2.7%
North West	40 255	40 096	41 765	43 843	2.9%
Western Cape	59 322	58 886	60 920	63 448	2.3%
Total	**570 868**	**567 528**	**587 500**	**614 271**	**2.5%**

Source: National Treasury

The provincial equitable share formula is made up of six components: education, health, basic, institutional, poverty and economic activity. A review of the formula led to changes to the health component in the 2022 MTEF period. One-third of the changes were implemented in 2022/23, another third will be implemented in 2023/24 and all changes will be implemented in 2024/25. The education component is currently being reviewed.

Table 6.3 Conditional grants to provinces

R million	2022/23	2023/24	2024/25	2025/26	MTEF total
	Revised estimate	Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	1 599	1 626	1 777	1 825	5 228
Ilima/Letsema projects	610	620	648	677	1 946
Land care programme grant: poverty relief and infrastructure development	85	86	90	94	271
Early childhood development grant	1 193	1 242	1 885	2 341	5 469
Education infrastructure	12 501	13 872	13 845	14 438	42 155
HIV and AIDS (life skills education) grant	242	242	253	264	758
Learners with profound intellectual disabilities grant	256	260	272	284	817
Maths, science and technology grant	425	433	453	473	1 358
National school nutrition programme	8 508	9 279	9 778	10 293	29 350
Provincial disaster response grant	97	146	152	159	457
District health programmes grant	29 023	26 866	28 072	29 330	84 268
Health facility revitalisation	6 780	7 120	7 361	7 691	22 172
Human resources and training grant	5 449	5 479	5 367	5 607	16 452
National health insurance grant	694	695	717	749	2 161
National tertiary services	14 306	14 024	14 654	15 310	43 988
Human settlements development	14 256	14 944	15 118	15 796	45 858
Informal settlements upgrading partnership	4 121	4 303	4 496	4 697	13 496
Provincial emergency housing grant	796	–	–	–	–
Mass participation and sport development grant	604	604	631	659	1 894
Expanded public works programme integrated grant for provinces	433	435	454	475	1 364
Social sector expanded public works programme incentive grant for provinces	425	426	446	466	1 338
Community library services	1 573	1 571	1 641	1 715	4 927
Provincial roads maintenance	12 665	15 867	17 117	18 976	51 960
Public transport operations	7 090	7 403	7 735	8 082	23 220
Total direct conditional grants	**123 730**	**127 544**	**132 963**	**140 402**	**400 909**
Indirect transfers	**4 612**	**4 178**	**4 447**	**4 763**	**13 389**
School infrastructure backlogs	2 403	2 079	2 172	2 269	6 520
National health insurance indirect	2 209	2 099	2 275	2 494	6 868

Source: National Treasury

MUNICIPAL REVENUE AND SPENDING

The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere. The framework refers to all resources available for municipalities to meet their expenditure responsibilities. National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues raised through their own powers. Between 2017/18 and 2021/22, own revenues accounted for an average of 82 per cent of total municipal revenues. However, revenue-raising capacity varies dramatically, with poor rural municipalities receiving most of their revenue from transfers.

In 2023/24, R164 billion is allocated as direct transfers to local government, while a further R8.5 billion is allocated to be spent by national departments on behalf of municipalities.

Of the direct transfers, 68.3 per cent will be transferred as unconditional funds for municipalities to use according to the priorities determined by their councils through their budget processes. The remaining 31.7 per cent will be transferred through conditional grants. In 2023/24, government is funding free basic services to 11.2 million households at a cost of R70.9 billion.

Table 6.4 Transfers to local government

R million	2022/23	2023/24	2024/25	2025/26	MTEF total
	Adjusted Budget	Medium-term estimates			
Equitable share and related	**87 311**	**96 546**	**103 772**	**109 368**	**309 686**
General fuel levy sharing with metros	**15 335**	**15 433**	**16 127**	**16 849**	**48 409**
Direct conditional grants	**51 542**	**51 992**	**54 484**	**57 113**	**163 588**
Integrated urban development	1 085	1 172	1 227	1 284	3 684
Municipal disaster recovery	3 319	321	–	–	321
Municipal disaster response	764	373	389	407	1 169
Municipal infrastructure	16 842	17 545	18 331	19 150	55 026
Energy efficiency and demand-side management	223	224	243	253	720
Integrated national electricification programme	2 120	2 212	2 311	2 415	6 938
Informal settlements upgrading partnership	4 273	4 365	4 561	4 765	13 691
Municipal emergency housing	55	–	–	–	–
Urban settlements development	7 352	8 149	8 793	9 343	26 286
Infrastructure skills development	159	160	167	175	501
Local government financial management	566	569	594	621	1 783
Neighbourhood development partnership	1 293	1 475	647	676	2 798
Programme and project preparation support	361	377	394	411	1 182
Expanded public works programme intergrated	778	781	816	853	2 451
Public transport network	6 013	6 794	7 752	8 369	22 915
Rural roads asset management systems	115	115	121	126	362
Regional bulk infrastructure	2 521	3 496	4 099	4 045	11 640
Water services infrastructure	3 701	3 864	4 038	4 219	12 120
Total direct transfers	**154 188**	**163 972**	**174 382**	**183 330**	**521 684**
Indirect transfers	**8 171**	**8 481**	**8 862**	**9 259**	**26 602**
Municipal systems improvement	140	147	153	160	460
Integrated national electricification programme	3 588	3 821	3 993	4 172	11 986
Neighbourhood development partnership	201	101	105	110	316
Regional bulk infrastructure	3 470	3 607	3 769	3 938	11 315
Water services infrastructure	771	805	841	879	2 526

Source: National Treasury

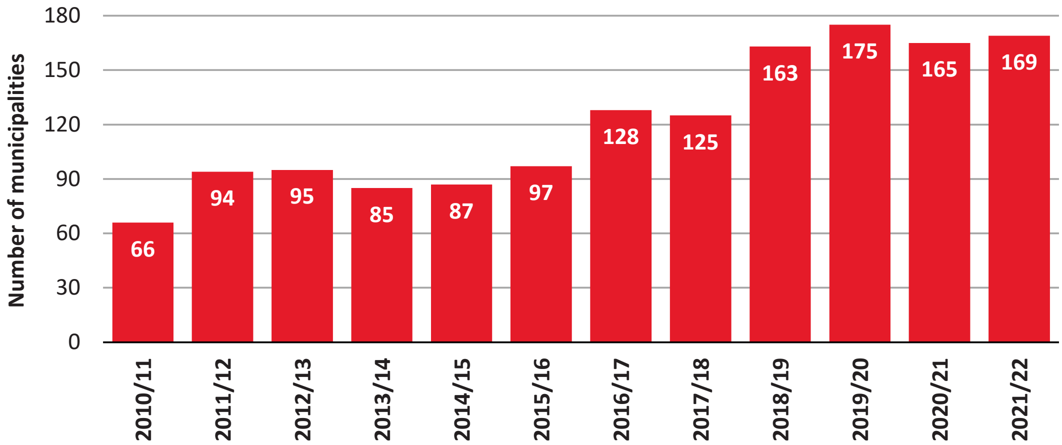
Measures to cushion poor households from electricity tariff increases

The National Energy Regulator of South Africa has approved a bulk electricity tariff increase of 18.7 per cent for Eskom, effective from 1 April 2023. Because the municipal financial year begins on 1 July, Eskom often charges municipalities higher rates than its other customers to recover revenue lost in the first three months of its financial year. An additional R1.1 billion is allocated to the electricity component of the local government equitable share formula in 2023/24 to offset this additional charge for the households that receive free basic electricity within municipalities.

Municipal financial management

The National Treasury's 2022 *State of Local Government Finances* report found that 169 municipalities were in financial distress at the end of 2021/22. The report noted a continued pattern of deterioration: only 66 of the 257 municipalities had been in financial distress at the end of 2010/11. Revenue management was the most prevalent factor contributing to this financial distress.

Figure 6.1 Municipalities in financial distress



Source: National Treasury

Most outstanding municipal revenues are owed mostly by households, followed by commercial customers and government institutions. Households' debt has been increasing over time and threatens the sustainability of different services.

Municipalities in turn owed water boards and water trading entities more than R15 billion – and owed Eskom approximately R39.8 billion as at 30 June 2022. Municipal arrears for bulk electricity are increasing rapidly.

Figure 6.2 Municipal debtors, 2021/22

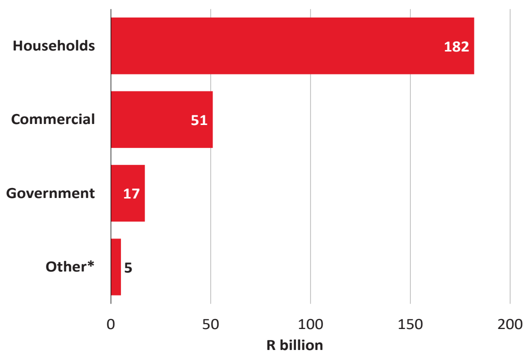
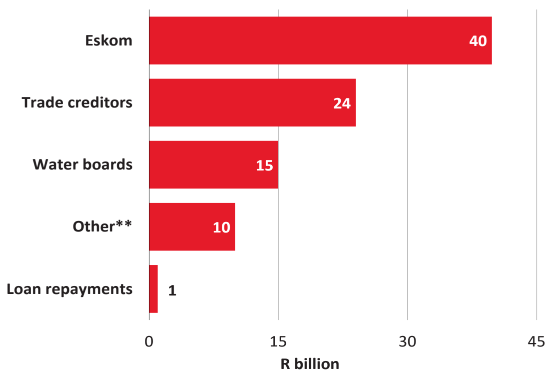


Figure 6.3 Municipal creditors, 2021/22



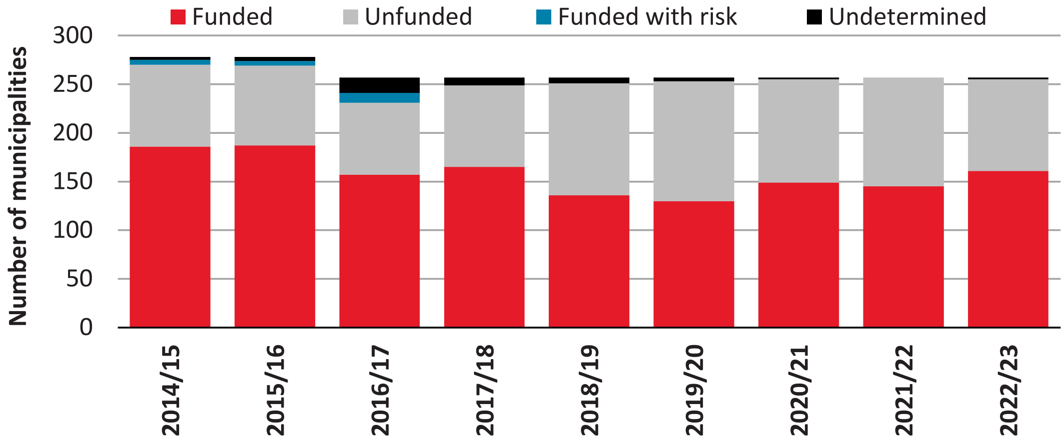
**Includes rental and equipment leases income, interest on arrears and other recoveries, and outstanding payments from national or provincial government for projects carried out by municipalities on their behalf*

***Includes PAYE deductions, output VAT less input VAT, pensions or retirement and Auditor-General*

Source: National Treasury

Many municipalities fail to adopt funded budgets, which means they will not be financially sustainable and implies that they lack credible financial management, although Figure 6.4 shows a marginal improvement in the last three years. In 2021/22, 112 municipal councils voted to adopt budgets that they knew were not funded, making some form of financial distress inevitable. Elected councils are responsible for determining and budgeting for municipal priorities. Neither national nor provincial government can compel local governments to adopt different budgets, although they may advise that their proposed budgets are unfunded. National and provincial engagements with municipalities are used to identify areas for improvement in these budgets, and advisors from the National Treasury-funded Municipal Finance Improvement Programme provide in-person assistance.

Figure 6.4 Municipalities with unfunded budgets



Source: National Treasury

The Municipal Finance Management Act (2003) mandates provincial intervention when a municipality, as a result of its own financial crisis, is unable to meet its obligations to provide basic services or fulfil financial commitments. If the provincial government cannot or does not adequately intervene, then national government is obligated to do so.

At present, 43 municipalities are in financial and service delivery crisis, requiring intervention from national and provincial government. These municipalities are struggling to meet their mandated obligations and provide an acceptable level of service to their communities. The Eastern Cape and North West provinces contain the highest number of municipalities in crisis.

A series of inductions is under way to educate new council members about national and provincial financial interventions and how they benefit the municipality. Thirty-one of the 43 municipal councils have been inducted and the National Treasury is developing 14 financial recovery plans. In addition, these municipalities are receiving technical support to improve their revenue collection and management. The National Treasury has trained these and other municipalities on how to develop and apply tariffs, budget funding plans and property rate reconciliation tools. The National Treasury is also working with provincial treasuries to identify municipalities nearing financial crisis to provide targeted support. Members of the Municipal Finance Improvement Programme have been assigned to six provincial treasuries to enhance their support capacity.

Strengthening municipal governance and financial management

A number of national initiatives aim to improve municipal governance, service delivery and financial management. Public trust is eroding as a result of substandard municipal services, deteriorating infrastructure and perceptions that public money is wasted. To help address this, the National Treasury and the Department of Cooperative Governance will work with their provincial and municipal counterparts on the following:

- Government is reviewing the municipal finance management regulatory framework, including the Municipal Property Rates Act (2004), Municipal Systems Act (2000) and Municipal Finance Management Act. The review aims to improve consistency in municipal financial policies, reduce incidents of unfunded budgets, strengthen revenue collection and management, and address irregular expenditure with associated consequences. It is expected to be completed during 2023/24, after which legislation and regulations will be amended and developed as needed.

- The consequence management and accountability framework developed by the National Treasury is now in effect. It outlines processes and procedures required for municipalities and municipal entities to enforce accountability in relation to financial misconduct and financial offences.

Norms and standards for municipal electricity surcharges

The National Treasury is developing compulsory national norms and standards to regulate municipal surcharges on electricity and identify alternative sources of revenue to replace electricity surcharges.

The process to be followed by municipalities in order to impose municipal surcharges is currently unclear and some municipalities have been legally challenged when they levy surcharges. Electricity is the largest component of service charges from which municipalities generate their revenue. This revenue source has been declining over the years as electricity prices increase and reliability of supply declines. Moreover, a gradual shift to renewable forms of energy by households and business will have significant implications for municipalities. As a result, the municipal electricity market is changing structurally, and it is necessary to reconsider how related revenues are charged and collected. There are also indications that some municipalities are considering surcharges for customers supplied directly by Eskom, although customers are resistant to this idea.

The compulsory norms and standards will provide clarity for municipalities and ensure that the process of determining surcharges is transparent and results in affordable surcharges. This work started in May 2022 and a draft for consultation is expected by June 2023.

CONCLUSION

The 2023 MTEF period provides for targeted allocations to provinces and municipalities, with an emphasis on key basic services. Despite significant financial support provided to subnational governments over the years, they are mostly still not able to optimise resource use and improve service delivery. National government is improving the tools available to provinces and municipalities to assist in improving efficiency, building strong capable institutions and spending more effectively to fulfil their mandates. To be effective, these reforms will require political will, good governance and better financial controls.

7

2023 BUDGET REVIEW

GOVERNMENT DEBT AND CONTINGENT LIABILITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- The gross borrowing requirement has declined from R484.5 billion at the time of the 2022 Budget to R387.9 billion, largely as a result of higher-than-anticipated revenue collection.
- Due to elevated redemptions and Eskom debt relief, the borrowing requirement will reach R555 billion in 2025/26. Gross loan debt will grow to R5.84 trillion in the outer year of the medium-term expenditure framework (MTEF) period.
- Government's R350 billion guarantee framework agreement issued to Eskom expires on 31 March 2023.
- Gross loan debt is projected to stabilise at 73.6 per cent of GDP in 2025/26, and to decline thereafter.

OVERVIEW

Government's budget deficit narrowed over the past year. As a result, the gross borrowing requirement declined from a projected R484.5 billion to R387.9 billion, or 5.8 per cent of GDP. Over the MTEF period ahead, the provision of large-scale debt relief to Eskom will result in a significant increase in gross borrowing, but prudent fiscal policy and debt management will ensure that this arrangement does not put the fiscal framework at risk.

Over the next three years, government will service R184.4 billion of Eskom's debt (capital repayments and interest payments) and, in 2025/26, will take over up to R70 billion of Eskom's debt. As a result, the gross borrowing requirement will increase from R515.6 billion in 2023/24 to R555 billion in 2025/26. Any guaranteed debt that is settled as part of the debt-relief arrangement will reduce the state's guarantee exposure to Eskom. By the outer year, this exposure is expected to decline by R118.9 billion.

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, compared with the 2022 *Medium Term Budget Policy Statement* (MTBPS) projection of stabilisation at 71.4 per cent of GDP in 2022/23. Debt as a share of GDP will decline thereafter. Contingent liabilities are set to decline from R1.07 trillion in 2022/23 to R904.1 billion in 2025/26.

Over the past year, rising inflation, interest rates and risk aversion have led to more difficult global and domestic financing conditions. Nevertheless, South Africa's deep capital markets, and its improved fiscal and debt position, have helped to cushion rising risks associated with tightening monetary policy and a slowing global economy. Moreover, South Africa's foreign debt remains a relatively small share of its overall borrowings. In 2022, all three credit rating agencies (Fitch, Moody's and S&P) indicated an improved outlook for South Africa's sovereign credit ratings for these reasons, although they remain concerned about power cuts, the high debt burden and significant fiscal risks.

FINANCING STRATEGY

Government aims to finance its borrowing requirement at the lowest possible cost within a set of strategic risk benchmarks (Table 7.1). The financing strategy enables government to determine the best mix of debt instruments and maturities to finance the borrowing requirement, while minimising refinancing risk, currency risk and overall borrowing costs. In 2023/24, the gross borrowing requirement will be financed through a combination of domestic short- and long-term loans, foreign-currency loans and cash balances.

Government continues to work with the private sector to develop South Africa's capital markets and ensure a diversified portfolio of instruments. The 2023/24 funding strategy will include additional issuances into existing and new floating rate notes and a domestic rand-denominated sukuk (Islamic bond). In addition, government will continue to explore innovative ways to raise funds through climate financing and related initiatives.

Table 7.1 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2022/23	2023/24
		Estimates	
Treasury bills as % of domestic debt[1]	15.0	9.9	10.4
Long-term debt maturing in 5 years as % of bonds	25.0	16.0	16.1
Inflation-linked bonds as % of domestic debt	20-25	23.9	22.0
Foreign debt as % of total debt	15.0	11.7	11.2
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	11.2	10.6
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	12.8	13.6
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		11.6	11.2
Term-to-maturity of foreign debt (years)		12.2	12.2

1. Excludes borrowing from the Corporation for Public Deposits and retail savings bonds
Source: National Treasury

Risks to the financing strategy

The main risks to the strategy are as follows:

- Higher interest rates in developed economies coupled with low domestic economic growth could reduce demand for domestic bonds.
- Further depreciation in the rand exchange rate would raise the cost of outstanding foreign-currency debt.
- The materialisation of contingent liabilities at state-owned companies could increase funding needs and associated costs.

BORROWING PERFORMANCE AND PROJECTIONS

Government's gross borrowing requirement consists of the budget deficit, maturing loans and, from 2023/24, the Eskom debt-relief arrangement. The 2022/23 budget deficit decreased by R86.8 billion relative to the 2022 Budget estimate, mainly due to strong revenue performance. As a result, the gross borrowing requirement declined from a projected R484.5 billion to R387.9 billion for 2022/23, or from 7.5 per cent to 5.8 per cent of GDP. Over the next three years, government will service R184.4 billion of Eskom's debt, consisting of capital repayments and interest payments, and in 2025/26, government will take over a maximum of R70 billion of Eskom's debt by switching selected debt instruments into government debt. This will be financed by issuing both short- and long-term loans in the domestic markets. As a result, the gross borrowing requirement will increase from R515.6 billion in 2023/24 to R555 billion in 2025/26.

Domestic and foreign redemptions will average R172.3 billion over the three years relative to R67.9 billion in the previous three years. To mitigate the refinancing risk as a result of high redemptions, government will use a number of strategies to reduce the gross borrowing requirement over the medium term.

Table 7.2 Financing of national government gross borrowing requirement[1]

R million	2021/22	2022/23		2023/24	2024/25	2025/26
	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	**-323 061**	**-387 213**	**-300 415**	**-275 351**	**-269 864**	**-258 799**
Redemptions	**-65 292**	**-97 252**	**-87 474**	**-162 232**	**-168 794**	**-185 969**
Domestic long-term loans	-61 373	-81 292	-71 712	-117 865	-131 369	-129 558
Foreign loans	-3 919	-15 960	-15 762	-44 367	-37 426	-56 410
Eskom debt-relief arrangement	**–**	**–**	**–**	**-78 000**	**-66 154**	**-110 223**
Total	**-388 354**	**-484 465**	**-387 889**	**-515 583**	**-504 813**	**-554 990**
Financing						
Domestic short-term loans	**-7 955**	**–**	**-25 493**	**48 000**	**42 000**	**46 000**
Treasury bills (net)	-8 007	–	-25 493	48 000	42 000	46 000
Corporation for Public Deposits	52	–	–	–	–	–
Domestic long-term loans	**290 295**	**330 400**	**310 900**	**329 900**	**377 700**	**411 000**
Market loans	290 657	330 400	310 987	329 900	377 700	341 000
Loans issued for switches	-362	–	-87	–	–	–
Eskom debt-relief arrangement	–	–	–	–	–	70 000
Foreign loans	**31 316**	**47 880**	**64 466**	**44 360**	**34 960**	**79 380**
Market loans	31 316	47 880	64 466	44 360	34 960	79 380
Loans issued for switches	–	–	–	–	–	–
Change in cash and other balances[2]	**74 698**	**106 185**	**38 017**	**93 323**	**50 153**	**18 610**
Cash balances	74 361	99 611	27 952	86 321	42 845	13 486
Other balances[3]	337	6 574	10 065	7 002	7 308	5 124
Total	**388 354**	**484 465**	**387 889**	**515 583**	**504 813**	**554 990**
Percentage of GDP	*6.2%*	*7.5%*	*5.8%*	*7.4%*	*6.8%*	*7.0%*

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments
Source: National Treasury

Domestic short-term borrowing

Government's short-term borrowing consists of Treasury bills and borrowing from the Corporation for Public Deposits (Table 7.3). During 2022/23, net Treasury bills issuances were reduced by R25.5 billion to manage liquidity levels. Due to the strong in-year revenue performance, government did not borrow from the Corporation for Public Deposits during 2022/23. The corporation will be used as a bridging finance facility and no net increase is expected over the medium term.

Over the next three years, net Treasury bill issuance will average R45.3 billion, or 10.8 per cent of total domestic borrowing.

Table 7.3 Domestic short-term borrowing

R million	2022/23			2023/24		2022/23	2023/24
	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
Corporation for Public Deposits	**52**	**-52**	**–**	**–**	**–**	**–**	**–**
Treasury bills	**447 964**	**-25 493**	**422 471**	**48 000**	**470 471**	**13 650**	**15 200**
91-days	8 684	855	9 539	6 061	15 600	1 400	1 800
182-days	72 806	-4 545	68 261	9 739	78 000	3 300	3 800
273-days	149 364	-5 821	143 543	12 456	155 999	4 400	4 700
364-days	217 108	-15 982	201 126	19 744	220 870	4 550	4 900
Total	**448 016**	**-25 545**	**422 471**	**48 000**	**470 471**		

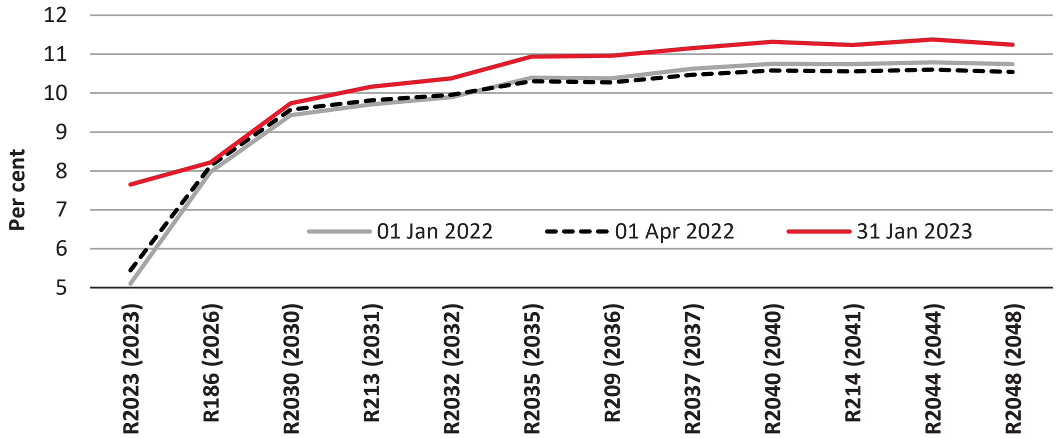
Source: National Treasury

Domestic long-term borrowing

Government's long-term borrowing consists primarily of bonds. In 2022/23, domestic long-term borrowing will amount to R310.9 billion, which is R19.5 billion lower than the 2022 Budget estimate, largely as a result of better-than-expected revenue collection. Between April 2022 and January 2023, government raised R273.1 billion or 87.8 per cent of this amount. Fixed-rate bonds accounted for 60.1 per cent, with floating-rate bonds, inflation-linked bonds and retail bonds making up the remainder. RSA retail savings bonds raised R8.8 billion in 2022/23 compared with R3.5 billion in 2021/222.

Domestic long-term borrowing will increase to R329.9 billion in 2023/24, and average R349.5 billion over the medium term.

Figure 7.1 Interest rates on domestic government bonds



Source: National Treasury

The yield curve – the relationship between bonds of different maturities – has shifted higher, reflecting reduced confidence in the bond market. This is shown in the difference between the January 2022 and January 2023 curves, averaging 68 basis points. Higher yields indicate higher borrowing costs across maturities, especially for long-term bonds (Figure 7.1). This reflects the lingering effects of COVID-19, the ongoing Ukraine war, monetary policy tightening to combat inflation and the impact of prolonged power cuts.

Investor trends in the bond portfolio

Foreign investors remain the largest holders of domestic government bonds, with a 25.6 per cent share as at 31 December 2022, down from 28.2 per cent a year earlier. During 2022, heightened risk aversion contributed to an across-the-board selloff in developing-country bonds. As shown in Figure 7.3, nominal foreign holdings have risen from R800 billion in December 2020 to R846 billion in December 2022.

Other financial sector and monetary institutions increased their holdings marginally over the year. Holdings by pension funds and insurers decreased from 23.5 and 6.6 per cent to 23.1 and 6.2 per cent respectively.

Figure 7.2 Ownership of domestic bonds

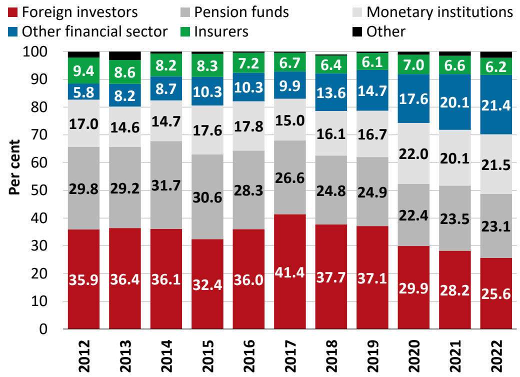
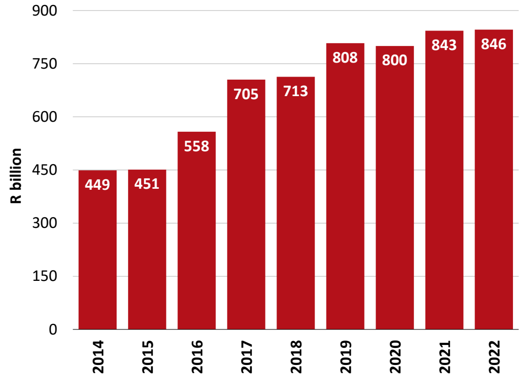


Figure 7.3 Domestic bonds held by foreign investors



Source: National Treasury

International borrowing

Government borrows in foreign currency – mainly US dollars and euros – to meet its foreign-currency commitments. In 2022/23, South Africa raised US$3 billion in international capital markets, €454.4 million from the World Bank and €600 million from Germany and France through the Just Energy Transition Investment Plan to support policy and institutional reforms related to climate change.

Government will continue its efforts to access concessional financing from international financial institutions, including through climate finance. In 2023/24, government plans to raise the equivalent of US$2.6 billion, and about US$9.1 billion over the medium term.

Table 7.4 Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period[1] (years)	Amount billion
New Development Bank	20 July 2020	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
International Monetary Fund	29 July 2020	1.0660%	5	3	US$4.3
African Development Bank	15 October 2020	3-month JIBAR[3] plus 0.8%	20	5	R5.0[5]
New Development Bank	17 June 2021	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
New Development Bank	15 November 2021	6-month LIBOR[2] plus 1.05%	25	4.5	US$1.0[6]
World Bank	22 March 2022	6-month SOFR[4] plus 0.75%	13	3	US$0.75
World Bank	22 September 2022	6-month EURIBOR[5] plus 0.67%	13	3	€ 0.45
KfW Development Bank	22 December 2022	6-month EURIBOR[5] plus 0.69%	20	5	€ 0.3
French Development Bank	20 January 2023	6-month EURIBOR plus 1.29%	20	5	€ 0.3

1. A period after the disbursement where no capital repayments are required
2. LIBOR (London Interbank Offered Rate)
3. JIBAR (Johannesburg Interbank Average Rate)
4. SOFR (Secured Overnight Financing Rate)
5. EURIBOR (Euro Interbank Offered Rate)
6. Loan approval for US$1 billion, first tranche of US$0.5 billion received
Source: National Treasury

Table 7.5 Foreign-currency commitments and financing

US$ million	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome	Estimate	Medium-term estimates		
Opening balance	**6 380**	**5 925**	**7 119**	**5 011**	**2 871**
Commitments	**-2 611**	**-2 944**	**-4 683**	**-4 143**	**-5 333**
Redemptions	-270	-1 000	-2 570	-2 141	-3 198
Interest	-1 201	-1 162	-1 349	-1 265	-1 394
Departments	-1 140	-782	-764	-737	-741
Financing	**2 156**	**4 138**	**2 575**	**2 003**	**4 502**
Loans	2 150	4 131	2 570	2 000	4 500
Purchases	–	–	–	–	–
Interest	6	7	5	3	2
Closing balance	**5 925**	**7 119**	**5 011**	**2 871**	**2 040**

Source: National Treasury

Cash balances

Government's cash holdings consist of deposits held at commercial banks and the Reserve Bank. The latter are sterilisation deposits – deposits that neutralise excess cash created in the money market – and foreign-currency accumulation deposits relating to proceeds from foreign loans.

Historically, sterilisation deposits were used as bridging finance to cover short-term obligations, providing a buffer against abrupt market changes. In 2020/21, R26 billion of the R67 billion sterilisation deposits were used to finance the higher gross borrowing requirement arising from government's response to COVID-19. In 2022/23, the remaining R41 billion was used to finance a portion of the gross borrowing requirement.

At the end of 2022/23, total cash balances are estimated to be at R235.3 billion. Domestic cash balances will amount to R122.1 billion, of which a portion will be used to finance the gross borrowing requirement in 2023/24. Over the medium term, foreign-currency balances will average US$3.3 billion.

Table 7.6 Change in cash balance

R million	2021/22	2022/23		2023/24	2024/25	2025/26
	Outcome	Budget	Revised	Medium-term estimates		
Rand currency						
Opening balance	**239 711**	**145 517**	**169 853**	**122 081**	**61 000**	**50 000**
Closing balance	**169 853**	**50 000**	**122 081**	**61 000**	**50 000**	**50 000**
of which:						
Tax and loan accounts	*128 696*	*50 000*	*122 081*	*61 000*	*50 000*	*50 000*
Change in rand cash balance[1] (opening less closing balance)	**69 858**	**95 517**	**47 772**	**61 081**	**11 000**	**–**
Foreign currency[2]						
Opening balance	**97 892**	**144 495**	**93 389**	**113 209**	**87 969**	**56 124**
Closing balance	**93 389**	**140 401**	**113 209**	**87 969**	**56 124**	**42 638**
US$ equivalent	*5 925*	*8 716*	*7 119*	*5 011*	*2 871*	*2 040*
Change in foreign currency cash balance[1] (opening less closing balance)	**4 503**	**4 094**	**-19 820**	**25 240**	**31 845**	**13 486**
Total change in cash balances[1]	**74 361**	**99 611**	**27 952**	**86 321**	**42 845**	**13 486**
Total closing cash balance	**263 242**	**190 401**	**235 290**	**148 969**	**106 124**	**92 638**

1. A positive value indicates that cash is used to finance part of borrowing requirement
2. Rand values at which foreign currency was purchased or borrowed
Source: National Treasury

GOVERNMENT DEBT AND DEBT-SERVICE COSTS

National government debt

Table 7.7 summarises the distribution and stock of national government debt. Debt is expected to stabilise at 73.6 per cent of GDP in 2025/26 compared with the 71.4 per cent in 2022/23 estimated in the 2022 MTBPS – and to decline thereafter. Eskom debt relief is the main driver of the increase in the debt levels and the delayed stabilisation date.

Table 7.7 Total national government debt[1]

End of period	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans[2]	**3 865.4**	**4 187.1**	**4 517.0**	**4 875.3**	**5 267.1**
Short-term	448.1	422.6	470.6	512.6	558.6
Long-term	3 417.2	3 764.5	4 046.4	4 362.6	4 708.4
Fixed-rate	*2 563.8*	*2 781.0*	*3 046.3*	*3 348.1*	*3 543.8*
Inflation-linked	*853.5*	*983.5*	*1 000.1*	*1 014.6*	*1 164.6*
Foreign loans[2]	**412.1**	**540.3**	**543.3**	**548.4**	**575.9**
Gross loan debt	**4 277.5**	**4 727.4**	**5 060.2**	**5 423.7**	**5 843.0**
Less: National Revenue Fund	-266.4	-244.5	-147.5	-100.2	-86.0
Net loan debt	**4 011.1**	**4 483.0**	**4 912.8**	**5 323.5**	**5 757.0**
As percentage of GDP:					
Gross loan debt	*68.0*	*71.1*	*72.2*	*72.8*	*73.6*
Net loan debt	*63.8*	*67.4*	*70.1*	*71.4*	*72.5*

1. A longer time series is given in Table 10 of the statistical annexure at the back of the Budget Review
2. Estimates include revaluation based on National Treasury's projections of inflation and exchange rates
Source: National Treasury

Government debt levels are affected by changes in inflation and exchange rates. For example, rand appreciation decreases the value of outstanding foreign debt. Foreign-currency debt will average R555.9 billion or 10.2 per cent of gross debt over the medium term. Government's foreign currency exposure is partly offset by foreign-currency deposits, which amount to US$7.1 billion in 2022/23.

Table 7.8 Analysis of annual increase in gross loan debt

R million	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome	Estimate	Medium-term estimates		
Budget deficit	323 061	300 415	275 351	269 864	258 799
Eskom debt-relief arrangement	–	–	78 000	66 154	110 223
Discount on loan transactions	53 416	47 889	21 347	22 047	17 070
Revaluation of inflation-linked bonds[1]	47 710	60 169	48 487	47 905	47 279
Revaluation of foreign-currency debt[1]	-7 727	79 518	2 947	7 601	4 551
Change in cash and other balances[2]	-74 698	-38 017	-93 323	-50 153	-18 610
Total	**341 763**	**449 975**	**332 809**	**363 419**	**419 311**

1. Revaluation based on National Treasury projections of inflation and exchange rates
2. A negative value indicates that cash is used to finance part of the borrowing requirement
Source: National Treasury

In 2022/23, the stock of debt increased by R450 billion. The main budget deficit accounted for 66.8 per cent of this increase, while interest-, inflation- and exchange-rate changes were responsible for most of the rest. The medium-term increase in gross loan debt will be driven by the budget deficit and the financing of the Eskom debt-relief arrangement.

National government debt-service costs

Debt-service costs are determined by debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates. In 2022/23, debt-service costs were revised upwards by R5.4 billion, mainly due to higher interest rates following the Reserve Bank's increase of policy rates. As a share of GDP, debt-service costs are projected to average 4.9 per cent over the medium term; as a share of revenue, they increase from 18 per cent in 2022/23 to 19.8 per cent in 2025/26.

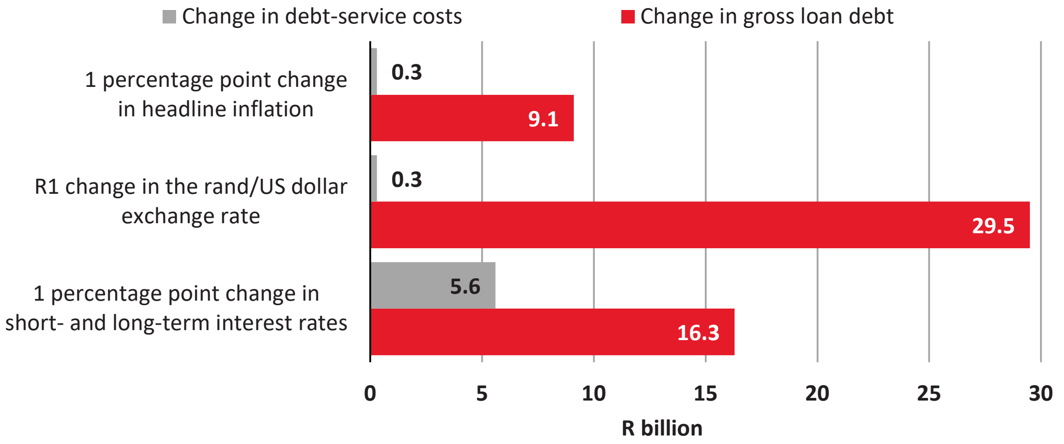
Table 7.9 National government debt-service costs

R million	2021/22	2022/23		2023/24	2024/25	2025/26
	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	250 503	277 693	284 874	317 018	340 566	372 327
Short-term	22 096	23 454	30 385	40 473	41 522	43 851
Long-term	228 407	254 239	254 489	276 545	299 044	328 476
Foreign loans	17 568	24 113	22 283	23 442	22 274	24 747
Total	**268 072**	**301 806**	**307 157**	**340 460**	**362 840**	**397 074**
As percentage of:						
GDP	*4.3*	*4.7*	*4.6*	*4.9*	*4.9*	*5.0*
Expenditure	*14.2*	*15.3*	*15.3*	*16.7*	*17.0*	*17.5*
Revenue	*17.1*	*19.0*	*18.0*	*19.4*	*19.4*	*19.8*

Source: National Treasury

Figure 7.4 illustrates the sensitivity of debt and debt-service costs to changes in macroeconomic variables such as interest, inflation and exchange rates. A 1 percentage point increase in inflation and interest rates, together with a R1 depreciation of the rand against the dollar, results in a R54.9 billion increase in gross loan debt and a R6.2 billion increase in debt-service costs.

Figure 7.4 Sensitivity of debt and debt-service costs



Source: National Treasury

CONTINGENT LIABILITIES

Contingent liabilities are state obligations that will result in expenditure only if a specific event occurs. Government closely monitors the status of these liabilities – which include guarantees to state-owned companies, independent power producers and public-private partnerships, and provisions for multilateral institutions – and other fiscal obligations.

Government guarantees

Government's guarantee exposure consists of the sum of the outstanding value of a loan, accrued interest and adjustments to inflation-linked bonds. The guarantee amount, however, reflects only the capital value of the loan. As a result, exposure may exceed the approved guarantee amount.

State-owned companies

The total amount of approved guarantees to public institutions is expected to decrease by R81.4 billion to R478.5 billion by 31 March 2023, while the exposure amount will increase by about R800 million to R396.1 billion. Eskom accounts for 85.3 per cent of total exposure.

The current R350 billion Eskom guarantee framework agreement expires on 31 March 2023. Consequently, the utility will not be able to draw down any new guarantees from 1 April 2023. A condition of the debt-relief arrangement is that, with the settlement or takeover of guaranteed Eskom debt, the contingent liability exposure will decline by the associated amount. The Eskom guarantee is projected to decline by R118.9 billion by the end of 2025/26. In this regard, the debt-relief arrangement will reduce government's contingent liability exposure.

Several factors contribute to guarantee and exposure changes during 2022/23:

- The Land Bank guarantee amount declined due to net debt repayments of R1.5 billion.
- Eskom exposure increased as the utility drew down on its guarantees.
- Denel exposure declined by R3.2 billion due to the repayment of guaranteed debt.
- South African National Roads Agency Limited exposure amounts declined by R13.4 billion to R28.6 billion due to redemptions.
- In April 2022, the Minister of Finance approved the reduction of the government loan guarantee scheme to R20 billion due to lower-than-expected take-up. The remaining R20 billion is shown as the updated guarantee to the Reserve Bank in 2022/23 in Table 7.10. Of this amount, R8 billion will be used for the new bounce-back scheme.

In line with its intent to reduce contingent liability exposure, government continues to insist on entities meeting minimum criteria for the issuance of guarantees. As a result, no additional guarantees were issued in 2022/23. Additionally, where government has appropriated funds for the servicing of guaranteed debt of state-owned companies, the guarantees will be reduced by the associated amounts.

Other guarantees

Contingent liability risks from independent power producers represent a low risk to the public finances. After signing additional projects in 2022, government has committed to procuring up to R208.5 billion in electricity from the Renewable Energy Independent Power Producer Procurement Programme. The value of signed projects, which represents government's exposure, is expected to amount to R187.1 billion by 31 March 2023. Exposure is expected to decrease to R170.1 billion in 2023/24, R152.4 billion in 2024/25 and R134 billion in 2025/26.

Contingent liability exposure from public-private partnerships arises mainly from early termination of contracts. During 2022/23, contingent liabilities from these partnerships decreased by about R800 million to R7.1 billion as a number of projects reached maturity. Total exposure is expected to decline to R6.2 billion in 2023/24, R4.3 billion in 2024/25 and R2.9 billion in 2025/26.

Table 7.10 Government guarantee exposure[1]

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

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

Other contingent liabilities

Table 7.11 shows government's exposure to multilateral institutions and other implicit contingent liabilities. South Africa subscribes to shares in several multilaterals, but does not pay the full amount. These commitments represent the unpaid portion of the share subscribed to in the unlikely event these institutions run into financial difficulty.

Table 7.11 Provision for multilateral institutions and other contingent liabilities

R billion	2020/21	2021/22	2022/23
Multilateral institutions	**371.0**	**508.7**	**592.2**
of which:			
New Development Bank	*97.7*	*116.6*	*134.7*
African Development Bank	*55.0*	*122.7*	*141.8*
International Monetary Fund	*151.7*	*204.8*	*246.4*
World Bank Group	*30.5*	*30.6*	*35.3*
Other contingent liabilities	**498.0**	**489.3**	**483.3**
of which:			
Export Credit Insurance Corporation of South Africa	*16.3*	*10.6*	*6.2*
Post-retirement medical assistance	*69.9*	*69.9*	*69.9*
Road Accident Fund	*361.8*	*356.6*	*355.0*

Source: National Treasury

Net valuation profits and losses

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. It reflects profits and losses on gold and foreign exchange reserves, held by the Reserve Bank, to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks. Due to the depreciation of the rand exchange rate, unrealised gains are expected to amount to R409.2 billion by 31 March 2023, an increase of R94.9 billion compared with 2021/22. In 2022/23, government settled a realised loss of R53.7 million. Losses of R50.5 million are projected for 2023/24.

CONCLUSION

Over the medium term, government's borrowing requirement and gross debt will increase due to the Eskom debt-relief arrangement. This will be done in line with government's prudent and sustainable debt management approach. Gross debt is now expected to stabilise in 2025/26.

8

2023 BUDGET REVIEW

FINANCIAL POSITION OF PUBLIC-SECTOR INSTITUTIONS

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

FINANCIAL POSITION OF PUBLIC-SECTOR INSTITUTIONS

In brief

- Government has been developing a new framework for managing bailouts to state-owned companies 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 to Cabinet.
- A major debt-relief arrangement for Eskom will relieve pressure on the utility's balance sheet and maintenance programme.
- Over the medium term, the net overall position of the social security funds is expected to improve in line with stronger outcomes in each fund.
- The Development Bank of Southern Africa and the Industrial Development Corporation showed resilience during the economic recovery from COVID-19. The Land Bank's financial position has improved, but it remains in default.

OVERVIEW

This chapter reports on the financial position of state-owned companies, development finance institutions, social security funds and the Government Employees Pension Fund (GEPF). The performance of these institutions remains inconsistent but is broadly negative. State-owned companies continue to rely on government bailouts and dominate the guarantee portfolio. Development finance institutions and the GEPF remain solvent.

Between 2012/13 and 2021/22, state-owned companies received about R266.6 billion in bailouts from government. The 2022 *Budget Review* outlined the need for a new framework for managing bailouts to state-owned companies 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.

In the meantime, government has taken certain steps to reduce fiscal risks from public entities and state-owned companies. Higher-than-anticipated revenues have been used to provide conditional short-term support, while a major debt-relief arrangement for Eskom will relieve extreme pressure on the utility's balance sheet, enabling it to undertake the necessary maintenance and investment.

STATE-OWNED COMPANIES

Major public entities as listed under Schedule 2 of the Public Finance Management Act (1999) are required to operate as sustainable profit-generating businesses that borrow on the strength of their balance sheets. State-owned companies report to shareholder departments, such as the Department of Public Enterprises for Eskom, Transnet and Denel. In addition, they are subject to oversight from departments setting relevant policies and the National Treasury. However, over the years the financial and operational performance of major state-owned companies has steadily deteriorated due in large part to weak corporate governance, archaic business models and burdensome cost structures. Table 8.1 summarises the financial position of state-owned entities at the end of 2021/22.

The State Capture Commission highlighted how various state-owned companies were key sites of corruption and fraud. This included abuses of procurement processes, bribery and malicious political interference. The Commission's recommendations are being prioritised, and several actions have been taken. Steps have included removing boards of directors, replacing executive teams, freezing transactions and seizing assets owned by those accused of corruption, and closing the bank accounts of beneficiaries of state capture.

Contingent liabilities arising from state-owned companies have risen from R84.4 billion in 2008/09 to R478.5 billion in 2022/23. Government is using short-term improvements in its cash balances to resolve a significant portion of these liabilities. The 2022 Special Appropriation Act reduced contingent liabilities stemming from the South African National Roads Agency Limited, Denel and Transnet. Further allocations are proposed in the current financial year for South African Airways (SAA) and the South African Post Office.

In the meantime, total assets of state-owned companies grew 4.3 per cent, from R1.23 trillion during 2020/21 to R1.28 trillion during 2021/22. During the year, major state-owned companies repaid maturing debt and took on slightly less new debt funding. However, due to rising interest rates, new debt was raised at a higher average cost. As a result, total liabilities, which consist mainly of borrowings, increased by 1.4 per cent, from R850.6 billion in 2020/21 to R862.8 billion in 2021/22. Accordingly, net asset value for major state-owned companies increased by 10.9 per cent to R417.6 billion.

Table 8.1 Combined balance sheets of state-owned companies[1]

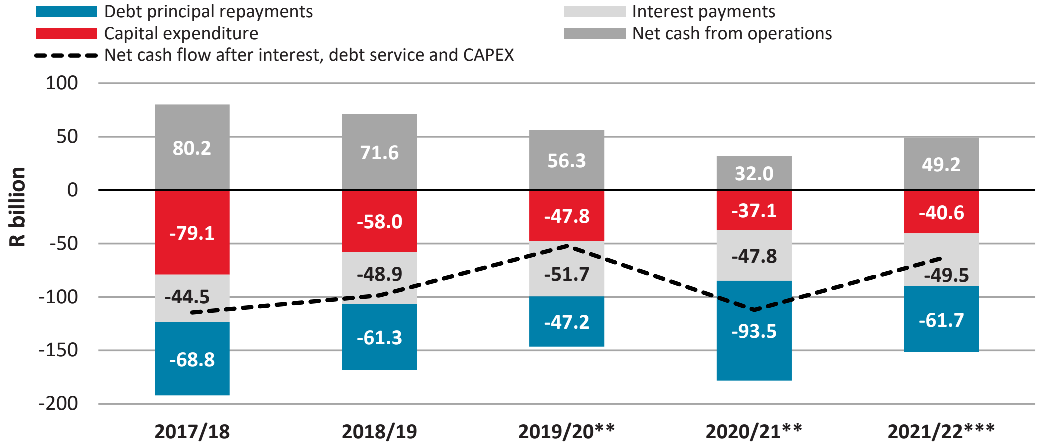
R billion/per cent growth	2017/18	2018/19[2]	2019/20[2]	2020/21	2021/22[3]
Total assets	1 263.2	1 269.0	1 313.4	1 227.3	1 280.4
	3.2%	*0.5%*	*3.5%*	*-6.6%*	*4.3%*
Total liabilities	901.1	927.0	960.7	850.6	862.8
	3.5%	*2.9%*	*3.6%*	*-11.5%*	*1.4%*
Net asset value	362.1	342.0	352.7	376.7	417.6
	2.3%	*-5.5%*	*3.1%*	*6.8%*	*10.9%*
Return on equity (average)	*-0.8%*	*-8.0%*	*-9.9%*	*-13.5%*	*-1.2%*

1. State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions
2. Please note numbers may differ from earlier publications due to restatement or error
3. Delayed release of audited financial statements from some companies; therefore, unaudited financial results or quarter 4 reports for the 2021/22 financial year were used
Source: National Treasury

As a result of increases in revenue, the average return on equity – a measure of how an entity's profit-generating efficiency – improved significantly from -13.5 per cent in the prior year to -1.2 per cent during 2021/22. The fact that this metric remains negative, however, signifies poor long-run profitability in state-owned companies.

Figure 8.1 shows the consolidated cash flow position of state-owned companies. Due to improved profitability, consolidated net cash flow from operations improved by 53.6 per cent, from R32 billion in 2020/21 to R49.2 billion in 2021/22. Net cash flow after interest, debt service and capital expenditure improved by 43.2 per cent, from -R112.3 billion in 2020/21 to -R63.8 billion in 2021/22. This was a result of improved operational cash generation and working capital management, and under-expenditure on capital investment.

Figure 8.1 Consolidated cash flows at state-owned companies*



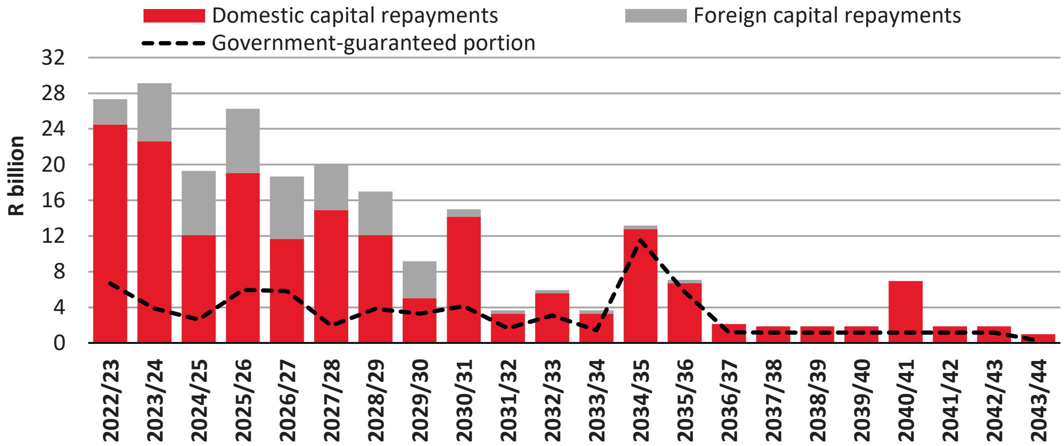
**State-owned companies listed in the PFMA schedule, excluding development finance institutions*
***Please note that numbers may differ from earlier publications due to restatement or error*
****Due to reporting delays, unaudited financial results or quarter 4 reports for 2021/22 were used*
Source: National Treasury

Capital expenditure remains below target due to continued inefficiencies in execution and the effect of COVID-19-related restrictions during the reporting year. Many state-owned companies remain unable to adequately fund their operations and debt obligations, and are even less able to optimally invest in infrastructure. Underspending on capital projects may in turn undermine broader economic performance. Capital expenditure increased by 9.5 per cent from R37.1 billion during 2020/21 to R40.6 billion during 2021/22 as a result of an increase in repair and maintenance capital spending.

Debt obligations

Total debt maturing over the medium term is expected to amount to R74.7 billion, of which 17 per cent or R12.5 billion is guaranteed by government.

Figure 8.2 Debt maturity profile of major state-owned companies*



**Airports Company South Africa, Denel, SANRAL, SAA, Trans-Caledon Tunnel Authority and Transnet. Eskom is excluded because it did not submit a maturity profile*
Source: National Treasury

Maturing debt will average R24.9 billion per year and annual guarantees will average R4.2 billion. Figure 8.2 shows the debt maturity profile of selected state-owned companies, excluding Eskom.

Table 8.2 shows the borrowing requirement of selected state-owned companies. In 2021/22, these companies managed to raise R38.9 billion or 77 per cent of their budgeted borrowings, with Transnet accounting for 40 per cent of the funding raised. Over the medium term, these companies are expected to rely significantly on domestic debt funding. Under the conditions of its debt-relief arrangement, Eskom's borrowing powers will be significantly curtailed. See Annexure W3 (online) for more detail.

Table 8.2 Borrowing requirement of state-owned companies[1]

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

1. ACSA, Eskom (did not submit outcomes for 2021/22), South African National Roads Agency Limited, Trans-Caledon Tunnel Authority, SAA, Transnet and Denel
2. Trans-Caledon Tunnel Authority did not provide forecast for 2025/26
3. ACSA, Eskom, SANRAL, TCTA (except 2025/26), SAA, Transnet and Denel
Source: National Treasury

Denel

Denel remains financially distressed and unable to fulfil its financial obligations. It has not submitted annual financial statements for the year. Funds amounting to R3.4 billion were allocated to the entity through the Special Appropriation Act (2022) with set conditions relating to the implementation of its turnaround plan and clarity on a sustainable business model. These funds can only be disbursed if Denel substantially meets the conditions before the end of March 2023. Government is closely monitoring this situation.

Eskom

Eskom remains reliant on continued state support to operate and meet its financial commitments. In 2021/22, revenues increased to R246.5 billion as a result of higher tariffs and a partial recovery in sales. Although savings of R20 billion were achieved during the year, these were offset by increases in primary energy and personnel costs. Eskom reduced its net loss position to R12.3 billion in 2021/22 from a loss of R25 billion in the prior year.

Despite higher revenues, continued power cuts and operational inefficiencies have reduced sales volumes over the years, with customers increasingly choosing other energy generation options where they are available.

The 2023 Budget proposes to provide Eskom with debt relief amounting to R254 billion over the next three years. 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 debt relief support the broader restructuring of South Africa's electricity industry. Details are set out in Chapter 3 and online Annexure W3.

South African Airways

SAA exited business rescue in April 2021 and restarted domestic and regional operations. It has not submitted financial statements for the most recent year. Government has significantly reduced its contingent liability exposure to SAA, and it is expected that the airline will no longer require government guarantees by the end of 2022/23.

To exit business rescue, a settlement agreement was reached between the rescue practitioners and the airline's creditors providing for a gradual payment of historical debts. Consequently, an additional R1 billion will be allocated during 2022/23 to assist with these outstanding obligations, with additional funding to be considered subject to strict conditions to allow the strategic equity partnership deal to be finalised. As a condition of such funding, all government guarantees to SAA will be cancelled.

Transnet

Transnet's core mandate is to provide ports, rail, and pipeline infrastructure and operations in a cost-effective and efficient manner. The company reported a profit of R5 billion in 2021/22, reversing a loss of R8.7 billion in 2020/21. This improvement was largely the result of higher revenue as the economy recovered, and a reduction in recognised third-party claims related to litigation or customer claims. Capital investment declined by 16.8 per cent to R13.2 billion in 2021/22 due to lack of funding.

If South Africa is to have a reliable, cost-effective and safe freight system, port and rail infrastructure requires large-scale investment. Following historical underinvestment, Transnet now plans to increase capital investment spending over the next five years to address a maintenance backlog and increase the capacity of existing infrastructure.

Some progress has been made to enable private-sector participation and access to the rail network. This is part of a broader shift away from a divisional, modal service offering to a more strategic collaborative approach. It will enable Transnet to participate in integrated commodity value chains, and work with the private sector to grow the investment portfolio in a financially sustainable manner, while unlocking new revenue streams. In January 2023, it issued a request for quotations for private-sector participation on its container corridor between Johannesburg and Durban.

The Special Appropriation Act (2022) provided Transnet with R2.9 billion to accelerate locomotive repair and maintenance. However, concerns remain regarding the entity's ability to service the current demand for cargo transportation on the freight system and keep pace with tonnage growth. The Adjustments Appropriation Act (2022) provided an additional R2.9 billion to Transnet to restore infrastructure damage caused during the April 2022 floods in KwaZulu-Natal, and this work is under way.

During 2023/24, the National Treasury will assess Transnet's freight corridors and associated port operations to identify interventions that should be implemented to improve operations and ensure that freight infrastructure is used optimally.

DEVELOPMENT FINANCE INSTITUTIONS

Development finance institutions borrow to finance lending in line with their mandates. The Land Bank, Industrial Development Corporation (IDC) and Development Bank of Southern Africa (DBSA) planned to borrow R19.7 billion during 2021/22. As at 31 March 2022, they had borrowed a combined R11 billion, as shown in Table 8.3. This was significantly lower than borrowing in 2020/21. The DBSA accounted for 76 per cent of the total debt funding in 2020/21 and 89 per cent in 2021/22. Gross borrowing is expected to amount to R11 billion in 2023/24 and decrease to R10.5 billion in 2024/25.

The DBSA and the IDC showed resilience in recovering from the lingering effects of the COVID-19 pandemic. However, rising interest rates and the protracted state of default of the Land Bank negatively affected cost of funding for development finance institutions and, consequently, cash flow management. The Land Bank has yet to finalise its liability solution with creditors to exit default.

Table 8.3 Borrowing requirement for development finance institutions[1]

R billion	2020/21		2021/22		2022/23	2023/24	2024/25	2025/26[2]
	Budget	Outcome	Budget	Outcome	Revised	Medium-term estimates[3]		
Domestic loans (gross)	**16.6**	**17.7**	**12.4**	**9.2**	**17.2**	**6.8**	**6.5**	**–**
Short-term	2.5	10.4	3.1	1.4	1.6	1.0	1.0	–
Long-term	14.1	7.3	9.3	7.8	15.6	5.8	5.5	–
Foreign loans (gross)	**6.4**	**26.0**	**7.3**	**1.8**	**12.2**	**4.3**	**4.1**	**–**
Long-term	6.4	26.0	7.3	1.8	12.2	4.3	4.1	–
Total	**23.0**	**43.7**	**19.7**	**11.0**	**29.4**	**11.0**	**10.5**	**–**
Percentage of total:								
Domestic loans	*72.2%*	*40.6%*	*63.1%*	*83.3%*	*58.6%*	*61.5%*	*61.4%*	*0.0%*
Foreign loans	*27.8%*	*59.4%*	*36.9%*	*16.7%*	*41.4%*	*38.5%*	*38.6%*	*0.0%*

1. Land Bank, Development Bank of Southern Africa and Industrial Development Corporation
2. IDC and DBSA have been excluded as no forecasts were provided for the 2025/26 financial year
3. Land Bank has been excluded as no forecasts were provided for the medium-term financial years
Source: National Treasury

Table 8.4 summarises the key performance indicators of the major development finance institutions. The net asset value of development finance institutions grew by 8 per cent to R161.5 billion in 2021/22, mostly due to the rebound in financial investments and disbursements as expected.

Table 8.4 Financial position of selected development finance institutions

R billion	2017/18	2018/19	2019/20[1]	2020/21[1]	2021/22
IDC					
Total assets	**137.0**	**144.6**	**109.7**	**143.7**	**174.1**
Loan book	30.7	25.9	29.1	25.5	24.3
Equity and other investments	106.3	118.7	80.6	118.2	149.8
Total liabilities	**44.8**	**49.3**	**49.5**	**57.7**	**59.5**
Net asset value	**92.2**	**95.3**	**60.2**	**86.0**	**114.6**
DBSA					
Total assets	**89.2**	**89.5**	**100.5**	**100.0**	**100.0**
Loan book	75.0	77.1	86.2	82.7	84.2
Equity and other investments	14.2	12.4	14.2	17.3	15.9
Total liabilities	**54.9**	**52.3**	**62.9**	**60.8**	**57.1**
Net asset value	**34.3**	**37.2**	**37.6**	**39.2**	**42.9**
Land Bank					
Total assets	**49.2**	**47.7**	**44.1**	**40.2**	**34.7**
Loan book	43.1	39.8	39.5	30.9	20.9
Equity and other investments	6.1	7.9	4.6	9.3	13.9
Total liabilities	**43.0**	**45.8**	**43.8**	**37.6**	**30.7**
Net asset value	**6.2**	**1.9**	**0.3**	**2.6**	**4.0**

1. Numbers may differ from earlier publications due to restatement or error

Source: National Treasury

Development Bank of Southern Africa

During 2021/22, the DBSA delivered infrastructure to the value of R33.4 billion by disbursing loans, catalysing public- and private-sector funds through de-risking projects and channelling its own funds to support infrastructure implementation. It generated a net profit of R3.8 billion compared with R1.4 billion reported in 2020/21, mainly due to the increase in net interest income as domestic interest rates rose.

In 2021/22, the DBSA achieved 95 per cent (R12.9 billion) of its disbursement targets of R13.5 billion. However, it only achieved 6 per cent (R44 million) of its R700 million disbursement target for under-resourced municipalities. This underperformance was attributed to uncompetitive price bidding and fewer municipalities seeking funding. The DBSA is developing an integrated planning approach to build capacity in under-resourced municipalities to improve its ability to finance this municipal market segment.

Industrial Development Corporation

The IDC's financial position improved during 2021/22, with enhanced profitability and stronger liquidity. The corporation approved R16 billion in loans and disbursed R7.2 billion – increases of 16 per cent and 14 per cent respectively compared with 2020/21.

Government asked the IDC to support businesses affected by the outbreak of public violence in July 2021 and the KwaZulu-Natal floods in 2022. In response, the IDC established a recovery fund that approved 96 transactions to the value of R2 billion, of which R1.5 billion was disbursed by the end of 2021/22. This helped businesses employing about 26 800 workers to recover and improve efficiency. In addition, the IDC committed R6.6 billion to transformation funding in 2021/22, compared with R3.9 billion in 2020/21.

The IDC group realised a net profit of R6.3 billion in 2021/22 against a realised loss of R33 million in the prior year. This was attributed to increased investment activity and broader economic recovery. Asset valuations improved, mainly for listed investments. Total group assets increased to R174. 1 billion in 2021/22 (2020/21: R143.7 billion).

The Land Bank

The Land Bank has been in default since failing to meet its debt obligations in April 2020. Discussions with its lenders are ongoing. Despite this, the entity has improved its financial position. Net profit for 2021/22 was R1.4 billion, compared to a net loss of R747 million in 2020/21. This resulted from actions taken to address poorly performing investments and a decrease in administrative fees.

Following a qualified audit opinion and a disclaimer audit opinion received in the two previous financial years, the Land Bank implemented a remedial action plan and received an unqualified audit opinion with no findings from the Auditor-General for 2021/22. The Auditor-General did, however, note uncertainty about its status as a going concern due to the debt default.

SOCIAL SECURITY FUNDS

Social security funds provide compensation or income support for unemployed workers and people involved in road and workplace accidents. Over the medium term, the funds are projected to collect R261.1 billion in total revenue, mainly from contributions and earmarked allocations, and pay out R261.6 billion in total expenditure, which largely consists of benefit payments. In aggregate, the funds held R231.9 billion in total assets in 2021/22, of which the Unemployment Insurance Fund held 54.1 per cent. Total liabilities amounted to R430.7 billion in 2021/22, of which the Road Accident Fund (RAF) accounted for 82.9 per cent or R357 billion. Over the medium term, the net overall position of the social security funds is expected to improve. Detailed income and expenditure data for the social security funds is published in the *Estimates of National Expenditure*.

Table 8.5 Financial position of social security funds

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Estimate	Medium-term estimates		
Unemployment Insurance Fund							
Total assets	153.9	118.2	125.4	132.6	129.0	132.4	135.8
Total liabilities	19.1	23.3	22.5	26.2	19.9	20.8	21.9
Net asset value	134.8	94.9	102.9	106.5	109.1	111.6	114.0
Compensation Fund[1]							
Total assets	74.9	90.6	94.2	102.9	107.2	111.7	116.2
Total liabilities	44.2	49.3	51.2	52.8	55.1	57.5	60.0
Net asset value	30.7	41.3	43.0	50.1	52.1	54.2	56.3
Road Accident Fund							
Total assets	10.7	15.7	12.3	12.6	17.5	18.0	61.5
Total liabilities	332.6	362.1	357.0	355.5	353.3	340.3	372.3
Net asset value	-321.9	-346.5	-344.7	-342.9	-335.9	-322.4	-310.8

1. Includes Mines and Works Compensation Fund
Source: National Treasury

Unemployment Insurance Fund

The Unemployment Insurance Fund provides short-term benefits to qualifying workers who are out of work due to retrenchment, illness or adoption or maternity leave. Benefit payments are projected to decrease from R25.5 billion in 2022/23 to R21.1 billion in

2025/26. This reflects the expiration of certain schemes (COVID-19 temporary employer/employee relief and the unrest benefit) and payments for retrospective benefits arising from legislative amendments as the Unemployment Insurance Amendment Act (2016) that came into effect in 2019/20. The fund will incur an average annual deficit of R4.2 billion over the medium term, exceeding the contributions received. Net asset value is expected to grow from R102.9 billion in 2021/22 to R114 billion in 2025/26 as surpluses accumulate.

Compensation Fund

The Compensation Fund, including the Mines and Works Compensation Fund, provides compensation to employees for disablement or death caused by occupational injuries or diseases. In 2021/22, the fund ran a cash deficit of R0.1 billion after paying out R9 billion in benefits. The Compensation Fund expects to reach a cash surplus of R0.7 billion in 2025/26, with projected receipts of R12.3 billion and expenditure of R11.6 billion. Net asset value is expected to improve from R43 billion in 2021/22 to R56.3 billion in 2025/26 as accumulated surpluses increase.

Road Accident Fund

The RAF compensates road users for losses or damages caused by motor vehicle accidents and receives its revenue from the RAF levy. The long-term provisions, which account for a significant portion of total liabilities, are expected to narrow from R356.5 billion in 2021/22 to R352.8 billion in 2023/24 before widening again to R371.7 billion by 2025/26. This implies an average annual increase of 1.5 per cent over the medium term. The RAF levy is expected to grow from R48.1 billion in 2021/22 to R48.9 billion in 2025/26. By switching lump-sum payments for annuity payments in the settlement of loss-of-income claims, expenditure is expected to decrease from R46.7 billion in 2021/22 to R39.7 billion in 2025/26.

GOVERNMENT EMPLOYEES PENSION FUND

The GEPF is a defined benefit pension fund for government employees. It consisted of 1 261 363 active members and 499 726 pensioners and beneficiaries as at 31 March 2022. The number of active members declined by about 4 000 between 2020/21 and 2021/22 due to normal withdrawals and deaths.

The GEPF remains solvent, with the latest statutory actuarial valuations showing that its assets exceed its best estimate of liabilities. Total benefits paid for all claims amounted to R136 billion in 2021/22 compared with R111 billion in 2020/21. At the end of March 2022, the fund had a net cash flow position of R43.1 billion.

Table 8.6 Selected income and expenditure of GEPF

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Revenue									
Employer contributions	18.7	20.3	21.7	23.4	25.1	26.9	28.6	28.7	28.8
Employee contributions	33.5	36.1	38.6	42.1	45.3	48.2	51.7	52.8	53.2
Investment income[1]	57.7	64.1	73.4	73.7	77.3	84.8	88.6	82.1	108.6
Expenditure									
Benefits paid	57.9	85.8	83.1	88.3	94.9	102.5	110.5	110.6	135.5

1. Dividends on listed equities, interest on bonds and money market instruments and income from unlisted properties and unlisted investments excludes adjustments for value of financial assets

Source: Government Pensions Administration Agency

The Public Investment Corporation invests the excess funds accumulated by the GEPF and the social security funds. At the end of 2021/22, it had R2.55 trillion assets under management compared to R2.34 trillion in the previous year.

Table 8.7 Breakdown of assets under management by PIC, 2021/22

R billion	Government Employees Pension Fund	Unemployment Insurance Fund	Compensation Fund[1]	Other	Total
Asset class					
Equity	1 357.1	22.5	23.8	0.6	1 404.0
Bonds	710.7	63.3	53.0	15.1	842.1
Money market	61.1	15.5	13.8	41.2	131.6
Property	89.7	4.0	1.2	0.4	95.3
Unlisted investments	60.2	12.8	2.1	–	75.2
Total	**2 278.8**	**118.1**	**93.9**	**57.3**	**2 548.1**

1. Includes the Compensation Pension Fund

Source: Public Investment Corporation and National Treasury

CONCLUSION

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. Over the medium term, a debt-relief arrangement for Eskom will enable the utility to improve performance and transition to renewables.

2023 BUDGET REVIEW

ANNEXURES

Three annexures are available on the National Treasury website (www.treasury.gov.za):

- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts
- Annexure W3: Eskom debt relief

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A

2023 BUDGET REVIEW

REPORT OF THE MINISTER OF FINANCE TO PARLIAMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

Section 7(4) of the Money Bills and Related Matters Act (2009) requires that the Minister of Finance submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to recommendations made by Parliament or why it does not do so. The recommendations to which this annexure responds are those made in:

- Budgetary review and recommendation reports submitted by committees of the National Assembly in terms of section 5 of the act.
- Reports submitted by the finance committees in terms of section 6 of the act on the fiscal framework proposed in the *Medium Term Budget Policy Statement* (MTBPS).
- Reports submitted by the appropriations committees in terms of section 6 of the act on the proposed division of revenue and the conditional grant allocations to provinces and local governments set out in the MTBPS.

BUDGETARY REVIEW AND RECOMMENDATION REPORTS

In terms of section 5 of the act, the National Assembly committees must assess the performance of each national department before the budget is introduced and prepare budgetary review and recommendation reports. These reports:

- Must provide an assessment of the department’s service delivery performance given available resources.
- Must provide an assessment of the effectiveness and efficiency of the department’s use and forward allocation of available resources.
- May include recommendations on the future use of resources.

This annexure provides responses to the portfolio committees’ recommendations and recommendations from finance committees where they relate to the National Treasury.

A number of committees recommended making additional budget allocations available for certain programmes, sub-programmes or other budget items. Due to the constrained fiscal outlook, there is limited scope to do so. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities. In addition, measures to reduce inefficiency and waste must be implemented by all accounting officers to improve value-for-money.

PORTFOLIO COMMITTEE ON EMPLOYMENT AND LABOUR

The committee receives regular updates on engagements between Department of Employment and Labour and the National Treasury on preferential procurement status of the Sheltered Employment Enterprises (SEE).

The department has been advised to resolve the corporate form of the SEE by engaging with the Public Entities Governance Unit in the National Treasury. This may require a new business case because the previous one done in 2012 is outdated. The department will provide monthly reports on these engagements. A preferential procurement framework for government entities is being explored as part of the new Public Procurement Bill, which will aid the SEE factories.

The Commission for Conciliation, Mediation and Arbitration (CCMA) should be sufficiently resourced in order for it to respond effectively to its mandate of dispute resolution.

The CCMA has been allocated an additional R120 million over the 2022 medium-term expenditure framework (MTEF) period to cover the costs related to the increased dispute resolution caseload. The CCMA, like all government departments and entities, is expected to cover spending pressures within its baseline through cost containment and reprioritisation. For example, the CCMA should review its performance bonus policy and consider aligning its salary structure and scales with that of the public service.

PORTFOLIO COMMITTEE ON HIGHER EDUCATION, SCIENCE AND TECHNOLOGY

The Department of Higher Education and Training needs additional funding to increase the enrolment of students in the Technical and Vocational Education and Training (TVET) and Community Education and Training (CET) sectors. Even though the budget of the department is projected to increase over the MTEF period, it remains inadequate to meet the National Development Plan targets for enrolment in the TVET and CET sectors and also inadequate to address the funding needs of the missing middle and postgraduate students who are unable to secure funding from other bursaries.

Enrolments in the TVET and CET sectors have been below the set targets over the past three years even after the targets were reduced. The low enrolments are related to concerns about the quality and relevance of the programme offerings. Over the 2023 MTEF period, R13.3 billion is allocated for TVET subsidies, growing at an average annual rate of 2.5 per cent. An amount of R667.3 million is allocated to subsidies for CET colleges over the same period, growing at an average annual rate of 2.4 per cent. Cabinet is engaging with the input from the Ministerial Task Team on Student Funding to find a sustainable solution to the increasing demand to provide funding for fee-free higher education to the missing middle and postgraduate students.

The department's cost pressures and unfunded priorities amount to R12.6 billion over the MTEF period. Notwithstanding the current fiscal constraints, the committee recommends that consideration be made to allocate additional funding to the department to meet its objectives. Spending on priorities of the Post-School Education and Training (PSET) policy is an investment in human capital and is critical for sustainable development.

Most departments in government have regularly indicated pressure arising from unfunded priorities. This highlights the need for departments to work with the National Treasury to assess their existing baselines and improve efficiency. It also highlights the need to avoid making unfunded commitments. Given the current constrained fiscal context, no additional funds are available to increase the baseline. The department is advised to reprioritise funds to fund emerging priorities.

The department should review the subsidy allocated to the Council on Higher Education (CHE) since it is unable to fulfil its objectives. The entity relies on the utilisation of its roll-over funds to meet some *key performance indicators, and this is not sustainable. The entity is also unable to fund its revised organisational structure due to limited funding.*

This recommendation has been referred to the Department of Higher Education and Training.

Additional funding should be considered for the Quality Council for Trades and Occupations (QCTO) to fulfil its mandate in line with its revised organisational structure and additional mandate of taking over the quality assurance role of the Sector Education and Training Authorities (SETAs). Thus, the approval of its business case and the review of the SETA grant regulations to address the QCTO funding requirements should be expedited.

Departments and public entities are advised to reprioritise funds within their existing baselines to fund emerging priorities. At the same time, departments need to consider more efficient alternatives and innovative solutions to delivering their mandate within the constrained budget. The QCTO realised a cash surplus of R70.4 million in 2021/22, which it can use to cover any shortfalls in delivering its mandate.

The Minister continues his efforts with National Treasury, the private sector and international partners to secure additional funding for the science and innovation portfolio.

Over the 2023 MTEF period, the National Treasury, through the Budget Facility for Infrastructure, has allocated an additional R1.2 billion to the South African National Space Agency for the Space Infrastructure Hub project and an additional R1.3 billion to the South African Radio Astronomy Observatory to expand the Square Kilometre Array project. Policy priorities in the science and innovation sector will need to be met through reallocations and reprioritisation. An interdepartmental task team has been established to improve planning and budget coordination of science, technology and innovation.

PORTFOLIO COMMITTEE ON SPORT, ARTS AND CULTURE

The committee recommends that the Minister of Finance should prioritise adequate funding and allocation towards the implementation of the White Paper on Arts, Culture and Heritage over the MTEF period.

As noted, there is little scope to provide additional funding at this time. The Department of Sport, Arts and Culture is advised to reprioritise funds in order to implement the white paper in a phased manner.

PORTFOLIO COMMITTEE ON WOMEN, YOUTH AND PERSONS WITH DISABILITIES

The committee requests the National Treasury to consider the condonation requests by the Department of Women, Youth and Persons with Disabilities and the Commission for Gender Equality (CGE).

Condonation requests are addressed in line with the irregular expenditure framework. The requirements of the framework will be applied when a request is submitted by the department and the CGE.

The committee requests the National Treasury to consider the requests for roll-over of funds for the Department of Women, Youth and Persons with Disabilities and the CGE.

Requests for rollovers are considered by a Treasury committee, guided by Treasury Regulation 6.4. Rollovers that meet the requirements and are approved by the Minister of Finance will be included in the Adjustments Appropriation Bill. Requests that do not meet the criteria stipulated in this or other regulations are not recommended.

PORTFOLIO COMMITTEE ON AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

The Minister of Finance should assist the Department of Agriculture, Land Reform and Rural Development to fast track the implementation of the Electronic Deeds Registration System (e-DRS), which will digitise and modernise the entity's deeds registration process.

In 2021/22 and 2022/23, the National Treasury granted approval for the Deeds Registration Trading Entity to retain its accumulated surplus of R93.3 million and R98.8 million, respectively, mainly for implementing the e-DRS. In addition, the National Treasury approved the entity's request to revise the schedule of fees it charges in terms of Regulation 84 of the Deeds Registries Act (1937) by 6.9 per cent. This revision took effect from 1 April 2022.

PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES

The committee recommends that the Minister of Finance should consider recapitalising Denel in order to safeguard the strategic and sovereign defence capabilities of the state and repurpose the advanced manufacturing capabilities of Denel to enhance the capacity of the state in responding to the escalating challenges of safety and security, health and broader industrialisation initiatives.

Since 2019/20, government has provided R5.8 billion to recapitalise Denel. The 2022 MTBPS noted that Denel would be allocated R204.7 million to reduce its contingent liabilities arising from its weak financial position and R3.4 billion to complete its turnaround plan, provided it met the attached conditions. Although it has received the first amount of R204.7 million, it has not yet met the conditions for the R3.4 billion. Other key strategic and operational matters fall within the mandate of the Department of Public Enterprises.

The committee further recommends that the Minister of Finance should consider creating an enabling environment to encourage public-public partnerships, where government departments and state-owned companies can collaborate to leverage on the capacity of the state. Secondly, government departments should be encouraged to use the services of state agencies and state owned companies. It is our view that Denel would be self-sustainable if its industrial and advanced manufacturing capabilities were used to produce vehicles and advanced technologies to enhance the work of the police and other departments.

The recommendation is noted. The private-sector participation framework, endorsed by Cabinet in 2016, outlines financing strategies to enable infrastructure investments and considerations for state-owned enterprises to partner with private sector companies. Overall, Cabinet determines the strategic focus of state-owned enterprises and continuously deliberates on any reforms in this regard under the guidance of the Minister of Public Enterprises.

PORTFOLIO COMMITTEE ON TOURISM

The National Treasury should appropriate a ring-fenced budget that will be used to develop, enhance and market domestic tourism which is a cornerstone for successful tourism destinations.

The National Treasury continues to engage departments on funding-related issues during the annual budget process. To support the tourism sector's recovery, the Department of Tourism has reprioritised R540 million over the 2022 MTEF period to establish the Tourism Equity Fund.

The committee recommends that the National Treasury appropriates budget that will allow sector recovery and assists in surpassing the 2019 performance levels before the advent of the COVID-19 pandemic.

The committee made a similar recommendation in the 2022 Budget. The National Treasury will continue to engage the Department of Tourism on funding-related issues during the annual budget process and support efforts to enable the recovery of the tourism sector. As noted, the Department of Tourism has reprioritised R540 million over the 2022 MTEF period to establish the Tourism Equity Fund and support the tourism sector's recovery. In addition, the department is allocated R180 million over the next three years to support the piloting of the Tourism Equity Fund introduced in 2021.

PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS

The committee expresses its disappointment with the Department of Defence not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The committee recommends that the department reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers. Subject to this reprioritisation being carried out and spent successfully, the committee then recommends further ring-fenced allocations for border safeguarding technology by National Treasury for the outer years of the 2023 MTEF.

The National Treasury agrees with this recommendation. The Department of Defence is allocated additional funding of R500 million in 2024/25 and R200 million in 2025/26 to procure equipment and technology to aid the safeguarding of borders. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.

As in the Portfolio Committee on Defence and Military Veterans' BRRR [budgetary review and recommendation report] recommendations to the National Treasury in 2019, 2020 and 2021, the committee again recommends a ring-fenced allocation for the midlife upgrades of the SA Navy frigates and submarines. The committee is suggesting a staggered approach in this regard to limit the fiscal impact, but one that would ensure the midlife upgrades of all frigates and submarines over, for example, the next 7 to 10 years, starting in 2023/24. This will allow the SA Navy to appropriately plan vessel availability, adjust its sea-hour targets accordingly and report more accurately to Parliament. It would also add significant capacity in terms of maritime security which is currently characterised by very limited naval patrols.

Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R500 million in 2023/24, R441 million in 2024/25 and R480 million in 2025/26 for the midlife upgrades of the South African Navy's frigates and submarines. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.

The committee is concerned about the ability of the South African Air Force to effectively provide logistical and reinforcement support to the South African National Defence Force members deployed outside South Africa due to limited strategic airlift capacity. The Committee therefore recommends an urgent ring-fenced allocation to address the strategic airlift shortcomings in the South African Air Force.

Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R1 billion in 2023/24 to strengthen the country's airlift transport capability. This earmarked allocation may not be used for any other purposes. Any changes to the allocated amount will require the National Treasury's approval.

The committee is concerned about the stagnation and lack of investment in the SANDF [South African National Defence Force] landward defence capability, notably the SA Army's Infantry capability. This factor has been worsened by the non-finalisation of Project Hoefyster. The committee therefore recommends engagement between the National Treasury, the Department of Defence and Armscor to consider further funding for Phase 2 of Project Hoefyster or, should this not be feasible, the upgrading of the current Ratel fleet to extend its serviceability. The National Treasury, the Department of Defence and Armscor should jointly report back to this committee on the envisaged plan to address the infantry capability constraints. These plans should be included in the department's and Armscor's Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.

The National Treasury notes the committee's concerns. To date, government has invested R7.4 billion in Project Hoefyster. This project was supposed to acquire 264 infantry fighting vehicles to partially replace the old Ratel fleet, but these vehicles have yet to be delivered. The National Treasury is open to engagement with the Department of Defence and Armscor on the feasibility of the project.

The committee wishes to note to National Treasury that the SANDF's Mobility Packages being utilised for border safeguarding have been in use since 2017 and may soon reach the end of their lifespan. Given the ongoing role of the SANDF in border safeguarding, the committee highlights the need for the Department of Defence and the National Treasury to jointly plan for upcoming expenses in this regard towards the end of the 2023 MTEF and beyond. The committee also wishes to reiterate that the current Mobility Packages were considered an interim solution and any future joint planning by the department and the National Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.

The National Treasury notes the committee's recommendation. Over the 2023 MTEF period, the National Treasury has allocated R700 million to procure helicopters, vehicles and technology for border safeguarding. The Department of Defence is responsible for the procurement of vehicles or mobility packages that will improve border safeguarding over the long term.

PORTFOLIO COMMITTEE ON JUSTICE AND CORRECTIONAL SERVICES

The committee expressed concern over budget reductions and has recommended that adequate funding be allocated to the Department of Justice and Constitutional Development, its entities and related Chapter 9 institutions.

The National Treasury notes the committee's concern. Since the 2022 Budget, no reductions have been made to the baselines of the department, its entities and related Chapter 9 institutions. Instead, the department has received additional allocations totalling R3.7 billion, the majority of which was allocated to the National Prosecuting Authority to strengthen capacity and advance the recommendations of the State Capture Commission. In addition, funds are provided to Legal Aid South Africa to appoint legal practitioners to service specialised commercial crimes courts, the Information Regulator to grow its establishment and effectively discharge its legislative mandate, the Public Protector and the South African Human Rights Commission to increase capacity and finance once-off information and communications technology, and the Special Investigating Unit to initiate civil litigation in the special tribunal flowing from proclamations that tie into the recommendations of the State Capture Commission for investigation.

PORTFOLIO COMMITTEE ON POLICE

The committee recommends that the National Treasury should review its decision to disallow the recruitment of additional personnel and that the South African Police Service (SAPS) should be adequately resourced, especially in terms of personnel, to execute its mandate. It is recommended that 10 000 recruits be allowed for the 2023/24 financial year.

The National Treasury does not have a provision in place that disallows SAPS from recruiting additional personnel. SAPS needs to fill its vacant funded posts or appoint additional personnel in line with its human resource budget plan and cannot exceed its allocated budget for compensation of employees. SAPS was allocated R5.8 billion over the 2022 MTEF period to appoint 12 000 police trainees, who will be hired as constables on completion of their training. In addition, SAPS will receive R7.8 billion over the 2023 MTEF period to appoint 15 000 police trainees. More than 7 000 trainees were recruited in 2022/23 and 10 000 trainees will be appointed in 2023/24.

The committee recommends that the National Treasury should increase the budget of the SAPS to employ additional personnel, especially qualified and skilled detectives. The National Treasury should consider ring-fencing this funding to ensure that it is spent as intended.

The National Treasury notes this recommendation. SAPS has indicated that 3 000 of the 15 000 police trainees to be appointed over the 2023 MTEF period will be appointed in detective services. In the 2020 Budget, the Directorate for Priority Crime Investigation in SAPS was allocated additional funding of R985 million to appoint investigators to strengthen its capacity and help address the case backlog.

The committee further recommends that ring fenced funds should be made available to adjust the service allowances of detectives to retain skilled personnel and attract new detectives.

As part of the 2023 MTEF budget discussions, the National Treasury raised concerns with departments and entities in the peace and security function about their challenges with staff moving across institutions for better remuneration. It was recommended that the conditions of service be standardised across the function to help retain skilled personnel.

The committee recommends that the National Treasury should consider an increase to the IPID's [Independent Police Investigative Directorate's] budget allocation for the 2022/23 financial year and that this should be taken into account during the budget adjustment period. Funds should be specifically made available for the appointment of IPID investigators to improve the ratio between police officers and IPID investigators.

Due to the constrained fiscal outlook, there is limited scope to provide additional funding. The IPID has not demonstrated that it has the capacity to fully spend its allocated budget. Generally, the department underspends its budget for compensation of employees due to vacant funded posts. Accordingly, the IPID will need to demonstrate improved capacity to fill its vacant funded posts and reduce its underspending on compensation of employees before additional funding is considered.

PORTFOLIO COMMITTEE ON TRANSPORT

The Minister of Finance, through the National Treasury, should assist the Department of Transport and its entities, along with the Auditor General of South Africa, to obtain a definitive dented interpretation of decision of supply chain management terminology and issues raised with B-BBEE [broad-based black economic empowerment] compliance requirements in order to prevent future disputes during the audit process lined to these terms.

The committee made a similar recommendation in the 2022 Budget. Accounting officers and executive authorities are responsible for managing their supply chains. In addition, the National Treasury provides support through toolkits. Departments and entities can leverage the courses and training programmes offered to familiarise themselves with the relevant subject matter and generally accepted definitions and terminologies. The Office of the Chief Procurement Officer has dedicated officials that deal with queries from stakeholders and will continue to widely publish invitations for training that it offers. The process of getting B-BBEE certification lies outside the control of the National Treasury.

The Minister of Finance should assist the Department of Transport in finalising a new feasibility study linked to the future of Moloto Rail Corridor and other high-speed rail corridors.

The option of building a new railway line along the Moloto Corridor was explored in a feasibility study undertaken by the Department of Transport in 2015. The National Treasury's evaluation of the feasibility study concluded that a railway link through the Moloto Corridor route would be unaffordable and unsustainable for both commuters and the fiscus. However, the feasibility study did provide grounds for improvements to the road infrastructure and transport services along the route, which has led to accelerated work on the Moloto development corridor. A more detailed response has also been provided to the Select Committee on Appropriation in its recommendation on the 2019 Division of Revenue Amendment Bill.

PORTFOLIO COMMITTEE ON HOME AFFAIRS

The Minister of Home Affairs should urgently engage the Minister of Finance regarding the cutting of funding to the already constrained Department of Home Affairs which is operating at less than *half its ideal capacity, since it is significantly affecting service delivery, the correct statement of audit figures, as well as national security.*

The National Treasury notes the committee's recommendation. Over the medium term, the Department of Home Affairs will receive additional funding of R900 million for the Border Management Authority. In addition, R839.9 million is allocated in 2023/24 for the digitisation programme, of which R559.5 million is for compensation of employees and the remainder will be used to procure information and communications technology equipment and goods and services.

The committee recommends that the current provision of services to clients on Saturdays and after 4pm should be revived and expanded by the Department of Home Affairs in negotiation with the National Treasury for funding and trade unions for staff interests prior to the end of the 2019/20 financial year. Consideration, in this regard should be given to the lost productive time for learners, businesses and employees as well as the essential nature of the services.

The National Treasury has referred this recommendation to the Department of Home Affairs. Funding requests from departments for specific projects are dealt with through the annual budget process and presented in Parliament for consideration.

PORTFOLIO COMMITTEE ON PUBLIC SERVICE AND ADMINISTRATION

The National School of Government (NSG) together with the Department of Public Service and Administration (DPSA) should continue to engage the National Treasury in exploring alternative funding methods to ensure that the NSG is self-sustainable in the future years. The School's proposal should be allowed by the National Treasury and the Cabinet which seek government departments including local government to set aside a particular percentage of their training budget to fund the NSG training courses.

The DPSA, in collaboration with the NSG, is consulting the National Treasury on developing a directive on compulsory training programmes for the public service. The National Treasury has commented on the draft directive and advised the DPSA and the NSG on the feasible funding mechanisms for the proposed training programmes. Furthermore, the National Treasury has highlighted the importance of formulating the provisions of the directive in a manner that is consistent with the requirements of the Public Finance Management Act (1999) on the powers and responsibilities of accounting officers and the requirements of the supply chain or procurement management system. The National Treasury has also highlighted the legislative processes or arrangements that need to be followed for the NSG to be accorded a sole training provider status. Through the annual budget process, the National Treasury will continue to work with the DPSA and the NSG as they develop training policy mechanisms and funding mechanisms for the NSG.

RECOMMENDATIONS OF THE STANDING AND SELECT COMMITTEES ON FINANCE ON THE 2022 REVISED AND PROPOSED FISCAL FRAMEWORK

The Committee notes the concern from some stakeholders that the 2022 MTBPS continues with the austerity started in the 2022 Budget. The Committee understands the arguments by stakeholders on austerity to be informed by the fiscal consolidation path of government of the last few years as headlined by spending cuts or spending increases that are below inflation, with declining headcounts *and no credible measures to deal with the rising unemployment, poverty and inequality. The Committee recommends that the National Treasury should report to the Committee the extent to which the previously adopted countercyclical fiscal policy and fiscal consolidation have been effective in stabilising the fiscal framework.*

The National Treasury notes the concerns raised by stakeholders. The 2022 MTBPS outlined additional resources for health, education, free basic services, infrastructure, and safety and security. The social wage was protected and no spending reductions were proposed. The 2022 MTBPS estimated that gross loan debt would stabilise and a primary budget surplus would be achieved in 2022/23, showing that fiscal policy is achieving its objectives. Nevertheless, risks to the fiscal outlook are substantial, including due to a rise in debt and likely effects of the takeover of Eskom debt as announced in the 2022 MTBPS. Chapter 3 discusses fiscal policy in more detail.

While NT is adamant that the 2022 MTBPS, and the Budget in general, is pro-poor, more and more people are unemployed and are trapped in poverty and inequality. The Committee remains extremely concerned about this, especially in the light of an economic growth rate that is too low to address poverty, inequality and unemployment challenges. The Committee recommends that the Budget should consider far more the impact of the high cost of living on the economy, particularly on the poor households.

The National Treasury notes the committee's recommendation. It is important to note that fiscal policy alone cannot solve the challenges of poverty and unemployment. The economic outlook is determined by a variety of factors that are mostly not in the control of fiscal policies. Nevertheless, the 2023 Budget continues to allocate the majority of spending to the social wage, which supports poorer households. In addition, 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.

The Committee notes the submissions made by the stakeholders regarding increasing the social grants and is sympathetic to them. The Committee also welcomes the extension of the SRD [social relief of distress] grant by another year. Given the consequences of Covid-19, the July 2021 social unrest, the KZN floods and the increased poverty, inequality and job losses, the unemployed and poor need to be cushioned more. The Committee reiterates its previous position that the National Treasury and government should seriously consider a Basic Income Grant (BIG).

The National Treasury, together with partner departments, is reviewing options to provide appropriate social protection measures for the working-age population that can replace or complement the current *COVID-19 social relief of distress grant.* Any permanent increase in expenditure, such as a new social grant, will need to be matched by permanent revenue increases or spending reductions elsewhere.

While the National Treasury expects gross loan debt to stabilise at 71.4 per cent of GDP in 2022/23, which is two years earlier and at a lower level than projected in the 2022 Budget Review, the Committee remains concerned about the high levels of the debt. The Committee reiterates its recommendation that the National Treasury reports quarterly to it on the effectiveness of its debt management strategies that would ensure that the level of debt stabilises over the medium term as *expected and that extra-budgetary costs and contingent liabilities do not increase the debt levels further.*

The National Treasury shares the Committee's concerns about the levels of debt. The National Treasury publishes an annual debt management report and information on outstanding debt on the investor relations website: http://investor.treasury.gov.za/pages/default.aspx. In addition, in line with section 32 of the Public Finance Management Act, the National Treasury provides monthly statements on revenue, expenditure and borrowing compared to the budget on its website. The *Budget Review* and MTBPS provide insight on the medium-term fiscal strategy, as discussed in Chapter 3.

The Committee notes, with great concern, the significant risks to the fiscal framework and the fact that the National Treasury confirmed that the risks previously identified in the 2022 Budget have already materialised. The continued bailout of SOEs [state-owned enterprises] undermines government's fiscal stabilisation efforts. The Committee recommends that the bailing out of SOEs, which is one of the biggest risks to the fiscus, should be subject to stringent conditions and accountability measures. In this regard, the Committee notes the proposed conditional allocations to public entities such as Denel, SANRAL and Transnet in order to reduce contingent liabilities and enable these entities to continue supporting economic growth. The Committee recommends a similar approach as far as possible be taken on all SOE bail-outs.

The National Treasury agrees with these recommendations. Chapter 8 discusses the new framework for state-owned companies, which will support the implementation of these recommendations.

The Committee further recommends that the National Treasury should consider South African Institute of Chartered Accountants [SAICA] and Financial and Fiscal Commission [FFC] recommendations on SOEs, which include a focus on operational deficiencies and proper management of procurement, contracts and payments, a risk-based approach to government guarantees and that a differentiation be made between repair and maintenance spending versus funding for new infrastructure.

The National Treasury notes this recommendation. SAICA and FFC recommendations on operational deficiencies will be considered as part of the operational conditions for providing financial support to state-owned companies.

Since November 2021, the South African Reserve Bank has hiked the repurchase (repo) rate by 275 basis points with the intention of maintaining price stability amid raging inflation. While inflation targeting falls within the ambit of the South African Reserve Bank (SARB), the Committee is concerned about the impact of the continued tightening of monetary policy and the impact of this on the cost of living, particularly for the poor and unemployed. The Committee however understands that there are global pressures as other central banks are tightening their monetary policy in response to inflation in their jurisdictions. The Committee believes that there is however a need for far more effective coordination between the fiscal and monetary policies and recommends that the National Treasury considers the FFC's view that "if fiscal policy is credible and sustainable, that would remove pressure from the monetary policy or on the SARB to hike interest rates". The Committee will also engage with SARB in order to understand if there are no other favourable policy alternatives *that could be implemented, within the constitutional and legislative mandate of SARB, which would not involve the aggressive hiking of the repo rate.*

Stable fiscal policy is a necessary condition for reducing pressure on monetary policy, particularly in a small open economy such as South Africa. At the same time, it is not a sufficient condition for eliminating it altogether. The National Treasury, in consultation with the Reserve Bank, sets the inflation target, which acts as a benchmark against which price stability is measured. The Reserve Bank then independently sets monetary policy to achieve this target. Fiscal policy and monetary policy both contribute to a stable macroeconomic framework to support investment, economic growth and job creation. The Reserve Bank considers many factors in its decision-making process. Fiscal policy remains focused on stabilising public debt and ensuring sustainable public finances in support of macroeconomic stability. At the same time, government enables economic and social development by maintaining a prudent fiscal stance, directing resources towards infrastructure, contributing to energy reforms and supporting the social wage.

In the 2022 Budget Speech in February, the Minister of Finance stated that he had agreed with the Minister of Minerals and Energy to review all aspects of the fuel price. The Committee further notes and welcomes the fuel levy relief announced by the two Ministers in March and May 2022, with the aim of alleviating pressure of the rising fuel costs on households. The Committee requires that the Minister of Finance reports back to it on progress made in reviewing all aspects of the fuel price regime.

The Minister of Finance has committed to reviewing the Road Accident Fund levy. The recommendation has been referred to the Department of Mineral Resources and Energy, which is responsible for reviewing the fuel price.

The Committee notes that the 2022 MTBPS does not appear to have explicitly budgeted for fighting corruption and Gender Based Violence (GBV) while the levels of crime in the country are increasing. The Committee also notes concerns from stakeholders in this regard and urges the National Treasury to explicitly consider these issues in the budget and the budget process.

The 2022 MTBPS included proposals for resources to fight corruption and crime over the medium-term. Over the next three years, SAPS will use funding allocated to the visible policing programme to strengthen its capacity to respond to gender-based violence. Over the same period, the Department of Justice and Constitutional Development is strengthening its focus on gender by establishing 109 sexual offences courts at designated courts and improving the management of the national register for sex offenders to ensure that all people working with vulnerable people are vetted. The department has allocated R27.5 million over the MTEF period to increase capacity in Thuthuzela care centres.

The Committee reiterates its concerns about NT's very late introduction of the (anti-money laundering and counter-terrorism financing) bills to Parliament and notes that despite the potential greylisting of South Africa by FATF [Financial Action Task Force] and the dire impact on the economy that this outcome could have, particularly on foreign direct investment, the exchange rate, access to corresponding banking and cross-border trade, the 2022 MTBPS neither mentions this as a risk to the fiscus in its risk statement nor analyse its potential impact over the medium-term. The Committee urges NT to consider the impact that greylisting may have on the 2022 proposed fiscal framework.

A multi-disciplinary effort under the leadership of the National Treasury is heavily focused on avoiding grey listing. As noted in the 2022 MTBPS, maintaining the integrity of South Africa's financial system is critical to long-term growth. Government is addressing deficiencies in the anti-money laundering framework identified by the Financial Action Task Force. These changes are intended to reduce the risk and incidence of financial crime and corruption, and to avoid 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.

The Committee is concerned that there appears to be lack of understanding of the future of the Gauteng e-tolls. While the public seems to believe that the e-tolls have been scrapped, clarification was provided that a new funding model was being proposed to fund the e-tolls. The Committee requires the Minister of Finance to provide a written response on this after adoption of this report.

As announced in the 2022 MTBPS speech, government is taking over the costs associated with upgrading and maintaining phase 1 of the Gauteng Freeway Improvement Programme from users. The new funding model for this system is the financing arrangements between national government and the Gauteng provincial government. This is not national government's preferred option, and the policy position is that direct road user charges remain the most efficient, effective and equitable financing mechanism. The provincial government will contribute to the costs associated with this infrastructure investment.

The Committee recommends, as it has in its previous reports, that the Public Procurement Bill be tabled in Parliament for processing. The Committee believes that delays in tabling and processing this Bill compromises transformation and localisation (procurement of locally produced goods.) In compliance with section 217 of the Constitution, the Committee believes that black economic empowerment, youth, women, and people living with disabilities should be given preference when procuring.

It is envisaged that the bill will be tabled in Parliament in March 2023 once all other legislative processes are finalised. Currently, the bill is undergoing legal vetting by the Office of the Chief State Law Adviser and a socioeconomic impact assessment by the Presidency.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2022 MTBPS AND ADJUSTMENTS APPROPRIATION BILL

That the Minister of Finance and the Presidential Management Office ensure that the funds allocated towards the Presidential Employment Initiatives are spent within the required guidelines and frameworks in order to avoid potential abuse and corruption.

The Presidency has developed reporting requirements for this programme and requires monthly reporting. Moreover, funding was provided for projects that were ready for implementation, based on the strength of the application submitted.

The Minister of Finance, working with all affected stakeholders, ensures that National Treasury speedily releases disaster relief funding in order to minimise the social and economic impact of affected communities.

The National Treasury has noted with concern the slow pace of disaster response and the slow pace of the release of funds by the national departments to the provinces and municipalities. In this regard, it is important to highlight that funds are released based on the payment schedule submitted by the responsible transferring officer and approved by the National Treasury. The accounting officers of departments that have disaster relief funding on their budgets are responsible for releasing funding in line with the legal requirements. Where disaster relief funding is disbursed in terms of a conditional grant, the relevant accounting officer and the relevant receiving officer (province or municipality) are obligated to comply with grant conditions in terms of the Division of Revenue Act. In the meantime, the National Treasury will continue working with counterparts to address the efficiency of disaster responses.

That the Minister of Finance, working with all stakeholders, ensures that National Treasury provides for a transparent process regarding fiscal support to SOCs [state-owned companies], reports should be made public, including the establishment of SOC governance framework with public reporting criteria that clearly defines detailed and precise profitability and non-financial objectives for transparency.

The National Treasury provides quarterly updates to Parliament (Standard Chart of Accounts) on the broad-based financial performance of schedule 2 public entities.

Small businesses are very important for economic development, recovery and employment creation. The Committee urges the Minister of Finance to substantially increase the budget of this Department of Small Business Development during the 2023 national budget. This will ensure that Department of Small Business Development plays its critical role in the economy.

The Department of Small Business Development is allocated R8.1 billion over the next three years. Over the medium term, R2.7 billion has been allocated to the department’s Small Enterprise Development Agency to support small businesses. Additional support of R280 million over the MTEF period will be provided to small businesses through incentives provided by the department. The National Treasury will continue to review the budget of the department, including to identify opportunities for better prioritisation and improved efficiency.

Economic transformation and Broad-Based Black Economic Empowerment are Constitutional imperatives. We urge the Minister of Finance to announce funding in the 2023 national budget for this purpose.

Government promotes economic transformation and empowerment through a range of policies, including incentive programmes dedicated to black-owned enterprises such as the Black Industrialists Scheme. The Department of Trade, Industry and Competition uses incentive programmes to encourage beneficiaries to procure their raw materials from black-owned businesses. The Industrial Development Corporation is facilitating funding amounting to R22 billion towards black industrialists by 2025/26. The National Empowerment Fund aims to disburse R4.7 billion by 2025/26 towards black-owned and women-owned businesses. Government uses public procurement policy to increase its spending on historically disadvantaged individuals. Furthermore, competition policy is aimed at unlocking opportunities for economic participation by historically disadvantaged individuals.

The Committee urges the Minister of Finance to finalise the Public Procurement Bill with explicit localisation and economic empowerment imperatives.

The National Treasury notes the recommendation. It is envisaged that the bill will be tabled in Parliament in March 2023 once all other legislative processes are finalised. Currently, the bill is undergoing legal vetting by the Office of the Chief State Law Adviser and a socioeconomic impact assessment by the Presidency. The National Treasury included a chapter on preferential procurement with enabling provisions covering locally manufactured goods and preferences in the allocation of contracts to support historically disadvantaged people.

The Committee welcomes the extension of the SRD grant with one more year. However, to create certainty for the Department of Social Development and South African Social Security Agency, the Committee recommends the extension of SRD grant for the next three years while a permanent security programme is being finalised.

The National Treasury notes the recommendation. Government is reviewing options for social protection alternatives to the grant. Further extensions of the grant need to be funded through spending reprioritisation, increased revenue or a combination of the two.

The South African Post Office (SAPO) plays a crucial role in the economy of South Africa, especially among the poorest of the poor. There is a need for recapitalisation of SAPO and the Minister of Finance, in consultation with the Minister of Communication and Digital Technologies, should finalise the recapitalisation strategy and present this in the 2023 national budget.

The South African Post Office was allocated a cumulative amount of over R7.3 billion between 2016/17 and 2018/19. Despite these equity injections, SAPO has not emerged from its present financial weakness. In this regard, the National Treasury has engaged with the Department of Communications and Digital Technologies to finalise a credible turnaround plan for the entity. In the meantime, a R2.4 billion allocation for the South African Post Office is included in the second adjustments appropriation bill tabled.

That the Minister of Finance ensures that National Treasury strictly implement all conditions on the proposed allocation to Sanral SOC Limited, Denel SOC Limited and Transnet SOC Limited. Furthermore, the Minister of Finance must ensure that National Treasury produces regular quarterly reports to Parliament on the implementation [of] these conditions and the disbursement of the proposed allocations as envisaged on the Bill.

The National Treasury notes the recommendation and will provide presentations and quarterly reports where required.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE AMENDMENT BILL

That the Minister of Finance ensures that National Treasury corrects its proposed changes to the conditional grants framework in line with Section 15(2) of the 2022 Division of Revenue Act.

The changes were gazetted as part of Government Gazette No. 47987 of 3 February 2023.

The Minister of Cooperative Governance and Traditional Affairs ensures that disaster Management Centre closely monitor funding allocated for disaster relief and ensures that these relief packages are clearly communicated to affected communities.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs.

The Minister of Cooperative Governance and Traditional Affairs must ensure that the eThekwini Metropolitan Municipality effectively and speedily spend the proposed R92 million towards the procurement of identified land for the relocation of floods victims who were previously residing in informal settlements that were washed away by the April 2022 floods.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs.

The Minister of Cooperative Governance and Traditional Affairs and the Minister of Public Works and Infrastructure ensures that both the Department of Public Works and Infrastructure and the Department of Cooperative Governance and Traditional Affairs assess available government land that can be used for the relocation of the April 2022 floods and report to Parliament.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs and the Minister of Public Works and Infrastructure.

The Minister of Finance, working with all affected stakeholders, ensures that National Treasury speedily releases disaster relief funding in order to minimise the social and economic impact of affected communities.

The funds are released based on the payment schedule submitted by the responsible transferring officer and approved by the National Treasury. The National Treasury notes that the slow release of funds is due to poor internal processes within departments and ineffective intergovernmental cooperation. In this regard, disaster funds already allocated to departments need to be efficiently but judiciously released.

The Minister of Finance ensures that National Treasury periodically audit how disaster relief funds are spent, and or whether these funds are efficiently utilised for the benefit of affected communities. Given the number of recent disasters and the funds allocated towards disaster relief, the Committee is concerned and doesn't want to again be informed of any level of corruption like what was found during the COVID-19 related funding. Where there is a suspicion of corruption elements, National Treasury should quickly intervene and immediately report such to the law enforcement agencies.

The National Treasury periodically monitors all funds transferred to subnational government. However, sector departments are responsible for both financial and non-financial monitoring of these funds and should intervene timeously if there is non-compliance. The authority to audit programmes lies with the Auditor-General of South Africa, who has already undertaken a series of special audits related to disaster relief.

The Minister of Basic Education ensures that the Department of Basic Education closely monitor the reconstruction and rehabilitation of public schools that were affected by the December 2021 and April 2022 in the Eastern Cape and KwaZulu-Natal Provinces. The Minister must ensure that the

Department provides quarterly expenditure and progress report on the reconstruction and rehabilitation of these affected schools.

The National Treasury has referred this recommendation to the Minister of Basic Education.

The Minister of Transport ensures that the Department of Transport closely monitor the proposed R1 billion allocations for the provincial roads maintenance grant for the repairs of provincial roads that were affected by the April 2022 floods and quarterly report to the Committee on progress made with regard to the repairs of the affected roads in Eastern Cape, North West and KwaZulu-Natal Provinces.

The National Treasury has referred this recommendation to the Minister of Transport.

RECOMMENDATIONS OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE ADJUSTMENTS APPROPRIATION BILL

The Minister of Finance should gazette the proposed additional funding allocations, with clear conditions, as indicated in the Special Appropriation Bill [B24 – 2022], amounting to R23.7 billion for the South African National Roads Agency (Sanral) for repayment of its maturing debt and debt-related obligations, R3.4 billion for Denel SOE Limited (Denel) for the implementation of its turnaround plan, and R2.9 billion for Transnet SOE Limited (Transnet) for the acceleration of the repair and maintenance of locomotives.

The conditions have been shared with the Speaker of the National Assembly and the Chairperson of the Select Committee on Appropriations.

The Minister of Finance, together with the Minister of Public Enterprises and the Minister of Transport, should ensure that the pre- and post-conditions prescribed for the bail-outs are fully complied with, and that clear consequences are explicitly outlined as part of such conditions; so that appropriate action will be taken against the transgressor in the case of non-compliance. Furthermore, the Committee is of the view that, in order to encourage transparency in public finances, any bail-out must have conditions that are publicly available for continuous accountability and oversight.

The National Treasury agrees with the recommendation and has set up oversight teams to monitor progress on the implementation of the bailout conditions. Spending that is inconsistent with the purpose of or the conditions associated with the allocations may be deemed irregular expenditure. In terms of sections 38 and 51 of the Public Finance Management Act, irregular expenditure may be deemed financial misconduct. The associated sanction in terms of the Public Finance Management Act and the Public Audit Act (2004) will apply in these circumstances.

The Minister of Finance, together with the Minister of Public Enterprises and the Minister of Transport, should ensure that all additional funds earmarked for their respective departments are spent according to the approved plans and within the ambit of the Special Appropriation Bill [B24 – 2022], and ensure that clear internal controls and financial management systems are put in place to prevent poor, wasteful and fruitless expenditure, and that consequence management is enforced. Parliament will continue to monitor the implementation and expenditure of such allocations through *regular in-year monitoring by sector committees and the section 32 reports required by the Public Finance Management Act No.1 of 1999.*

The National Treasury has set up oversight teams to monitor progress on the implementation of the bailout conditions. For Denel and Transnet, no funds can be disbursed without evidence that the conditions have been met.

Whilst recognising the need for government to intervene where there is market failure, the Committee believes that the provision of continuous financial support to state-owned entities (SOEs) directly from the fiscus will continue to compromise social programmes for the poor and other developmental obligations. As part of the overall SOE turnaround strategy, the Committee is calling for concrete steps to be taken by the Department of Public Enterprises, the National Treasury, the Department of Transport and other departments with ailing public entities to strengthen oversight, leadership capacity/boards of directors and financial management capacity, and to ensure the appointment of suitably qualified and experienced officials to turn around the balance sheets of these entities within a reasonable period of time after the adoption of this Report by the House.

The National Treasury has referred this recommendation to the Minister of Public Enterprises and Minister of Transport, who are responsible for appointing board members and executive management in the state-owned enterprises within their departments. While the National Treasury has oversight responsibilities over the state-owned enterprises, the boards and executive management of the entities have the fiduciary responsibilities. Furthermore, the shareholder departments play a leading role in turning around the entities.

The Committee does not encourage the tabling of special appropriation bills in Parliament, unless they are absolutely necessary and dictated by exceptional circumstances as it may signal budgeting challenges related to fiscal uncertainty. When these bills are introduced, it needs to be done timeously so that Parliament has sufficient time to engage with the public and process them accordingly.

The National Treasury notes this recommendation.

RECOMMENDATIONS OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE DIVISION OF REVENUE AMENDMENT BILL

The Minister of Finance should gazette the adjustment allocations in the Division of Revenue Amendment Bill [B22 – 2022] as tabled together with the Medium Term Budget Policy Statement (MTBPS) on 26 October 2022. These include the roll-overs, unforeseen and unavoidable expenditure, declared unspent funds, provisional allocations not earmarked for specific Votes, and provincial and local government changes to conditional grants and the equitable share. Furthermore, the gazette should include the proposed amendments to the following specific grant frameworks to allow for spending on disaster response in relation to the December 2021 and April 2022 floods and disasters:

- Provincial Roads Maintenance Grant, to allow for spending on rural bridges under the Welisizwe Rural Bridges Programme.
- Education Infrastructure Grant framework.
- Municipal Disaster Recovery Grant framework.

The National Treasury gazetted the proposed amendments to conditional grants to cater for the December 2021 and April 2022 floods and disasters on 3 February 2023.

The KwaZulu-Natal Province should put proper mechanisms in place to ensure that the additional R48.5 million allocated reaches the intended beneficiaries who are mostly the victims of the April 2022 floods; to provide formula and disposable nappies for babies; meals for people in shelters; payment for shelter-based social workers and supervisors; and the payment for the Shelters' Tracking System.

The National Treasury supports this recommendation.

The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs, should ensure prompt response when disasters happen, including transfer of the much-needed funds earmarked for disaster relief; and ensure the effective spending of the additional R3.3 billion to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by floods in the Western Cape, the Eastern Cape and KwaZulu-Natal.

The National Treasury shares concerns regarding the slow release of funds, and has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs. Funds are only released after the affected provinces or municipalities have submitted applications as per the Disaster Management Act (2002). The grant conditions set out the planning and reporting requirements to assist in monitoring and reviewing the performance of the disaster recovery programme.

The National Treasury, together with the Department of Human Settlements and the eThekwini Metropolitan Municipality, should expedite the process of relocating the victims of the April 2022 floods and disasters, which were residing in informal settlements in eThekwini. The Committee believes that the amendment of the framework of the Informal Settlements Upgrading Partnership Grant: Municipalities to ring-fence funds for the purchase of land identified for the relocation will assist to fast-track the process.

The National Treasury has referred this recommendation to the Minister of Human Settlements. The provincial department of human settlements and the municipality are responsible for implementing emergency housing programmes, as set out in the Housing Code.

Given the impact of the recent floods, the Committee recommends that government should consider providing municipalities with performance-based conditional grants, rewarding or incentivising programmes that are environmentally efficient and responsive to the adaptation and mitigation of the challenges of climate change.

The National Treasury has referred this recommendation to the Minister of Cooperative Governance and Traditional Affairs. The Disaster Management Act requires all organs of state to prevent and mitigate disasters, and this is also considered when funding is made available to respond to a disaster.

The National Treasury should correct the allocations and effect the required changes to the Municipal Disaster Recovery Grant (MDRG) framework to ensure that MDRG allocations are correctly allocated to the municipalities assigned for the function.

The correctly assigned allocations were gazetted in Government Gazette No. 47987 of 3 February 2023.

The Committee believes that a proper review with respect to local government transfers is necessary, especially from a vertical perspective of the division of revenue; taking into account the increasing number of dysfunctional and financially distressed municipalities, the factors of geography and rurality and the nature of local development; to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. Furthermore, this should include a proper re-examination of the assumptions in the Local Government White Paper, testing their applicability and relevancy, given the current situation.

The National Treasury notes this recommendation. The Technical Budget Forum, made up of the National Treasury, the Department of Cooperative Governance, the South African Local Government Association and the Financial and Fiscal Commission, is assessing the assumptions in the Local Government White Paper. The vertical division of revenue is considered and approved by Cabinet.

The Department of Health, together with its provincial counterparts, should ensure that the estimated 28 000 vacancies are filled, where funding is available, to address staff shortages in areas where sufficient health workers are required to be at an appropriate level of care. Furthermore, the departments should address the issues of increasing compensation of employees and medico-legal claims, given its negative impact on the consistent availability of medicines and other health essentials.

The National Treasury has referred this recommendation to the Minister of Health.

While the National Treasury, together with the Department of Health, continue to find ways to improve grant expenditure trends, the Committee urges both Departments to make more funds available in the 2023 budget for the Health Facility Revitalisation Grant to repair the health facilities destroyed in KwaZulu Natal and the Eastern Cape during the April 2022 floods. A progress report should be provided in this regard in the next budget cycle.

The National Treasury has referred this recommendation to the Minister of Health. Provinces applied for funding to reconstruct and rehabilitate schools and provincial roads, but not health facilities, following the April 2022 floods.

The Department of Communications and Digital Technologies should ensure that a clear plan is developed and implemented to address the issue of 6 000 Post Office workers who are about to lose their jobs; and that the issue of statutory payments, such as to the Unemployment Insurance Fund (UIF), medical aid schemes and pension funds, is also addressed. The Committee is of the view that failure to transfer statutory payments is unacceptable and consequence management must be implemented immediately. A progress report should be provided in this regard in the next budget cycle.

The National Treasury has referred this recommendation to the Minister of Communications and Digital Technologies.

The South African Local Government Association (Salga), together with the Department of Water Affairs, the Department of Cooperative Governance and Traditional Affairs, the University of Pretoria and the Development Bank of Southern Africa, should continue to intensify capacity building efforts *to assist municipalities to address infrastructure repairs and maintenance challenges, particularly with regards to water treatment plants to address sewage spillage in certain areas.*

The National Treasury has referred this recommendation to the Minister of Water and Sanitation, the Minister of Cooperative Governance and Traditional Affairs and SALGA.

With regards to the R30 billion bail-out to Sanral, Denel and Transnet, the Department of Public Enterprises, the Department of Transport and the National Treasury should be conscious of the fact that state-owned entities (SOEs) cannot rely on government financial support forever, even if it is financed through higher than anticipated revenues. The Committee is of the view that provision of continuous financial support to SOEs directly from the fiscus will continue to compromise social programmes for the poor and other developmental obligations. As part of the SOE turnaround strategy, the Committee is calling for concrete steps to be taken by the Department of Public Enterprise and the Department of Transport to strengthen oversight, leadership capacity/boards of directors and financial management capacity, and to ensure the appointment of suitably qualified and experienced officials to turn around the balance sheets of these entities within a reasonable period after the adoption of this Report by the House.

The National Treasury has referred this recommendation to the Minister of Public Enterprises and the Minister of Transport.

National Treasury, together with the Department of Women, Youth and Persons with Disabilities, should find a way to develop appropriate mechanisms to design and implement more gender-responsive budgeting, to address the scourge of gender-based violence in South Africa. This should include strengthening and capacitating gender-based violence desks at police stations, to ensure that such cases are resolved expeditiously.

The National Treasury is working with stakeholders including the Department of Women, Youth and Persons with Disabilities and the Department of Planning, Monitoring and Evaluation to develop a roadmap and tools to facilitate the implementation of gender-responsive budgeting across government. The National Treasury is leading an interdepartmental steering committee for gender-responsive budgeting with representatives from these three departments. Guidelines have been developed outlining the implementation of gender-responsive budgeting and these will be discussed with departments in 2023/24.

Whilst the Committee welcomes the extension of the Social Relief of Distress (SRD) Grant with a clear understanding that this was introduced as a temporary measure during the COVID-19 pandemic; the Committee implores the Department of Social Development to ensure that proper internal control systems are put in place to effectively manage and distribute the Grant; that criteria to ensure the Grant reaches all intended beneficiaries are continuously improved, given the uncertainty in the job market; and that any allegations of corruption are investigated and law enforcement agencies allowed to deal with such matters expeditiously.

The National Treasury has referred this recommendation to the Minister of Social Development.

RECOMMENDATIONS OF THE SELECT AND STANDING COMMITTEES ON APPROPRIATIONS ON THE SPECIAL APPROPRIATION BILL

The National Treasury should ensure that any movement of funds is approved according to the provisions of the Public Finance Management Act of 1999 and Treasury Regulations. However, the Committee does not support the movement of funds above 8 per cent, when it is as a result of poor planning and project management and unsatisfactory performance by government departments.

The National Treasury welcomes this recommendation. Virements and shifting of funds are always carried out in line with the relevant legislation and regulations, including those cited by the committee.

The National Treasury should approve and gazette in the Adjustments Appropriation Bill [B23 -2022] an adjusted amount of R12.9 billion, of which R6.4 billion (49 percent) goes to the Department of Cooperative Governance and the Department of Transport to address the April 2022 floods in KwaZulu-Natal and the Eastern Cape. The Committee implores both Departments to strengthen expenditure control and financial management systems to realise value for money.

The National Treasury notes the committee's recommendation. In the 2022 Adjustment Budget, the Department of Cooperative Governance and the Department of Transport received R3.6 billion and R1.8 billion, respectively. This was for the reconstruction and rehabilitation of municipal infrastructure as well as the maintenance of roads damaged by floods in KwaZulu-Natal and the Eastern Cape. The 2022 Adjustments Appropriation Bill has been enacted and gazetted accordingly. The National Treasury will continue to engage these departments to ensure that expenditure control and financial management systems are strengthened.

The National Treasury and the Department of Home Affairs should ensure that proper financial management controls and clear plans and milestones are developed and put in place for the spending of the proposed adjustment amount of R500 million for the digitisation project, to avoid wasteful and fruitless expenditure.

The National Treasury notes the committee's recommendation and will engage the Department of Home Affairs on aspects of the recommendation that are relevant to the department.

The National Treasury should approve and gazette the roll-over amount of R990.5 million, emanating from the Department of Agriculture, Land Reform and Rural Development and the Department of Communications and Digital Technologies. The Committee implores both Departments to develop clear and time-bound remedial actions, with specific targets, to address under-spending and improve service delivery performance, while ensuring project are completed on time.

The National Treasury notes the recommendation. Requests for rollovers are always considered within the parameters set by Treasury Regulation 6.4. In the 2022 Adjustment Budget, a rollover of R231 million was approved for the Department of Agriculture, Land Reform and Rural Development to provide inputs to smallholder farmers under the presidential employment initiative. In addition, a rollover of R200 million was approved in the 2022 Adjustment Budget for the Department of Communications and Digital Technologies for phase 2 of the presidential employment initiative.

The Department of Cooperative Governance and the National Disaster Management Centre (NDMC), together with National Treasury, should undertake a review of the disaster management and administrative processes in order to ensure rapid response and transfer of much-needed relief funds for victims; and to ensure quality standards when repairing and rebuilding damaged infrastructure, while ensuring that projects are completed on time. Parliament will continue to follow up on this.

The National Disaster Management Centre is reviewing the disaster management risk framework and expects to complete this by 31 March 2023.

The Committee implores the Department of Higher Education and Training and National Treasury to ensure that the issues of maladministration and corruption raised by the Auditor-General of South Africa (AGSA), which are negatively affecting the capacity of sector education and training authorities (SETAs) to deliver, are urgently addressed and consequence management implemented, where necessary. Parliament will continue to monitor progress.

The Minister of Higher Education, Science and Innovation is the executive authority to whom each of the SETA boards is accountable. The minister, through the Department of Higher Education and Training, must ensure that SETA boards, as the accounting authority, address all issues raised by the Auditor-General. The National Treasury will support the department in this regard when requested or where necessary.

The National Treasury and Department of Planning, Monitoring and Evaluation (DPME) should ensure that better alignment between performance targets and budget allocations is realised at a planning and budgeting phase, to ensure correlation between expenditure and performance targets achieved at the end of the year. Notwithstanding the fact that there is a need to improve planning, the Committee also believes that government should evaluate its programmes, and discard those that are continuously not bearing any results; instead of relying on incrementalism.

The National Treasury welcomes this recommendation. The National Treasury, together with the DPME, evaluates departmental annual performance plans and strategic plans to ensure the performance targets align with the budget allocated during the budget process. In 2021/22, the National Treasury, in consultation with departments, conducted several spending reviews to evaluate programmes and to encourage departments and other institutions to reprioritise funds within existing programmes to fund emerging priorities.

With regards to the Vaal River Pollution Remediation Project, the Department of Water Affairs and Sanitation, together with the National Treasury, should ensure that project planning for the Regional Bulk Infrastructure Grant projects is properly done timeously to avoid funds being rolled over to the next financial year or returned to the fiscus. The Committee believes that the failure to spend on infrastructure budgets continues to undermine government's commitment to implement an infrastructure-led economic recovery.

The National Treasury has referred this recommendation to the Department of Water Affairs and Sanitation.

The National Treasury, together with the Department of the Police, should ensure that adequate resources are allocated for detective services, and that planning is continuously improved for the

Integrated Criminal Justice Strategy (ICJS), to avoid non-expenditure, such as the R30 million, by the Department.

The National Treasury notes this recommendation. The detective services programme is allocated R66.3 billion over the MTEF period, of which R7 billion is allocated to the Directorate for Priority Crime Investigation. The National Treasury will continue working with the department to improve planning for the ICJS to avoid non-expenditure in 2023/24.

RECOMMENDATIONS OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE PROPOSED DIVISION OF REVENUE AND CONDITIONAL GRANT ALLOCATIONS TO PROVINCES AND MUNICIPALITIES AS CONTAINED IN THE 2021 MTBPS

More resources should be set aside over the 2023 MTEF for safety and security, in order to increase police visibility, boost the investigation and prosecution of serious crimes, and safeguard the country's borders and seas, as well as for the implementation of the recommendations of the Zondo Commission of Inquiry into State Capture.

The National Treasury agrees with this recommendation. Over the 2023 MTEF period, the National Treasury has allocated the full amounts requested by the National Prosecuting Authority (R1.3 billion) and the Special Investigating Unit (R100 million) to implement the recommendations of the State Capture Commission. SAPS is allocated R7.8 billion over the period to improve capacity in police stations.

The National Treasury, together with its provincial counterparts, should ensure that mechanisms to continuously improve provincial conditional grant expenditure are implemented, as articulated in the conditional grant frameworks, to achieve value for money, particularly for the proposed additional grant funding earmarked through the Budget Facility for Infrastructure (BFI). These include funding for the Comprehensive Agricultural Support Programme (CASP) for KwaZulu-Natal, the Education Infrastructure Grant for Gauteng, the Provincial Roads Maintenance Grant for rural bridges, the National Health Insurance Indirect Grant for the Limpopo Central Hospital, as well as the Coega Development Corporation for water services in the Eastern Cape.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance, provincial departments of cooperative governance and the South African Local Government Association (Salga), should expedite the review of the capacity-building system for local government as well as the development of a multi-year programme to improve basic service delivery outcomes and cost effectiveness. The National Treasury should also fast-track the design of a revised programme and agree on an integrated approach to local government capability development for the 2023 MTEF.

The National Treasury supports the recommendation. The review was completed and recommendations reported on in the 2022 Budget. Government has developed a multi-year programme, which will be completed by March 2024, to improve the outcomes and cost-effectiveness of its capacity-building system. Several institutions are piloting the programme.

The National Treasury, together with the Department of Cooperative Governance, provincial treasuries and provincial cooperative governance departments and the South African Local Government Association (Salga), should ensure that proper plans are continuously implemented to improve the quality of spending and performance in local government to achieve value for money; in light of the proposed allocation amounting to R523 billion, including R161.8 billion in conditional grants.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance and its provincial counterparts, should put proper mechanisms in place to ensure that the much-needed relief funding earmarked for disaster recovery promptly reaches the deserving beneficiaries/victims; and improve the expenditure for the proposed additional allocation of R2.8 billion to the Municipal Disaster Recovery Grant to fund the repair and reconstruction of municipal infrastructure damaged by the April 2022 floods.

The National Treasury supports the committee's recommendation.

The National Treasury, together with the Department of Cooperative Governance and its provincial counterparts should ensure that proper planning and monitoring is conducted to avoid wasteful and fruitless expenditure as well as corruption for the proposed R6.5 billion earmarked for the eThekwini Metropolitan Municipality; the City of Johannesburg Metropolitan Municipality; the Drakenstein Local Municipality; the Sol Plaatjie Local Municipality and the Nelson Mandela Bay Metropolitan Municipality, to fund municipal infrastructure projects approved through the sixth window of the Budget Facility for Infrastructure (BFI) over the MTEF.

The National Treasury supports the committee's recommendation.

The National Treasury and Cabinet should ensure that a concerted effort is exerted to address the financial challenges experienced by municipalities in financial distress. Furthermore, a portion of the higher than anticipated revenue generated should be utilised to alleviate financial pressures for these municipalities; with such an intervention being accompanied by stringent conditions to enforce accountability, and improved oversight.

The National Treasury has been working closely with the Department of Cooperative Governance to respond robustly to instance of dysfunction in municipal governance. The National Treasury considers that internal management and political dysfunction are the key causes of the financial challenges in municipalities. In this regard, working with provincial treasuries and the Department of Cooperative Governance, the National Treasury continues to build financial capacity in municipalities and support municipalities in financial distress. Over the next three years, the local government equitable share is allocated an additional R5.3 billion. This will assist in alleviating some financial pressures on municipalities. Cabinet approves the budget and decides how the higher-than-anticipated revenue is used.

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B

2023 BUDGET REVIEW

TAX EXPENDITURE STATEMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

The primary aim of the tax system is to raise sufficient revenue for government spending. It can also promote socioeconomic objectives through targeted tax exemptions, deductions or credits. Tax expenditures are estimates of the total revenue foregone as a result of this preferential tax treatment. This annexure presents government's latest estimates of the fiscal cost of tax expenditures, as well as the methodology used to produce these estimates.

Tax expenditure documents promote transparency and accountability. They help government and the public assess the costs, benefits and overall effectiveness of this expenditure. The National Treasury has enhanced its tax expenditure reporting and evaluation in recent years by adding several new expenditure estimates based on tax administrative data. Since the 2022 Budget, selected corporate tax expenditures are presented on a sectoral basis.

In 2020/21 – the latest year for which data is available – tax expenditures were estimated at R252 billion or 4.5 per cent of GDP. For that year, 35 tax expenditures were calculated, as in 2017/18, and the five largest expenditures accounted for nearly 60 per cent of the total. These relate to deductions for pension contributions, value-added tax (VAT) relief for basic items, medical tax credits on contributions to medical schemes, and vehicle manufacturer incentives.

TAX EXPENDITURE ESTIMATES

The estimates presented in tables B.1 and B.2 are calculated using the "revenue foregone" method. This entails comparing actual revenue collections with the revenue that would have been collected without the incentive in place.

The revenue foregone approach assumes that taxpayers do not change their behaviour in response to a tax expenditure being withdrawn. In reality, behaviour is likely to change if an incentive is withdrawn, so the additional revenue collected may be less than estimated.

Most of the personal income tax and corporate income tax estimates are calculated using administrative data from the South African Revenue Service (SARS), which allows expenditure estimates to be accounted for on an accrual basis.

Changes to estimation methods since the 2022 Budget

Small business corporations – section 12E of the Income Tax Act (1962) depreciation allowance

Section 12E deductions are differentiated by claims from manufacturing and other corporations. For small manufacturing businesses, the difference between immediate expensing (what is reported) and the baseline (what any business not eligible for section 12E can deduct) is multiplied by the corporate tax rate to estimate the revenue forgone. For other sectors, the methodology remains the same. As a result, the tax expenditure estimates presented in the 2023 Budget have increased relative to prior years.

Urban development zones (UDZ)

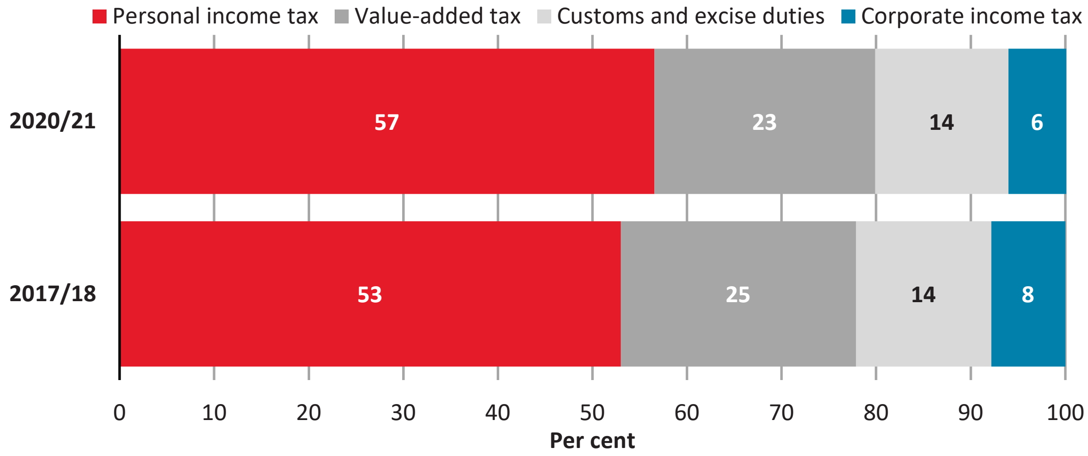
Previously, the allowances reported for the erection of new buildings and improvements to existing buildings were multiplied by the corporate tax rate to estimate the tax expenditure. No baseline was included in the calculation. Sections 13*sex* and 13*quin* allow for building allowances of 5 per cent annually over 20 years for residential and commercial buildings, respectively. This constitutes the most likely baseline against which to measure the UDZ allowance and has been factored into the tax expenditure calculation for the 2023 Budget. As a result, the UDZ tax expenditure estimates decrease over the reporting period.

More accurate data and estimation methodologies have prompted revisions to the historical tax expenditure estimates in tables B.1 and B.2.

Trends in tax expenditure: 2017/18 – 2020/21

This section uses historical data to analyse trends in tax expenditure at an aggregate level between 2017/18 and 2020/21. The total value of tax expenditures grew by R17.1 billion or 2.4 per cent over the period, which is below nominal GDP growth of 3.0 per cent. As a result, tax expenditures decreased as a share of nominal GDP, reaching 4.5 per cent by the end of the period.

Figure B.1 Share of total tax expenditure per tax type



Source: National Treasury

Sectoral trends in tax expenditure: 2017/18 – 2020/21

The SARS tax administrative data is aligned with the Standard Industrial Classification, rather than SARS sector codes, for the sectoral analysis.

Table B.1 Selected corporate tax expenditure estimates by sector

R million	2017/18	2018/19	2019/20	2020/21
Research and development	**270**	**257**	**213**	**165**
Manufacturing	118	132	86	55
Financial intermediation, insurance, real estate and business services	65	39	52	77
Agriculture, hunting, forestry and fishing	32	25	19	11
Community, social and personal services	26	20	18	9
Mining and quarrying	21	27	18	1
Other	9	14	19	14
Participation exemption	**8 423**	**16 311**	**12 569**	**4 930**
Financial intermediation, insurance, real estate and business services	3 728	11 932	8 204	3 530
Mining and quarrying	1 431	1 354	1 765	230
Transport, storage and communication	2 298	1 557	1 554	11
Community, social and personal services	107	168	369	292
Manufacturing	470	522	312	252
Other	389	777	365	614

Source: National Treasury

Research and development (R&D) tax incentive (section 11D of the Income Tax Act)

The R&D tax incentive aims to encourage more private-sector companies to invest in R&D by providing a 150 per cent deduction for expenditure on eligible scientific or technological R&D carried out in South Africa. This incentive was recently reviewed and Chapter 4 contains proposals in this regard.

Table B.1 shows the five sectors that benefited the most from this tax incentive, which remain unchanged from the outcome reported in the 2022 *Budget Review*. Almost half of the tax expenditure has supported the manufacturing sector. The agricultural sector has also benefited, highlighting that this incentive encourages R&D within sectors that are important for job creation.

Participation exemption in terms of foreign dividends and share sales (section 10B(2) of the Income Tax Act)

To qualify for the participation exemption, a resident company (or group of companies) must hold 10 per cent or more of the total equity shares and voting rights of a company declaring a foreign dividend. The exemption aims to encourage resident companies to repatriate dividends and prevent economic double taxation (if dividend withholding tax is due in the foreign country, for example). Qualifying companies are also exempt from capital gains tax on the sale of shares.

Annexure B of the 2020 *Budget Review* explains how the tax expenditure for the exemption is calculated. Table B.1 highlights the five sectors that benefited the most between 2017/18 and 2020/21. The reported numbers relate solely to the exempt foreign dividend element, as there is insufficient information to publish the tax expenditure associated with the capital gains tax element.

On average, 1 460 taxpayers benefit from the participation exemption (limited to dividends) annually. The financial intermediation, insurance, real estate and business services sector benefits the most – both in respect of the number of taxpayers and the monetary element.

Table B.2 Tax expenditure estimates

R million	2017/18	2018/19	2019/20	2020/21
Personal income tax	**124 441**	**135 942**	**141 267**	**142 299**
Retirement fund contributions[1]	82 546	88 799	96 407	97 734
Pension contributions – employees	*18 445*	*19 933*	*21 927*	*25 220*
Pension contributions – employers	*32 186*	*34 851*	*37 206*	*37 755*
Provident contributions – employees	*4 571*	*5 209*	*6 850*	*6 594*
Provident contributions – employers	*13 325*	*14 733*	*15 827*	*14 680*
Retirement annuity	*14 018*	*14 073*	*14 597*	*13 485*
Medical	33 213	37 818	35 052	35 371
Medical tax credits on contributions	*27 081*	*31 089*	*27 478*	*27 839*
Medical tax credits on out-of-pocket expenditure	*6 131*	*6 728*	*7 574*	*7 532*
Interest exemptions	3 523	3 657	3 814	3 201
Secondary rebate (65 years and older)	3 273	3 535	3 784	3 857
Tertiary rebate (75 years and older)	261	284	306	307
Donations	377	418	477	467
Capital gains tax (annual exclusion)	697	561	601	428
Venture capital companies	551	870	827	932
Corporate income tax	**18 402**	**27 455**	**21 675**	**15 382**
Small business corporation tax savings	3 290	3 305	3 187	2 663
Reduced headline rate	*3 215*	*3 239*	*3 115*	*2 611*
Section 12E depreciation allowance	*74*	*67*	*72*	*52*
Research and development	270	257	213	165
Learnership allowances	719	587	502	273
Strategic industrial projects (12I)	563	361	16	2
Film incentive[2]	6	0	19	1
Urban development zones	203	208	253	114
Employment tax incentive	4 317	4 512	4 754	7 165
Energy-efficiency savings	611	1 913	161	68
Participation exemption[3]	8 423	16 311	12 569	4 930

Table B.2 Tax expenditure estimates *(continued)*

R million	2017/18	2018/19	2019/20	2020/21
Value-added tax	**58 446**	**66 857**	**73 439**	**58 760**
Zero-rated supplies	56 926	65 255	71 752	57 236
22 basic items [4]	*26 023*	*29 390*	*31 834*	*27 960*
Petrol [5]	*17 080*	*20 259*	*20 003*	*14 730*
Diesel [5]	*6 147*	*8 089*	*8 212*	*6 592*
Paraffin [5]	*665*	*931*	*838*	*740*
Municipal property rates	*6 704*	*6 252*	*10 528*	*6 886*
Reduced inclusion rate for commercial accommodation	*307*	*334*	*336*	*328*
Exempt supplies (public transport and education)	1 520	1 603	1 687	1 525
Customs duties and excise	**33 564**	**38 608**	**44 393**	**35 534**
Motor vehicles (MIDP/APDP, including IRCCs)[6]	28 754	31 250	34 107	26 189
Textile and clothing (duty credits – DCCs)[6]	712	734	725	709
Furniture and fixtures	198	178	168	138
Other customs[7]	875	600	625	1 409
Diesel refund[8]	3 025	5 846	8 767	7 090
Total tax expenditure	**234 854**	**268 862**	**280 774**	**251 975**
Tax expenditure as % of total gross tax revenue	**19.3%**	**20.9%**	**20.7%**	**20.2%**
Total gross tax revenue	**1 216 464**	**1 287 690**	**1 355 766**	**1 249 711**
Tax expenditure as % of GDP	**4.6%**	**5.0%**	**4.9%**	**4.5%**

1. Retirement benefits are taxable once they are paid out, therefore a portion of the revenue is deferred rather than foregone, unlike most other tax expenditures. Some of the revenue foregone is also recouped through taxes on lump sum withdrawals
2. Tax expenditure for all years is attributable to allowances under section 24F and exemptions under section 12O
3. Tax expenditure only attributable to foreign dividends. Capital gains tax on share sales not included
4. VAT relief in respect of basic food items based on 2010/11 Income and Expenditure Survey data, and two food items and sanitary towels (pads) added from 1 April 2019
5. Based on fuel volumes and average retail selling prices
6. Motor Industry Development Programme (MIDP), replaced in 2013 by the Automotive Production Development Programme (APDP); import rebate credit certificate (IRCC); duty credit certificate (DCC)
7. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted
8. Diesel refund previously offset against domestic VAT has been added
Source: National Treasury

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C

2023 BUDGET REVIEW

ADDITIONAL TAX POLICY AND ADMINISTRATIVE ADJUSTMENTS

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

ADDITIONAL TAX POLICY AND ADMINISTRATIVE ADJUSTMENTS

This annexure should be read with Chapter 4 of the *Budget Review*. It elaborates on some of the proposals contained in the chapter, clarifies certain matters and presents additional technical proposals arising from the annual tax policy process.

PERSONAL INCOME TAX

The proposed tax schedule in Table 4.5 in Chapter 4 compensates individuals for the effect of inflation. The effects of these proposals are set out in tables C.1, C.2 and C.3.

Table C.1 Annual income tax payable, 2023/24

Taxable income (R)	2022/23 rates (R)	Proposed 2023/24 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
85 000	–	–	–	–	–	–
90 000	–	–	–	–	–	–
100 000	1 575	765	-810	-51.4%	1.6%	0.8%
120 000	5 175	4 365	-810	-15.7%	4.3%	3.6%
150 000	10 575	9 765	-810	-7.7%	7.1%	6.5%
200 000	19 575	18 765	-810	-4.1%	9.8%	9.4%
250 000	30 495	28 797	-1 698	-5.6%	12.2%	11.5%
300 000	43 495	41 797	-1 698	-3.9%	14.5%	13.9%
400 000	71 840	69 272	-2 568	-3.6%	18.0%	17.3%
500 000	103 405	100 272	-3 133	-3.0%	20.7%	20.1%
750 000	196 663	191 942	-4 721	-2.4%	26.2%	25.6%
1 000 000	297 811	292 284	-5 527	-1.9%	29.8%	29.2%
1 500 000	502 811	497 284	-5 527	-1.1%	33.5%	33.2%
2 000 000	718 547	709 604	-8 943	-1.2%	35.9%	35.5%

Source: National Treasury

Table C.2 Annual income tax payable and average tax rates, 2023/24 (taxpayers aged 65 to 74)

Taxable income (R)	2022/23 rates (R)	Proposed 2023/24 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
120 000	–	–	–	–	–	–
150 000	1 575	321	-1 254	-79.6%	1.1%	0.2%
200 000	10 575	9 321	-1 254	-11.9%	5.3%	4.7%
250 000	21 495	19 353	-2 142	-10.0%	8.6%	7.7%
300 000	34 495	32 353	-2 142	-6.2%	11.5%	10.8%
400 000	62 840	59 828	-3 012	-4.8%	15.7%	15.0%
500 000	94 405	90 828	-3 577	-3.8%	18.9%	18.2%
750 000	187 663	182 498	-5 165	-2.8%	25.0%	24.3%
1 000 000	288 811	282 840	-5 971	-2.1%	28.9%	28.3%
1 500 000	493 811	487 840	-5 971	-1.2%	32.9%	32.5%
2 000 000	709 547	700 160	-9 387	-1.3%	35.5%	35.0%

Source: National Treasury

Table C.3 Annual income tax payable and average tax rates, 2023/24 (taxpayers aged 75 and over)

Taxable income (R)	2022/23 rates (R)	Proposed 2023/24 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
150 000	–	–	–	–	–	–
200 000	7 578	6 176	-1 402	-18.5%	3.8%	3.1%
250 000	18 498	16 208	-2 290	-12.4%	7.4%	6.5%
300 000	31 498	29 208	-2 290	-7.3%	10.5%	9.7%
400 000	59 843	56 683	-3 160	-5.3%	15.0%	14.2%
500 000	91 408	87 683	-3 725	-4.1%	18.3%	17.5%
750 000	184 666	179 353	-5 313	-2.9%	24.6%	23.9%
1 000 000	285 814	279 695	-6 119	-2.1%	28.6%	28.0%
1 500 000	490 814	484 695	-6 119	-1.2%	32.7%	32.3%
2 000 000	706 550	697 015	-9 535	-1.3%	35.3%	34.9%

Source: National Treasury

CUSTOMS AND EXCISE DUTY

Government proposes that the excise duties in the Customs and Excise Act (1964, section A of part 2 of schedule 1) be amended with effect from 22 February 2023 to the extent shown in Table C.4.

Table C.4 Specific excise duties, 2022/23 – 2023/24

Tariff item	Tariff subheading	Article description	2022/23 Rate of excise duty	2023/24 Rate of excise duty
104.00		**PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO**		
104.01	**19.01**	**Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included:**		
104.01.05	1901.90.13	Preparations for making alcoholic beverages (excluding those of subheading 1901.90.20) as defined in Additional Note 2 to Chapter 19	34,7c/kg	34,7c/kg
104.01.10	1901.90.20	Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34,7c/kg	34,7c/kg
104.05	**21.06**	**Food preparations not elsewhere specified or included:**		
104.05.10	2106.90.13	Preparations for making alcoholic beverages as defined in Additional Note 1 to Chapter 21	34,7c/kg	34,7c/kg
104.10	**22.03**	**Beer made from malt:**		
104.10.10	2203.00.05	Traditional African beer as defined in Additional Note 1 to Chapter 22	7,82c/li	7,82c/li
104.10.20	2203.00.90	Other	R121.41/li aa	R127.40/li aa
104.15	**22.04**	**Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):**		
104.15.01	2204.10	Sparkling wine	R16.52/li	R16.64/li
104.15	**2204.21**	**In containers holding 2 li or less:**		
104.15	**2204.21.4**	**Unfortified wine:**		
104.15.03	2204.21.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.96/li	R5.20/li
104.15.04	2204.21.42	Other	R245.15/li aa	R257.23/li aa
104.15	**2204.21.5**	**Fortified wine:**		
104.15.05	2204.21.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R8.36/li	R8.77/li
104.15.06	2204.21.52	Other	R245.15/li aa	R257.23/li aa
104.15	**2204.22**	**In containers holding more than 2 li but not more than 10 li:**		
104.15	**2204.22.4**	**Unfortified wine:**		
104.15.13	2204.22.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.96/li	R5.20/li
104.15.15	2204.22.42	Other	R245.15/li aa	R257.23/li aa
104.15	**2204.22.5**	**Fortified wine:**		
104.15.17	2204.22.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R8.36/li	R8.77/li
104.15.19	2204.22.52	Other	R245.15/li aa	R257.23/li aa
104.15	**2204.29**	**Other:**		
104.15	**2204.29.4**	**Unfortified wine:**		
104.15.21	2204.29.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.96/li	R5.20/li
104.15.23	2204.29.42	Other	R245.15/li aa	R257.23/li aa
104.15	**2204.29.5**	**Fortified wine:**		
104.15.25	2204.29.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R8.36/li	R8.77/li
104.15.27	2204.29.52	Other	R245.15/li aa	R257.23/li aa
104.16	**22.05**	**Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:**		
104.16	**2205.10**	**In containers holding 2 li or less:**		
104.16.01	2205.10.10	Sparkling	R16.52/li	R16.64/li

Table C.4 Specific excise duties, 2022/23 – 2023/24 *(continued)*

Tariff item	Tariff subheading	Article description	2022/23 Rate of excise duty	2023/24 Rate of excise duty
104.16	**2205.10.2**	**Unfortified:**		
104.16.03	2205.10.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R4.96/li	R5.20/li
104.16.04	2205.10.22	Other	R245.15/li aa	R257.23/li aa
104.16	**2205.10.3**	**Fortified:**		
104.16.05	2205.10.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R8.36/li	R8.77/li
104.16.06	2205.10.32	Other	R245.15/li aa	R257.23/li aa
104.16	**2205.90**	**Other:**		
104.16	**2205.90.2**	**Unfortified:**		
104.16.09	2205.90.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R4.96/li	R5.20/li
104.16.10	2205.90.22	Other	R245.15/li aa	R257.23/li aa
104.16	**2205.90.3**	**Fortified:**		
104.16.11	2205.90.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R8.36/li	R8.77/li
104.16.12	2205.90.32	Other	R245.15/li aa	R257.23/li aa
104.17	**22.06**	**Other fermented beverages (for example, cider, perry, mead, saké); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:**		
104.17.03	2206.00.05	Sparkling fermented fruit or mead beverages; mixtures of sparkling fermented beverages derived from the fermentation of fruit or honey; mixtures of sparkling fermented fruit or mead beverages and non-alcoholic beverages	R16.52/li	R16.64/li
104.17.05	2206.00.15	Traditional African beer as defined in Additional Note 1 to Chapter 22	7,82c/li	7,82c/li
104.17.07	2206.00.17	Other fermented beverages, unfortified, with an alcoholic strength of less than 2.5 per cent by volume	R121.41/li aa	R127.40/li aa
104.17.09	2206.00.19	Other fermented beverages of non-malted cereal grains, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 9 per cent by vol.	R121.41/li aa	R127.40/li aa
104.17.11	2206.00.21	Other mixtures of fermented beverages of non-malted cereal grains and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 9 per cent by vol.	R121.41/li aa	R127.40/li aa
104.17.15	2206.00.81	Other fermented apple or pear beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R121.41/li aa	R127.40/li aa
104.17.16	2206.00.82	Other fermented fruit beverages and mead beverages, including mixtures of fermented beverages derived from the fermentation of fruit or honey, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R121.41/li aa	R127.40/li aa
104.17.17	2206.00.83	Other fermented apple or pear beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.17.21	2206.00.84	Other fermented fruit beverages and mead beverages including mixtures of fermented beverages derived from the fermentation of fruit or honey, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.17.22	2206.00.85	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R121.41/li aa	R127.40/li aa

Table C.4 Specific excise duties, 2022/23 – 2023/24 *(continued)*

Tariff item	Tariff subheading	Article description	2022/23 Rate of excise duty	2023/24 Rate of excise duty
104.17.25	2206.00.87	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.17.90	2206.00.90	Other	R245.15/li aa	R257.23/li aa
104.21	**22.07**	**Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:**		
104.21.01	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	R245.15/li aa	R257.23/li aa
104.21.03	2207.20	Ethyl alcohol and other spirits, denatured, of any strength	R245.15/li aa	R257.23/li aa
104.23	**22.08**	**Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent vol.; spirits, liqueurs and other spirituous beverages:**		
104.23	**2208.20**	**Spirits obtained by distilling grape wine or grape marc:**		
104.23	**2208.20.1**	**In containers holding 2 li or less:**		
104.23.01	2208.20.11	Brandy as defined in Additional Note 7 to Chapter 22	R220.63/li aa	R231.51/li aa
104.23.02	2208.20.19	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.20.9**	**Other:**		
104.23.03	2208.20.91	Brandy as defined in Additional Note 7 to Chapter 22	R220.63/li aa	R231.51/li aa
104.23.04	2208.20.99	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.30**	**Whiskies:**		
104.23.05	2208.30.10	In containers holding 2 li or less	R245.15/li aa	R257.23/li aa
104.23.07	2208.30.90	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.40**	**Rum and other spirits obtained by distilling fermented sugarcane products:**		
104.23.09	2208.40.10	In containers holding 2 li or less	R245.15/li aa	R257.23/li aa
104.23.11	2208.40.90	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.50**	**Gin and Geneva:**		
104.23.13	2208.50.10	In containers holding 2 li or less	R245.15/li aa	R257.23/li aa
104.23.15	2208.50.90	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.60**	**Vodka:**		
104.23.17	2208.60.10	In containers holding 2 li or less	R245.15/li aa	R257.23/li aa
104.23.19	2208.60.90	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.70**	**Liqueurs and cordials:**		
104.23	**2208.70.2**	**In containers holding 2 li or less:**		
104.23.21	2208.70.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.23.22	2208.70.22	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.70.9**	**Other:**		
104.23.23	2208.70.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.23.24	2208.70.92	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.90**	**Other:**		
104.23	**2208.90.2**	**In containers holding 2 li or less:**		
104.23.25	2208.90.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.23.26	2208.90.22	Other	R245.15/li aa	R257.23/li aa
104.23	**2208.90.9**	**Other:**		
104.23.27	2208.90.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R98.06/li aa	R102.89/li aa
104.23.28	2208.90.92	Other	R245.15/li aa	R257.23/li aa

Table C.4 Specific excise duties, 2022/23 – 2023/24 *(continued)*

Tariff item	Tariff subheading	Article description	2022/23 Rate of excise duty	2023/24 Rate of excise duty
104.30	**24.02**	**Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:**		
104.30	**2402.10**	**Cigars, cheroots and cigarillos containing tobacco:**		
104.30.01	2402.10.10	Imported from Switzerland	R4823.22/kg net	R5061.01/kg net
104.30.03	2402.10.90	Other	R4823.22/kg net	R5061.01/kg net
104.30	**2402.20**	**Cigarettes containing tobacco:**		
104.30.05	2402.20.10	Imported from Switzerland	R9.91 /10 cigarettes	R10.40 /10 cigarettes
104.30.07	2402.20.90	Other	R9.91 /10 cigarettes	R10.40 /10 cigarettes
104.30	**2402.90.1**	**Cigars, cheroots and cigarillos of tobacco substitutes:**		
104.30.09	2402.90.12	Imported from Switzerland	R4823.22/kg net	R5061.01/kg net
104.30.11	2402.90.14	Other	R4823.22/kg net	R5061.01/kg net
104.30	**2402.90.2**	**Cigarettes of tobacco substitutes:**		
104.30.13	2402.90.22	Imported from Switzerland	R9.91 /10 cigarettes	R10.40 /10 cigarettes
104.30.15	2402.90.24	Other	R9.91 /10 cigarettes	R10.40 /10 cigarettes
104.35	**24.03**	**Other manufactured tobacco and manufactured tobacco substitutes; “homogenised” or “reconstituted” tobacco; tobacco extracts and essences:**		
104.35	**2403.1**	**Smoking tobacco, whether or not containing tobacco substitutes in any proportions:**		
104.35.01	2403.11	Water pipe tobacco specified in Subheading Note 1 to Chapter 24	R265.24/kg net	R278.31/kg net
104.35	**2403.19**	**Other:**		
104.35.02	2403.19.10	Pipe tobacco in immediate packings of a content of less than 5 kg	R265.24/kg net	R278.31/kg net
104.35.03	2403.19.20	Other pipe tobacco	R265.24/kg net	R278.31/kg net
104.35.05	2403.19.30	Cigarette tobacco	R445.57/kg	R467.54/kg
104.35	**2403.91**	**"Homogenised" or "reconstituted" tobacco:**		
104.35.07	2403.91.20	Imported from Switzerland	R929.33/kg	R975.15/kg
104.35.09	2403.91.80	Other	R929.33/kg	R975.15/kg
104.35	**2403.99**	**Other:**		
104.35.15	2403.99.30	Other cigarette tobacco substitutes	R445.57/kg	R467.54/kg
104.35.17	2403.99.40	Other pipe tobacco substitutes	R265.24/kg net	R278.31/kg net
104.35.19	2403.99.90	Other	R929.33/kg	R975.15/kg
104.37	**24.04**	**Products containing tobacco, reconstituted tobacco, nicotine, or tobacco or nicotine substitutes, intended for inhalation without combustion; other nicotine containing products intended for the intake of nicotine into the human body:**		
104.37	**2404.1**	**Products intended for inhalation without combustion:**		
104.37	**2404.11**	**Containing tobacco or reconstituted tobacco:**		
104.37	**2404.11.1**	**Containing reconstituted tobacco:**		
104.37.01	2404.11.11	Imported from Switzerland, put up for retail sale in the form of sticks	R7.43 /10 sticks	R7.80 /10 sticks
104.37.03	2404.11.13	Imported from Switzerland, other	R929.33/kg	R975.15/kg
104.37.05	2404.11.15	Other, put up for retail sale in the form of sticks	R7.43 /10 sticks	R7.80 /10 sticks
104.37.07	2404.11.19	Other	R929.33/kg	R975.15/kg
104.37	**2404.11.9**	**Other:**		
104.37.11	2404.11.91	Put up for retail sale in the form of sticks	R7.43 /10 sticks	R7.80 /10 sticks
104.37.13	2404.11.99	Other	R929.33/kg	R975.15/kg
104.37	**2404.19**	**Other:**		
104.37.15	2404.19.20	Other, put up for retail sale in the form of sticks	R7.43 /10 sticks	R7.80 /10 sticks
104.37.17	2404.19.90	Other	R929.33/kg	R975.15/kg

Source: SARS

ADDITIONAL POLICY AND ADMINISTRATIVE AMENDMENTS

Additional tax amendments proposed for the upcoming legislative cycle are set out below.

Individuals, employment and savings

Apportioning the tax-free investment contribution limitation and limiting the retirement funds contributions deduction when an individual ceases to be a tax resident

In 2022, the Income Tax Act (1962) was amended to provide that, when an individual ceases to be a South African tax resident, the annual interest exemption applicable to individuals in terms of section 10(1)(*i*) is apportioned and the capital gains tax annual exclusion applicable to individuals in terms of paragraph 5(1) of the Eighth Schedule to the act is limited. To ensure there is alignment with the act's other provisions for individuals ceasing to be tax residents, it is proposed that further changes be made to section 12T(4)(a) to apportion the tax-free investment contribution limitation and section 11F(2)(a) to apportion the annual limit on the deduction of the retirement funds contributions.

Clarifying anti-avoidance rules for low-interest or interest-free loans to trusts

The Income Tax Act contains anti-avoidance rules aimed at curbing the tax-free transfer of wealth to trusts using low-interest or interest-free loans, advances or credit. These rules deem any interest foregone in respect of low-interest or interest-free loans, advances or credit to a trust to be a donation subject to a donations tax. The deemed donation is calculated as the amount by which the official rate of interest exceeds any amount of interest incurred in this regard. These anti-avoidance rules have certain exclusions. For example, the rules do not apply if the low-interest or interest-free loan, advance or credit is used to purchase a primary residence for the person advancing that low-interest or interest-free loan, advance or credit to the trust, company or spouse of such person. The above-mentioned exclusion does not fully encompass what constitutes a primary residence in terms of the Eighth Schedule of the act. It has also come to government's attention that, in instances where the low-interest or interest-free loan, advance or credit is denominated in foreign currency, the rules do not provide clarity on how and when this amount should be converted to South African rands. This affects the calculation of the deemed donation. It is proposed that amendments be made to the legislation to provide clarity in this regard.

Retirement provisions

Clarifying the amount of employer contribution to a retirement fund to be deductible

Section 11F(4) of the act deems an employer contribution to a retirement fund as a contribution made by the employee, and it is calculated as the amount equal to the cash equivalent of the value of the taxable benefit. However, there is no requirement that the calculated cash equivalent be included in the employee's income, as is the case in sections 6A and 6B of the act. This is against the policy rationale of the act's provisions. To address this, it is proposed that the act be amended to require that the cash equivalent of the taxable benefit for employer retirement fund contributions be included in an employee's income before a tax deduction is allowed.

Transfers between retirement funds by members who are 55 years or older

In 2022, changes were made to the act to allow for tax-neutral transfers between retirement funds by members who are 55 years or older in instances where transfers of retirement interests in relation to a member who has reached normal retirement age has not yet opted to retire. It has come to government's attention that there are some instances where active contributing pension and provident fund members who have reached retirement age and been subjected to involuntary transfers to another pension or provident fund may still be subject to tax. To address this, it is proposed that members of pension or provident funds who have reached the normal retirement age as stipulated in the rules of that fund but have not yet opted to retire must, as part of the involuntary transfer, be able to have their retirement interest transferred from a less restrictive to a more restrictive retirement fund without incurring a tax liability. The value of the retirement interest, including any growth thereon, will remain ring-fenced and preserved in the receiving pension or provident fund until the member elects to retire from that fund. This means that these members will not be entitled to the payment of a withdrawal benefit in respect of the amount transferred.

Business (general)

Reviewing Practice Note 31 of 1994 and Practice Note 37 of 1995

In 1994 and 1995, the South African Revenue Service (SARS) issued Practice Note 31 of 1994, entitled *Interest paid on moneys borrowed*, and Practice Note 37 of 1995, entitled *Deduction of fees paid to accountants, bookkeepers and tax consultants for the completion of income tax returns*. On 16 November 2022, SARS issued a notice informing the public of the intention to withdraw both practice notes, with effect from years of assessment starting on or after 1 March 2023, due to the increasing abuse of the tax deduction concession provided for in Practice Note 31 and the fact that Practice Note 37 does not incorporate the requirements of the term "registered tax practitioner" contained in the Tax Administration Act (2011). After reviewing the public comments received on the withdrawal of the practice notes, government will consider the impact of the proposed withdrawal and whether changes could be made in the tax legislation to accommodate legitimate transactions affected by such withdrawal. In light of this proposal, SARS also intends to delay and align the withdrawal of the practice notes with the effective date of any legislation arising from the proposed considerations.

Clarifying anti-avoidance rules dealing with third-party backed shares

The act contains anti-avoidance rules targeting debt-like equity instruments – for example, third-party backed shares – and deeming any dividend or foreign dividend received by or accrued to any person in respect of a third-party backed share as income. The anti-avoidance rules do not apply if the funds derived from the issue of the shares in question are used to directly or indirectly acquire equity shares of an operating company. At issue is the fact that these rules do not deem any dividend or foreign dividend received by or accrued to any person in respect of a third-party backed share as income when the shares in that operating company are no longer held by the person who initially acquired them. Government proposes that the legislation be clarified in this regard.

Contributed tax capital

Contributed tax capital is the consideration received by or accrued to a company in exchange for the issue of shares of a particular class, on or after the date on which that company becomes a resident of South Africa, and an amount equal to the market value of all the shares in that company of that class immediately before the date on which that company becomes a resident. It is reduced by any amounts referred to as capital distributions, transferred by the company to the shareholders. It has come to government's attention that the following amendments are needed to the definition of contributed tax capital.

Addressing the abuse of the definition of contributed tax capital

Government has identified a structure where a foreign holding company that holds shares in a valuable South African operating company through a foreign intermediary could avoid dividends tax by changing the tax residency of the foreign intermediary to South Africa. When this takes place, the contributed tax capital is recognised as an amount equal to the market value of its shares. The South African operating company then distributes dividends to the new South African tax resident company, and such dividends are exempt from tax because dividends between South African companies are not subject to tax. When the new South African company makes distributions to the foreign holding company, the distributions are shielded by contributed tax capital and regarded as capital distributions, and are not subject to dividends tax in the hands of the foreign holding company. These capital distributions are also not subject to capital gains tax in the hands of the foreign holding company if the underlying investment in South Africa is not in immovable property. To address this abuse, government proposes that amendments be made to the tax legislation.

Converting contributed tax capital from foreign currency to rands

After a company changes its tax residence to South Africa, it is possible for that company's functional currency and share capital to be denominated in a currency other than the rand. Although the act contains specific rules dealing with the conversion of amounts denominated in foreign currency to rands, these rules do not specifically cater for the conversion of contributed tax capital to rands. Government proposes that the legislation be clarified in this regard.

Corporate reorganisation rules

Clarifying the interaction between the debt reduction rules and the disposal of assets exclusion rule for dormant group companies

In 2017, changes were made to the debt relief rules in section 19 and paragraph 12A of the Eighth Schedule to the Income Tax Act. Section 19 deals with income tax implications for debt that was previously used to fund tax-deductible expenditure, such as operating expenses, and where deductions may be claimed for assets such as trading stock and allowance assets. Paragraph 12A of the Eighth Schedule deals with capital gains tax implications for debt that was used to acquire capital or allowance assets. Both these rules contain a dormant company exemption, which applies when a debt is owed between companies that form part of the same group of companies. A debtor company is regarded as being dormant if it has not conducted trading activities in the year of assessment in which the debt benefit arose nor in the year of assessment preceding that year. However, this exemption does not apply if the debt was used to fund an asset that was subsequently disposed of in terms of the corporate reorganisation transactions provided in Part III of Chapter II of the act. At issue is whether the disposal in terms of the corporate reorganisation transactions is envisaged to take place subsequent to the asset's acquisition, but prior to the debt reduction, or whether the disposal is meant to take place subsequent to the acquisition and the debt reduction. When changes were made to the debt relief rules in 2017, the policy rationale was that the exclusion from applying the dormant company rule should not restrict the timing of the disposal under the corporate reorganisation rules. Government proposes clarifying the legislation to reflect this policy rationale.

Clarifying the interaction of provisions on the acquisition of assets in exchange for shares

The act contains provisions dealing with the acquisition of assets in exchange for shares. These provisions prescribe a base cost for assets acquired by companies in exchange for the issue of that company's shares to the seller equal to the sum of the market value of the shares and, where applicable, the amount of the capital gain triggered by the application of the anti-value shifting rules. In 2021, further changes were made in the tax legislation to make provision for the deemed base cost to apply to corporate reorganisation transactions. At issue is whether allowances in respect of an asset acquired in exchange for shares issued to the seller may be determined according to the deemed base cost. Government proposes that the legislation be clarified in this regard.

Refining the provisions applicable to unbundling transactions

In 2020, changes were made to unbundling transaction rules to curb tax avoidance where unbundling transactions are used to distribute shares of unbundled companies to tax-exempt persons or non-resident investors. As such, tax is not deferred on an unbundling transaction in respect of any equity share that is distributed by an unbundling company to any shareholder that is a disqualified person and holds at least 5 per cent of the equity shares in the unbundling company immediately before the transaction.

These changes result in the pro-rata operation of the anti-avoidance rule and ensure a more equitable outcome in unbundling transactions, because only shares distributed to persons who are not disqualified persons will benefit from rollover relief. In 2021, further changes were made to the rules to allow shareholders in an unbundling company that only partially qualifies for tax deferral to benefit from an increase in the base cost of the shares in the unbundled company to the extent that the unbundling company did not qualify for tax deferral in accordance with its respective shareholding. Government proposes that further consideration should be given to whether it is appropriate to apportion tax paid by the unbundling company between the unbundling company shares and the unbundled company shares, and to situations where the unbundling company is not in a taxable position due to having capital losses or assessed losses.

Clarification of the interest limitation rules

In 2021, changes were made to the Income Tax Act as part of the corporate tax package to broaden the tax base and reduce the headline corporate income tax rate in a revenue-neutral manner. One of these measures included strengthening the rules dealing with the limitation of interest deductions for debts owed to certain persons not subject to tax in section 23M of the act. It has come to government's attention that these measures require further clarification in the following areas.

Clarifying the definition of "adjusted taxable income"

The definition of "adjusted taxable income" in section 23M(1) of the act means taxable income calculated before applying the interest limitation rules, including the addition of any assessed loss or balance of assessed loss allowed to be set off against income in terms of section 20. There is uncertainty stemming from the inclusion of the terms "assessed loss" and "balance of assessed loss". Government proposes that the legislation be amended to align with the policy intent that only the balance of assessed losses from the prior year be added in the adjusted taxable income calculation.

Introducing a definition of the term "creditor"

Currently, section 23M(1) of the act defines "debt" and "debtor", but it does not define the term "creditor". Government proposes that this definition be added to section 23M of the act.

Clarifying the treatment of exchange gains and losses

Section 23M(7) of the act provides that any exchange difference deducted from the income of a person as contemplated in sections 24I(3) or (10A) of the act is deemed to have been incurred by that person. While section 23M(7) deems exchange losses to be incurred, a corresponding deemed accrual does not apply to exchange gains. This could result in exchange gains not being taken into account as interest received or accrued for purposes of section 23M of the act. Government proposes that exchange gains be classified as interest received or accrued for the purposes of section 23M of the act.

Clarifying the application of the proviso to section 23M(2) of the act

The proviso to section 23M(2) contains a formula that reduces the amount of interest disallowed for deduction based on the extent to which withholding tax on interest must be withheld under Part IVB of the chapter. However, it does not adequately specify that this adjustment should only apply in the case of interest flowing to non-residents. Government proposes that the legislation be clarified in this regard.

Extending the provisions of section 23M(6) of the act to apply to South African lending institutions

Section 23M(6) generally makes provision for the exemption from the application of interest limitation rules where the creditor provides a loan to a taxpayer with funds granted by a lending institution – in this instance, a foreign bank. Government proposes that section 23M(6) of the act be amended to extend this exemption to apply to South African lending institutions.

Reviewing the outcome of the interaction between the "controlling relationship" definition in section 23M(1) and the rule in section 23M(2)(c) of the act

In 2021, changes were made to the definition of "controlling relationship" in section 23M(1) by adding a connected person test. In addition, further changes were made to section 23M(2)(c) by inserting a group companies test in instances where the creditor is not in a controlling relationship with the debtor. Government will review how the definition of "controlling relationship" in section 23M(1) and the provisions of 23M(2) interact in light of the intended policy outcome.

Business (financial sector)

Tax treatment of deposit insurance scheme

In 2020, government announced the establishment of a deposit insurance scheme to protect depositors in the event of a bank failure, which in turn will contribute to the stability of the South African financial system. It was also envisaged that each bank would make stipulated contributions to the scheme. In 2022, Parliament passed the legislation dealing with the deposit insurance scheme. Government proposes that tax legislation be amended to address the tax implications of the scheme.

Reviewing the Sharia-compliant financing arrangements

In 2010, legislation dealing with Sharia-compliant financing arrangements was introduced in various tax acts. Government proposes to extend the provisions dealing with Sharia-compliant arrangements and ensure alignment across all the tax acts.

Refining the provisions dealing with the impact of International Financial Reporting Standard 17 insurance contracts on the taxation of insurers

In 2022, changes were made in the tax treatment of short- and long-term insurers in sections 28 and 29A of the act to accommodate the new accounting standard for insurers, International Financial Reporting Standard (IFRS) 17, to be applied to all insurance contracts for accounting periods starting on or after 1 January 2023. It has come to government's attention that certain third-party cell captive arrangements are treated as reinsurance arrangements for IFRS purposes. As a result, there are reinsurance assets and liabilities recognised for IFRS purposes in relation to a portion of cell profits due to or from the cell owner. For tax purposes, these are not true commercial reinsurance arrangements, and these balances should be disregarded in determining a cell captive insurer's taxable income. In addition, cell captive arrangements effected in terms of preference share arrangements may be accounted for under IFRS17 or IFRS9. Insurance contract liabilities (IFRS17) and investment contract liabilities (IFRS9) are both included in the "adjusted IFRS value" definition in section 29A of the act. Where a separate liability is recognised in respect of profits due to the cell owner, it may be possible that such a liability may also be included in the "value of liabilities" definition in section 29A of the act, resulting in the double-counting of the liability. To address this issue, government proposes that reinsurance contracts relating to an owner as contemplated in the definition of "cell structure" in section 1 of the Insurance Act (2017) be disregarded. In addition, changes should be made to the definition of "value of liabilities" in section 29A of the Income Tax Act to exclude any other liabilities relating to a cell owner.

Business (incentives)

Clarifying the meaning of "person" in the provisions dealing with public benefit organisations, recreational clubs and associations

The act contains special tax dispensation for public benefit organisations, recreational clubs and associations due to their non-profit status. Because these entities enjoy a special tax dispensation, various rules exist that limit the manner in which these entities operate or require greater accountability and stricter governance. These include requirements that the entity must have three unconnected persons who accept fiduciary responsibility and that no single person may directly or indirectly control the decision-making powers of the entity. At issue is whether the word “person” in these requirements refers to a natural person or a juristic person. Government proposes amending the legislation to clarify that “person” in this context refers to a natural person.

Clarifying the timeframes of compliance requirements for industrial policy projects

In 2021, changes were made to the act to allow for a discretionary extended compliance period of up to two additional years for companies with approved industrial policy projects to comply with the provisions of section 12I in cases where there were bona fide reasons for non-compliance due to business-related disruptions caused by the COVID-19 pandemic. At issue is the uncertainty over the interaction between the skills development criteria and the extended compliance period. Government will consider further legislative amendments to clarify the intention of providing taxpayers with additional time to meet the section 12I requirements and the extent to which the incentive criteria should be met over the extended compliance period.

International

Extending the anti-avoidance provision to cover foreign dividends from shares listed in South Africa

Section 10B of the act exempts foreign dividends received or accrued from shares listed on a South African stock exchange from normal tax. This exemption was introduced because these foreign dividends may be subject to dividends tax. It has come to government’s attention that schemes have been devised to exploit this exemption. The scheme involves South Africans investing in the shares of a non-resident company listed on a South African stock exchange and the non-resident company directly or indirectly investing in interest-bearing financial instruments in South Africa. The result is that a deduction for an interest expense is not matched with a taxable foreign dividend. It is proposed that the round-tripping anti-avoidance provision for foreign dividends be amended to include foreign dividends received or accrued from shares listed on a South African stock exchange if the foreign dividends are directly or indirectly funded by amounts that were deductible in South Africa.

Interaction between the anti-avoidance rule and exemption applying to foreign dividends

The act contains an anti-avoidance rule in terms of which the participation exemption does not apply to a foreign dividend if any amount of the foreign dividend arises directly or indirectly from an amount that is deductible from the income of any person under the Income Tax Act. The policy rationale for this measure is that a deductible amount should not be received by a resident or a controlled foreign company (CFC) as an exempt amount. A further exemption that applies to foreign dividends limits the effective tax rate for foreign dividends accruing to residents to a rate of 20 per cent. This exemption has the effect that amounts that are allowed to be deducted for income tax at a rate of 27 per cent or marginal tax rates are taxed at a rate of only 20 per cent where the anti-avoidance provision applies. It is proposed that the exemption to tax foreign dividends at 20 per cent should not apply where the anti-avoidance rule is applicable.

Clarifying the foreign business establishment exemption for controlled foreign companies

The act contains anti-avoidance rules in section 9D aimed at taxing South African residents on an amount equal to the net income of a CFC. To strike a balance between protecting the tax base and enabling South African multinationals to compete offshore, the CFC rules contain exemptions for certain types of income. For example, amounts that are attributable to a foreign business establishment of a CFC, as defined in section 9D, are excluded from the net income of the CFC. A foreign business establishment consists of a fixed place of business located outside South Africa that is used or will continue to be used for the business of the CFC for at least one year. To be so defined, a foreign business establishment must also satisfy requirements relating to the nature of the business. For example, the fixed place of business should be suitably staffed with onsite managerial and operational employees of that CFC. The fixed place of business should be suitably equipped and have suitable facilities for conducting the primary operations of the business. The definition of a foreign business establishment allows for the structures, employees, equipment and facilities of another company to be taken into account if these are all located in the same country as the CFC's fixed place of business, the other company is subject to tax in the same country where the CFC's fixed place of business is located and it forms part of the same group of companies as the CFC. It has come to government's attention that some taxpayers are retaining certain management functions but outsourcing other important functions for which the CFC is also being compensated by its clients. This is against the policy rationale of the definition of a foreign business establishment. It is proposed that the tax legislation be clarified such that, to qualify as a foreign business establishment, all important functions for which a CFC is compensated need to be performed by the CFC or by the other company meeting the requirements listed above.

Taxation of non-resident beneficiaries of trusts

The gradual relaxation of exchange control regulations has led to an increase in applications to SARS for confirmation of tax compliance status of a person for purposes of transferring funds offshore via authorised dealers. Government is concerned about the difference between the rules covering the normal tax treatment of income attributed to beneficiaries of trusts in section 25B of the act and the rules covering the tax treatment of capital gains in relation to beneficiaries in paragraph 80 of the Eighth Schedule to the act. Paragraph 80 makes provision for capital gains to be attributed only to beneficiaries who are South African tax residents. The paragraph does not allow for capital gains to flow through to non-resident beneficiaries. Those capital gains for non-resident beneficiaries are taxed in the trusts and the trust is liable for the payment of the tax. Thereafter, distributions can be made to non-resident beneficiaries. In contrast, section 25B does not distinguish between beneficiaries who are and are not South African tax residents. The flow through of amounts from South African tax resident trusts to non-resident beneficiaries makes it difficult for SARS to collect income tax from those non-resident beneficiaries as it is more complicated to enforce recovery actions against non-residents. To address this, it is proposed that changes be made to section 25B to align it with the provisions of paragraph 80.

Refining the participation exemption for the sale of shares in foreign companies

Paragraph 64B of the Eighth Schedule of the act contains a participation exemption relating to the sale of shares in foreign companies and section 10B contains a participation exemption relating to foreign dividends from foreign companies. The main aim of these exemptions is to encourage the repatriation to South Africa of foreign dividends and the proceeds on the sale of shares in foreign companies to non-connected non-residents. Government has identified certain transactions that do not achieve this aim but for which the participation exemption for the sale of shares in foreign companies applies. These transactions include, for example, instances where restructuring of a group of companies entails the sale of shares to recently formed non-resident companies although there is no change in the ultimate shareholders. Government proposes changing the tax legislation to not grant the participation exemption if the sale of shares is to a non-resident company that formed part of the same group of companies as the company disposing of the shares, or the shareholders are substantially the same as the shareholders of any company in the group of companies disposing of the shares.

Refining the participation exemption for the foreign return of capital from a CFC

The participation exemption relating to the sale of shares in foreign companies is subject to certain qualifying requirements. One of these requirements is that the South African tax resident selling the shares in a foreign company should have held those shares for at least 18 months prior to the sale. In 2012, changes were made to the act to extend the participation exemption to apply in respect of the foreign return of capital from a CFC. However, the participation exemption for the foreign return of capital from a CFC does not have a similar 18-month holding requirement. To close this loophole, it is proposed that a similar holding requirement be introduced for the participation exemption in respect of the foreign return of capital from a CFC.

Value-added tax

Reviewing the value-added tax (VAT) treatment of specific supplies in the short-term insurance industry

In 2013, SARS first issued Binding General Ruling 14, which deals with the VAT treatment of specific supplies in the short-term insurance industry. This was updated in 2018 and 2020. In 2019, changes were made to section 72 of the VAT Act (1991), which related to the SARS Commissioner’s discretionary powers over VAT decisions. These changes affected decisions made before 21 July 2019, including Binding General Ruling 14. Government proposes making changes to the VAT Act to clarify the VAT treatment of specific supplies in the short-term insurance industry.

Clarifying the VAT treatment of prepaid vouchers in the telecommunications industry

In the early years of the mobile telecommunications industry in South Africa, subscribers to mobile telecommunication services could use prepaid vouchers only to purchase the services offered by that mobile telecommunication company such as calls and short message services. The evolution of the industry and technological advances have made it possible for prepaid vouchers to also be used for other services provided by third parties where the mobile telecommunication company acts as an agent of that third party – for example, data offerings and mobile money services. The VAT Act does not provide clarity in instances where prepaid vouchers are used for services provided by a third party, the mobile telecommunication company is acting as an agent and/or those third-party-provided services are regarded as exempt supplies or non-taxable supply in the VAT Act. It is proposed that changes be made to the act to provide clarity.

VAT treatment of temporary letting of residential property
Clarifying the meaning of “adjusted cost” relating to temporary letting of residential property

With effect from 1 April 2022, a new section 18D was introduced in the VAT Act to clarify the VAT treatment of temporary letting of residential property. Consequential amendments were made to other sections of the VAT Act including section 10, which deals with how to determine the value of supply of goods and services. At issue is whether the term "adjusted cost" contemplated in section 10(29) of the VAT Act also includes the cost of the land. It is proposed that section 10(29) be clarified in this regard.

Clarifying the rule dealing with recovery of the previous declared output tax

In general, section 18D(5) of the VAT Act makes provision for a vendor that previously made an output tax adjustment under section 18D(2) of the act to reclaim that tax through a deduction under section 16(3)(o) in the tax period after the vendor exits the temporarily applied period of 12 months. However, section 18D(5) (c) refers to a situation in which section 18(1) of the act applies. This creates an anomaly as section 18D(5) (c) can never apply in the given circumstances. To address this anomaly, it is proposed that section 18D(5) (c) of the VAT Act be deleted.

Clarifying VAT rules dealing with documentary requirements for gold exports

The main purpose of gold refineries is to refine and smelt gold or ore received from various customers, namely depositors. In most instances, the refineries also act as agents and sell or export gold on behalf of these depositors. Gold from more than one depositor is typically required to make up the volume ordered for sale or export. When the depositor delivers their gold to the refinery, the refinery issues a sale of gold certificate to the depositor and the value of the gold deposited is determined using that day's morning, afternoon or spot London Bullion Market Association gold price. After the refining or smelting, it is difficult to determine which depositor's gold is sold or exported because the gold loses its original identity during refinery and smelting. As a result, depositors find it difficult to obtain the documentary evidence to support the application of the zero rate on a transaction-by-transaction basis in relation to their gold as contemplated in the regulations issued in terms of section 74(1) of the VAT Act read with paragraph (d) of the definition of "exported" in section 1(1). To address this, it is proposed that changes be made to the VAT Act.

Regulations on the domestic reverse charge relating to valuable metal

Effective from 1 July 2022, government introduced regulations aimed at foreclosing schemes and malpractices to claim undue VAT refunds from SARS by vendors operating in the value chain relating to high-risk goods containing gold. These regulations allowed vendors a transitional period of one month – from 1 July 2022 to 1 August 2022 – to comply with the requirements. This implied that registered vendors must account for and pay VAT for transactions falling within the ambit of the regulations in the August 2022 tax period. It has come to government's attention that the regulations require further clarification in the areas outlined below.

Clarifying the definition of "residue"

Currently, Regulation 1 defines "residue" to mean any debris, discard, tailings, slimes, screening, slurry, waste rock, foundry sand, beneficiation plant waste or ash. At issue is whether this definition relates only to residue as a result of mining operations and does not include residue as a general concept. It is proposed that this be clarified.

Clarifying the definition of “valuable metal”

Currently, Regulation 1 defines “valuable metal” to mean any goods containing gold in the form of jewellery, bars, blank coins, ingots, buttons, wire, plate, granules, or in a solution or residue or similar forms, including any ancillary goods or services. This definition excludes supplies of goods produced from raw materials by any holder as defined in section 1 of the Mineral and Petroleum Resources Development Act (2002) or by any person contracted to such holder to carry on mining operations at the mine where the holder carries on mining operations. It also excludes a supply of goods contemplated in section 11(1)(*f*), (*k*) or (*m*) of the VAT Act. At issue is the fact that some vendors interpret the phrase “any goods containing gold in the form of jewellery, bars, blank coins, ingots, buttons, wire, plate, granules” to mean that the gold component must be in the prescribed forms, as opposed to goods containing gold supplied in the prescribed forms. It is therefore proposed that the policy rationale for the definition be clarified.

Clarifying exclusions from the definition of “valuable metal”

The definition of “valuable metal” excludes supplies of goods produced from raw materials by any holder or by any person contracted to such holder as explained in the preceding proposal. There is uncertainty over the scope of the exclusion relating to holders or persons contracted to holders. It is proposed that the definition be clarified to remove uncertainty and curb possible abuse.

Introducing a de minimis rule in the definition of “valuable metal”

The definition of “valuable metal” does not take into account the gold content and leads to unintended consequences in instances where jewellery or other goods are gold plated with a thin layer of gold. It is proposed that a de minimis rule be introduced in the definition to provide guidance in relation to this type of jewellery or other goods that are gold plated with a thin layer of gold. A de minimis rule refers to the Latin maxim, which means that law does not concern itself with trivialities, for example matters too small or insufficiently meaningful to be taken into consideration.

Aligning the definition of “valuable metal” with the Precious Metals Act (2005)

It is proposed that the definition of “valuable metal” be amended to include gold in the form of a sponge or powder, as these forms are included in the Precious Metals Act.

Clarifying the transitional measures

As noted above, the regulations contained transitional measures allowing vendors one month to ensure that they comply with the requirements. It has come to government’s attention that some vendors do not fully understand the application of the transitional measures. As a result, government proposes amending the regulations to clarify that the transitional measures require registered vendors to account for and pay VAT for transactions falling within the ambit of the regulations in the tax period covering 1 August 2022.

Clarifying the responsibilities of the recipient of valuable metal

In terms of Regulation 3(e), the recipient of valuable metal is required to issue a statement to the supplier within 21 days of the end of the calendar month during which the tax has been accounted and paid for detailing, among other things, the percentage of the gold content within the valuable metal. At issue is the fact that the recipient may not always be in a position to determine this gold content. It is proposed that the regulations be changed to transfer the responsibility for declaring the percentage of the gold content from the recipient to the supplier. This will account for recipients that do not in the ordinary course of business use specialised instruments to measure the gold content in goods, such as computer equipment.

Carbon tax

Extending the utilisation period in the Carbon Offsets Regulations

The Carbon Offsets Regulations, which came into effect on 1 June 2019, make provision for a utilisation period up to 31 December 2022 for carbon offsets from projects under taxable activities. When this utilisation period was included in the regulations, it was aligned with the initial first phase of the carbon tax. In the 2022 Budget, the first phase of the carbon tax was extended by three years from 1 January 2023 to 31 December 2025. It is proposed that the utilisation period also be changed in the Carbon Offsets Regulations to align it with the extension of the first phase of the carbon tax. These amendments will take effect from 1 January 2023.

Aligning the fuel emission factors with methodological guidelines and regulations

In October 2022, the Department of Forestry, Fisheries and the Environment gazetted amended methodological guidelines for quantifying greenhouse gas emissions. The amendments include updated carbon dioxide emission factors for domestic (tier 2) emissions reporting for existing fuel types and added fuel types. The updated emission factors will take effect for the department's 2023 reporting period, covering emissions during 2022. To align the Carbon Tax Act (2019) with these guidelines, it is proposed that a new table be inserted into schedule 1 of the act to provide the tier 2 emission factors. Further changes to the emission factors may be added to the Tax Laws Amendments Act (2023) if the department publishes further updates. The amendments will take effect from 1 January 2023.

Table C.5 : Emission factors to be added in schedule 1 for country-specific tier 2 carbon dioxide reporting (stationary and non-stationary emission categories)

Type of change	Fuel Type	CO2 EF (kgCO2/TJ)	Net Calorific Value (NCV)	NCV unit	Net Calorific Value (TJ/Tonne)	Density (kg/l)
New Tier 2 Emission Factors	Aviation Gasoline	65,752	NU	NU	NU	0.714
	Diesel	74,638	35.5	MJ/l	0.0355	0.8255
	Heavy Fuel Oil	73,090	NU	NU	NU	0.994
	Jet Kerosene	73,463	34.4	MJ/l	0.0344	0.794
	LPG	64,852	46.29	MJ/kg	0.04629	NU
	Paraffin	64,640	NU	NU	NU	0.765
	Petrol	72,430	32.5	MJ/l	0.0325	0.7405
New fuel type	Refuse Derived Fuel	83,000	23.8	MJ/kg	0.0238	-
	Sawdust	110,000	14.6	MJ/kg	0.0146	-
	Waste Tyres	85,000	33.7	MJ/kg	0.0337	-

**'NU' denotes that the value was not updated*

Adjusting the formula for fugitive emission factors

Section 4(2) of the Carbon Tax Act provides the formulas to be used to calculate total greenhouse gas emissions. In 2019, changes were made to the formula for fugitive emissions to provide for converting the unit of the emission factors for the different greenhouse gases from volume to mass by multiplying by a density factor, followed by multiplying by 1 000 to convert to tonnes. This is accurate for some Intergovernmental Panel on Climate Change code activities but not all, depending on the units of measurement in which the emission factors are expressed. It is proposed that the formula be changed to only multiply certain emission factors by 1 000.

Customs and excise duty

Specifying conditions for deferment of duties

Standard 4.15 of the General Annex of the Revised Kyoto Convention provides that "[w]here national legislation provides for the deferred payment of duties and taxes, it shall specify the conditions under which such facility is allowed." It is proposed that the SARS Commissioner be enabled to prescribe conditions under which deferment of duties will be allowed by rules.

Single window for advance passenger information and passenger number record data

Following an assessment of South Africa's approach to collecting advance passenger information (API) and passenger name record (PNR) data, it is proposed that a single window be established to collect API and PNR data. As the Department of Home Affairs is responsible for the collection of such data, carriers will be allowed to submit the required data to the Department of Home Affairs, which will distribute the information to other relevant government entities such as SARS. An amendment is also proposed to ensure the protection of personal information in this regard.

Traveller management system

SARS is implementing a modern online traveller management system, which has been piloted on a voluntary basis at King Shaka International Airport since November 2022. The system is aimed at strengthening SARS's capability to facilitate legitimate traveller movements, providing travellers with clarity and certainty regarding their obligations, easing compliance, detecting non-compliance and improving enforcement of legislation by SARS and other agencies. It is proposed that the Customs and Excise Act be amended to provide for the declaration of the required information before arrival in or departure from South Africa.

Amending the processes and procedure for provisional payments

There are currently no provisions in the act relating to the liquidation of provisional payments that serve as security in certain circumstances and that are not claimed back by the trader. Government proposes amending the act to enhance the current processes and procedure for such payments below a specified amount or that remain unliquidated after a specified period and to introduce a prescription period for unclaimed amounts.

Tax administration

Aligning tax registration requirements for non-resident employers

It has been noted that non-resident employers may not have representative employers in South Africa for purposes of employees tax. They are, as a result, not liable to deduct or withhold tax from the remuneration that is paid to their employees who render services in South Africa. Nevertheless, given that they pay remuneration, they are required to register with SARS as employers. They are liable for skills development levies and unemployment insurance contributions, which many pay. It is proposed that the various provisions be aligned to ensure consistency.

Varying employees' tax withholding in respect of remuneration

The Fourth Schedule to the Income Tax Act allows employers to request a variation in employees' tax withholding to take into account foreign taxes paid. However, such a variation does not apply to remuneration arising from share options and similar schemes. This could result in cash flow implications for the affected employees, as they will only be entitled to claim a foreign tax credit when they complete their annual tax returns. It is proposed that SARS be empowered to vary the basis for withholding under these circumstances.

Expanding the general disclosure provisions for section 18A approved organisations

In terms of the Tax Administration Act (2011), SARS may disclose a list of public benefit organisations approved in terms of sections 18A and 30 of the Income Tax Act. As a broader range of entities than public benefit organisations may be granted approval to issue receipts for tax-deductible donations in terms of section 18A, it is proposed that SARS be explicitly empowered to disclose all entities with a section 18A approval.

Extending the time period to submit a return where taxpayers disagree with an auto-assessment

SARS may make an assessment based on an estimate where a taxpayer does not submit a return. The taxpayer may, within 40 days from the date of the assessment, request SARS to make a reduced or additional assessment by submitting a true and full return. It is proposed that SARS be empowered to extend the period within which the taxpayer is required to submit their request to SARS by public notice. This will allow the deadline for the request to be aligned with the end of the filing season for non-provisional taxpayers.

Aligning with anti-money laundering and combating the financing of terrorism developments

Amendments are proposed to align with the National Strategy on Anti-Money Laundering, Counter Financing of Terrorism and Counter Financing of Proliferation, achieve consistency with the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022) and take account of other developments related to the Financial Action Task Force.

TECHNICAL CORRECTIONS

In addition to the amendments described above, the 2023 tax legislation will make various technical corrections, which mainly cover inconsequential items – typing errors, grammar, punctuation, numbering, incorrect cross-references, updating and removing obsolete provisions, removing superfluous text, and incorporating regulations and commonly accepted interpretations into formal law. Technical corrections also include changes to effective dates and the proper coordination of transitional tax changes.

Other technical corrections relate to modifications following the implementation of the tax law. Although tax amendments go through an intensive comment and review process, new issues arise once the law is applied (including obvious omissions and ambiguities). These issues typically arise when tax returns are prepared for the first time after the tax legislation is applied. These technical corrections are limited to recent legislative amendments.

D

2023 BUDGET REVIEW

PUBLIC-SECTOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PUBLIC-SECTOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

INTRODUCTION

This annexure reviews planned public infrastructure spending and associated reforms and provides an update on the status of major capital projects.

The economic recovery plan announced in October 2020 links infrastructure investment and related institutional reforms to support higher economic growth. Government is working on several reforms to strengthen public investment management and the associated value chain. Many of these involve pooling resources with the private sector in blended finance initiatives aimed at funding and implementing infrastructure projects more effectively. The reforms include improving the operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting (including on contingent liabilities), improving the public-private partnership (PPP) regulatory framework, and building a strong project pipeline. A comprehensive project pipeline appears at the end of the annexure.

The difference between public-sector infrastructure, PPPs and blended finance projects

A PPP is defined as a contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public sector and/or uses state property by agreement. Most of the project risk (technical, financial and operational) is transferred to the private party. The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments. In instances where the public sector asset has the potential to raise revenue – such as a toll road or a rail link – the private party would be responsible for these services through a user-pays PPP. In a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery.

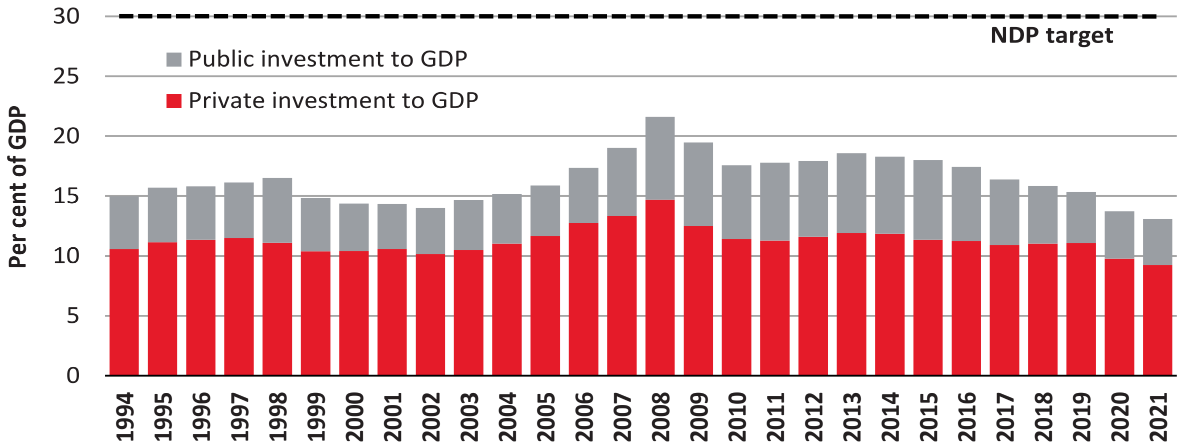
In this annexure, blending is defined as the strategic use of limited funds from the fiscus to mobilise financing from multilateral institutions, development finance institutions and the private sector to enhance the development impact of infrastructure.

TRENDS IN PUBLIC- AND PRIVATE-SECTOR INVESTMENT

To grow the economy and reduce unemployment and poverty, capital investment by the public and private sectors, which amounted to 13.1 per cent of GDP in 2021, needs to significantly increase. Over the past decade, weak growth, rising spending pressures, inefficient delivery and the financial support provided to state-owned companies have constrained government’s ability to invest in new infrastructure. Private-sector investment has also fallen for a variety of reasons. As a result, total capital investment has been adversely affected.

Between 2011 and 2021, public-sector capital investment averaged 5.6 per cent of GDP, while private capital investment averaged 11 per cent of GDP (Figure D.1). Total investment is well below the National Development Plan target of 30 per cent – and has been declining since 2015. To reach this target, public-sector investment in infrastructure would need to grow from 3.8 per cent of GDP in 2021 to 10 per cent of GDP by 2030, while private-sector investment would need to grow from 9.3 per cent of GDP in 2021 to 20 per cent in 2030. Moreover, poor value for money has tended to characterise many public investment projects, illustrating weaknesses in planning, procurement, construction and operational management of projects.

Figure D.1 Public- and private-sector capital investment as a share of GDP, 1994–2021*



**All GDP data in this annexure is recalculated in line with Statistics South Africa's 2021 rebasing and benchmarking exercise. It is therefore not directly comparable with GDP data from earlier budget documentation.*

Source: Reserve Bank

PUBLIC-SECTOR INFRASTRUCTURE SPENDING HIGHLIGHTS

Table D.1 summarises government's infrastructure spending plans for the next three years, combining infrastructure spending estimates at national, provincial and local government level, including state-owned companies and other public entities. 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.

Public housing built through the *human settlements development grant* in provinces is expected to total R45.9 billion. Although these assets are transferred to homeowners, this spending is a substantial government contribution to the built environment. Spending on economic infrastructure, mainly by state-owned companies, accounts for 78.3 per cent of the medium-term estimate. These funds are used to expand power-generation capacity, upgrade and expand the transport network, and improve sanitation and water services. Social services infrastructure accounts for 17.6 per cent of the total, with the two largest sectors, health and education, contributing 5 per cent and 7 per cent respectively.

To help close the gap between available public resources and the growing infrastructure need, government's economic recovery plan includes immediate measures to boost investor confidence and longer-term reforms to promote sustained economic growth. Higher and more effective infrastructure spending is central to this plan.

Table D.1 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

SECTOR UPDATES

Water and sanitation

In the water sector, government is prioritising 11 strategic projects with an estimated value of R115 billion. The projects are expected to create about 20 000 jobs during construction and 14 000 jobs during operation.

The second phase of the Lesotho Highlands Water Project, which has an estimated capital investment of R39.3 billion, is expected to be completed in 2028. The Trans-Caledon Tunnel Authority (TCTA) has raised about R15 billion from the Development Bank of Southern Africa, the African Development Bank and the New Development Bank to continue construction on the project. The two main construction tenders (the Polihali Dam and transfer tunnel from Polihali to Katse Dam) were awarded in October 2022 and construction is under way.

The TCTA will continue implementing the Berg River-Voëlvlei Augmentation Scheme and phase 2 of the Mokolo-Crocodile River water augmentation project. The Berg River-Voëlvlei Augmentation Scheme has an estimated capital investment of R1.1 billion and is expected to be completed in 2026. Its long-term funding is contingent on the conclusion of water supply agreements with water user associations. The Mokolo-Crocodile River project has an estimated capital investment of R12.3 billion and is expected to be completed in 2028.

Funding is being raised through development financing institutions and the open market. Construction will take place after negotiations with the preferred funders.

The uMkhomazi water project has an estimated capital investment of R23.2 billion and is expected to be completed in 2029. The environmental authorisations for the Smithfield Dam and bulk raw water conveyance infrastructure are in place. The National Treasury approved a funding request through the Budget Facility for Infrastructure (BFI) and negotiations over the institutional arrangements and water supply agreements are in progress.

Energy

Three energy projects have been gazetted: the Risk Mitigation Power Purchase Procurement Programme, the Small Independent Power Producer Programme and the Embedded Generation Investment Programme. Private-sector investors will provide the investment capital. As outlined in the 2022 Budget, the programmes aim to alleviate the current electricity supply constraints, support economic recovery, reduce the use of diesel-based peaking electrical generators and support broad-based black economic empowerment.

The Risk Mitigation Power Purchase Procurement Programme – sponsored through the Department of Mineral Resources and Energy and implemented through the Independent Power Producers Office – involves the development, installation and operation of up to 1 996 megawatts (MW) of dispatchable new generation capacity and an investment of about R40 billion. The first three projects reached commercial close in July 2022 and are expected to be operational in November 2024. The remaining eight projects are expected to reach financial close by July 2023 and to start operating between March 2024 and March 2025.

The fifth bid window of the Renewable Energy Independent Power Producer Procurement Programme for 1 600 MW of onshore wind and 1 000 MW of solar photovoltaic (PV) power was launched in April 2021. Twenty-five preferred bidders were announced in October 2021, with projects totalling 2 583 MW in generation capacity and an investment of about R50 billion. Three of these projects have reached commercial close, while a further 16 projects are scheduled to close by the end of March 2023, after which they will move to implementation.

The sixth bid window was launched in April 2022 for 2 400 MW, and was subsequently increased to 4 200 MW. It resulted in the procurement of 1 000 MW of solar PV from six preferred bidders. These projects are scheduled for commercial close by the end of May 2023 and they are expected to be operational by May 2025. The total investment associated with these projects is about R15 billion. Grid constraints prevented the allocation of any wind projects. A request for proposals for the seventh bid window will be issued in the first half of 2023/24, subject to grid availability.

The Embedded Generation Investment Programme involves the development, installation and operation of solar PV and wind generation projects through subordinated loans and broad-based black economic empowerment funding. The Development Bank of Southern Africa is considering various project proposals. To date, 200 MW of solar PV projects located in the Western Cape and KwaZulu-Natal have been approved under the programme. An additional nine projects are at the due diligence stage and forecast to reach financial close in 2023/24.

Transport and logistics

The transport sector gazetted 16 strategic integrated projects in 2020. The South African National Roads Agency Limited is improving the capacity of several routes on toll and non-toll networks. Eleven projects with a combined value of about R20 billion have been prioritised and will create nearly 10 000 jobs during construction. Six projects to the value of R20 billion are under construction, including the N3 Cato Ridge to Dardanelles, N3 Dardanelles to Lynnfield Park, N3 Ashburton to Murray Road, N2 EB Cloete Interchange, N2 Mtentu Bridge and N2 Msikaba Bridge.

The Small Harbours Programme seeks to revitalise 13 proclaimed fishing harbours in the Western Cape. The repair and maintenance programme completed in March 2022 created 925 jobs and supported local small, medium and micro enterprises to the value of R116 million. Development studies for Port Nolloth, Port St Johns and Port Edward are being undertaken.

Project Ukuvuselela, the Gauteng–Eastern Cape high-capacity rail corridor for automotive volumes, was gazetted in December 2022 and is in the feasibility stage. The project entails upgrading the rail line from Pyramid Logistics Park in Gauteng to Gqeberha in the Eastern Cape.

Digital infrastructure

The digital infrastructure sector has four strategic integrated projects: the Space Infrastructure Hub, the digitisation of government records, SA Connect Phase 1, and the MeerKAT and Square Kilometre Array (SKA) project.

The national space infrastructure hub is a R4.4 billion project by the South African National Space Agency. It aims to decrease South Africa's reliance on international data on earth observation and global positioning system services and increase the availability and use of earth observation data.

There has been significant progress in the MeerKAT expansion project, which increased the MeerKAT radio telescope from a 64- to an 84-dish array and the virtual baseline diameter from 8 kilometres to 17 kilometres. This expansion will increase the telescope's sensitivity and imaging capabilities and survey speed. The SKA radio telescope has officially entered the construction phase. This will result in job creation and a significant positive impact on the economy of the Northern Cape. The first SKA array dishes are expected to be completed in the first quarter of 2025.

Government is digitising paper records to improve their storage and management. Digital records will allow government to analyse data and gain new insight, ultimately improving the delivery of public services. The Department of Home Affairs aims to digitise and index 350 million records dating back to 1895, including records on birth, marriages, deaths and amendments, and related supporting documents over three years. The programme is expected to create 10 000 jobs over three phases.

Agriculture and agro-processing

This sector is highly dependent on sound transport infrastructure, ports (water and airports), grain storage, long-established cold chain facilities, and well-developed financial services. The sector experiences challenges in accessing funding to develop bankable and properly packaged business cases that can attract domestic and foreign investment.

In 2022, the Department of Agriculture, Land Reform and Rural Development received a R9.9 million grant from the Middle-Income Country Technical Assistance Fund to prepare feasibility studies to attract finance for development of the Springbokpan and Tshiame Agri-Parks. These pilot studies will be used to champion the revitalisation of the Rural Infrastructure Agri-Parks Programme.

Human settlements

Human settlements projects include six integrated residential development programmes, nine social housing projects and two high-impact privately led developments. These 17 projects, which were gazetted as strategic integrated projects, have a total investment value of R143 billion and will provide housing for over 150 000 people. They are projected to create more than 285 000 jobs during development.

In December 2022, the National Social Housing Programme was added to the strategic integrated projects. The programme includes six social housing projects as part of the Social Housing Regulatory Authority project pipeline targeted at developing 3 349 housing opportunities at an estimated cost of R1.3 billion.

To fund the large-scale bulk infrastructure required for housing, government is exploring alternative blended finance models. Pressure on the fiscus has also resulted in a shift towards leveraging existing grant funding and optimising the private sector’s participation. The Infrastructure Fund and the City of Johannesburg received R2 billion from the BFI, which will be provided in tranches of R385 million in 2023/24, R654 million in 2024/25 and R963 million in 2025/26. Additional details are provided under the Infrastructure Fund section.

PUBLIC-SECTOR INFRASTRUCTURE REFORMS

The National Treasury, the Department of Public Works and Infrastructure (DPWI), Infrastructure South Africa and the Infrastructure Fund are undertaking complementary reforms to strengthen the infrastructure value chain. Initiatives include the National Infrastructure Plan 2050, the BFI and the Infrastructure Fund. The DPWI is developing a comprehensive, focused infrastructure plan; Infrastructure South Africa is working to unblock policy and regulatory obstacles to build a credible and bankable pipeline of projects; the BFI is increasing the rigour in the planning and appraisal of projects; and the Infrastructure Fund is increasing skills and capacity in the structuring of blended finance projects, where most of the financing will come from the private sector.

Department of Public Works and Infrastructure

Infrastructure South Africa, housed within the DPWI, is responsible for coordinating the development, management and monitoring of a comprehensive infrastructure pipeline, and promoting infrastructure investment, with a focus on very large projects. Part of its work involves unblocking policy and regulatory obstacles to investment and facilitating policy certainty to build investor confidence.

Infrastructure South Africa developed the National Infrastructure Plan 2050. This plan supports the implementation of government's strategic integrated projects to improve economic growth and service delivery. Phase 1 of this plan, which was approved by Cabinet in March 2022, focuses on bulk infrastructure related to energy, water, freight transport and telecommunications. It also strengthens institutional capabilities for delivery, infrastructure financing and the revitalisation of the construction sector. Phase 2 focuses on distributed infrastructure, or interconnected networks, in the major economic sectors of human settlements; municipal electricity, water, sanitation and solid waste; transport; education; and health. There are three cross-cutting sections focusing on digital infrastructure, crime and corruption, and governance of distributed infrastructure delivery. Following public consultation, this phase will be presented for Cabinet approval in March 2023.

Budget Facility for Infrastructure

The BFI is a multi-disciplinary facility that brings together various expertise across government to make recommendations on the technical feasibility and readiness of infrastructure projects. The BFI supports quality public investments by improving the planning, technical assessment, budgeting and execution of large infrastructure projects. The facility has helped build a pipeline of projects that have undergone rigorous technical analysis and ensures that the budgeting and commitment of fiscal resources take place in a transparent manner. Since inception, there have been six BFI windows to support large infrastructure projects.

The facility considers the deployment of blended or hybrid financial solutions comprising a combination of grants, debt and equity sources from public and private institutions, and concessional loans from multilateral development banks. Blended finance projects that need fiscal support are linked to the budget process through the BFI. The budget process ensures the selection of projects that balance boosting economic development, job creation and private-sector investment with the country's debt-constrained fiscal position.

The sixth window of the BFI has shown that public institutions have built capacity over time to contribute to a strong pipeline of projects that are ready for funding. Through the BFI processes, R2.5 billion was approved for project funding in the 2022 adjustment budget process, while R24 billion was approved in the 2023 MTEF period.

The approved projects and programmes include the Avoca Node development, Lufhereng Mixed Use Development, Drakenstein Local Municipality Sanitation Infrastructure Project, uMkhomazi Water Project – Raw Water Component, Sol Plaatje Local Municipality Integrated Bulk Supply System Intervention, Gauteng Schools Programme, Space Infrastructure Hub, SKA Observatory and SA Connect Phase 2. Some projects, such as Moretele North Klipvoor Bulk Water Supply and

Pilanesberg Bulk Water Supply Scheme: Phase 2, submitted through the Infrastructure Fund and approved for funding, are blended finance projects which are crowding in private-sector capital.

Currently, infrastructure allocations in the MTEF period are only visible and assured for a three-year period. From a risk allocation perspective, fiscal support to a blended finance project should ideally be transparent and assured over the project life cycle. Through the BFI process, a multi-year appropriation mechanism is being considered which can be added as a multi-year appropriation schedule in the budget documents.

Supporting resilient infrastructure investments

The National Treasury recognises the risks from climate change and is working with partners to ensure that infrastructure investments are climate-resilient. It supports metros to strengthen climate resilience in the design and preparation, packaging and financing of some of their projects. These projects include renewable and alternative sources of energy storage in Buffalo City and Johannesburg, integrated waste management in eThekwini and flood management and river rehabilitation in Cape Town, Ekurhuleni, Tshwane and Mangaung. The technical assistance provided has highlighted lessons and opportunities for leveraging private investment in these types of projects.

While fiscal resources for capital projects are limited, there are established and emerging sources of concessional and private funding as well as advisory support that metros can tap into for these projects. This experience is shaping ongoing reforms that guide land development policies, infrastructure project delivery and partnerships with the private sector, including the recently reviewed municipal PPP framework.

Improving transparency on infrastructure delivery and reporting

The National Treasury extended the scope of the infrastructure reporting model from April 2021 to include national government. The model aims to enhance transparency and uniformity on infrastructure budget analysis and spending reviews across the spheres of government. To improve consolidation of reporting on project details for national government, infrastructure data is being collated. The National Treasury will start in-depth monitoring and analysis of capital expenditure for national government from 1 April 2023. Support measures such as training are available to assist government in improving data collection and reporting.

In addition, the local government component of the infrastructure reporting model is being tested. By the end of 2024, the model is expected to be fully functional to reflect project information for capital budgets for the three spheres of government and across sectors.

Infrastructure Fund

The Infrastructure Fund's role is to maximise the cost-effective participation of private-sector investors in government projects while facilitating early financial closure. The fund has been operating for two years and is now fully capacitated to develop blended financing solutions with government and the private sector. Since inception, the fund has helped to package and approve 13 blended finance projects and programmes to the value of R48.8 billion. These projects are summarised in Table D.2 and discussed in more detail below. The BFI approved R21.7 billion, or 44.4 per cent of aggregated capital costs, for the 13 projects. In addition, the Infrastructure Fund has developed bridging loan facilities for the social housing programme to address the lack of available financing in the market and a concessional loan facility for the flagship uMkhomazi water project to enhance its viability and sustainability.

Table D.2 shows the combined fiscal resources of R28.4 billion approved through the BFI and other grants for these projects. To complement these resources, the Infrastructure Fund is working with project sponsors to ensure that all projects can attract private financing from financiers such as development finance institutions, commercial banks, institutional investors and multilateral development banks.

Flowing from the PPP review discussed below, government is expediting the reforms required to create a centre of excellence. This centre will, as part of its mandate, enable the Infrastructure Fund to crowd in private-sector investment. The National Treasury is reviewing the institutional arrangements for the Infrastructure Fund to ensure it can effectively deliver its mandate.

The human settlements projects listed in Table D.2 account for about R9.1 billion and are expected to provide about 35 496 units. The Hospital Street and Goodwood Station social housing projects and the Lufhereng mixed-use development programme are under construction. The social housing projects target low-income households with incomes ranging from R1 850 to R22 000 per month. The broader Lufhereng programme will lead to further investments in the area: government supported R3.4 billion in bulk infrastructure development to complement R4.3 billion from the City of Johannesburg. Together, this funding is expected to unlock up to R18.3 billion in human settlement developments and ancillary social and commercial facilities.

The student accommodation projects will cost R3 billion and deliver an estimated 9 500 beds when completed. They await ministerial approvals and the resolution of intergovernmental challenges before they can begin.

Table D.2 Other major public-sector infrastructure projects

Sector	Project name	Quantity[1]	Capital costs (R million)	Approved BFI (R million)	Private-sector funding (R million)	Other grants/ equity (R million)	Progress to date
Human settlements	Hospital Street Social Housing Project	1 056	388	82	–	306	Construction
Human settlements	Goodwood Station Social Housing Project	1 055	457	121	–	336	Construction
Human settlements	Midrand Heights Social Housing Project	305	163	82	–	81	Due diligence
Human settlements	Greenfields Estate (Mohlakeng x16) Social Housing Project	1 080	416	20	–	396	Due diligence
Human settlements	Lufhereng Mixed Use Development Project	11 000	7 700	3 400	2 150	2 150	Construction
Water and sanitation	Phase 1: Olifantspoort and Ebenezer Water Supply Programme	20 075	4 600	1 400	2 000	1 200	Procurement
Water and sanitation	Phase 1: uMkhomazi Water Augmentation Project	300 000	24 000	12 000	12 000	–	Procurement
Water and sanitation	Moretele North Klipvoor Bulk Water Supply Scheme	15 330	5 200	1 900	2 600	700	Procurement
Water and sanitation	Pilanesberg Bulk Water Supply Scheme	45 990	2 900	1 800	1 100	–	Procurement
Student housing	Tshwane University of Technology	3 500	1 089	338	210	541	Awaiting ministerial approval
Student housing	University of KwaZulu-Natal	3 000	973	200	188	585	Awaiting council approval
Student housing	Gert Sibande TVET College	1 500	504	188	109	207	Awaiting ministerial approval
Student housing	Majuba TVET College	1 500	477	174	103	200	Awaiting ministerial approval
All sectors	**Total**		**48 866**	**21 705**	**20 460**	**6 701**	

1. The quantity for human settlements and student accommodation is in units, while the quantity for water and sanitation is in megalitres per annum

Source: Infrastructure Fund Unit and Project Preparation Division

PUBLIC-PRIVATE PARTNERSHIPS

Implementing recommendations from the PPP review

As outlined in the 2022 Budget, the National Treasury is implementing recommendations from a comprehensive review of the PPP regulatory framework applicable to the three spheres of government. The changes are expected to enhance application and practice, which in turn will support higher confidence and investment in PPPs.

Implementation began in 2022 and will continue over the next year. The recommendations require changes to National Treasury Regulation 16 and Municipal Regulation 309, which govern PPPs. To guide the scope of work, an implementation plan has been formulated with workstreams covering each of the reform areas. The workstreams have been prioritised by importance and urgency, with implementation timeframes ranging from 0 to 6 months up to 12 months. In the coming year, progressive implementation of the following workstreams will continue:

- **Policy framework:** An overarching policy that mainstreams PPPs in a fiscally prudent manner and defines the PPP ecosystem, including a conducive environment, will be formulated. In tandem, a policy on unsolicited proposals will be developed.
- **PPP legal and regulatory framework:** The procurement process of PPPs will be simplified and expedited through legislative changes. The new Public Procurement Bill is expected to be tabled in Parliament in March 2023 once all other legislative processes are finalised. Once enacted, it will enable the repeal of National Treasury Regulation 16 and Municipal Regulation 309. Simplifying the procurement processes, while retaining the National Treasury's role of assessing affordability and value for money will result in an improved pipeline of PPP projects.
- To manage the fiscal risk and contingent liabilities related to PPPs, the new PPP regulations will enable the National Treasury to set up two frameworks for PPPs – one for high value projects and a simplified version for low value (below R1 billion) projects. These will be accompanied by the development of sectoral regulatory frameworks where needed, initially focusing on key sectors such as energy, water and transport.
- **Strengthening institutional arrangements:** The concept documents on transforming the PPP unit and the Infrastructure Fund at the Development Bank of Southern Africa into a centre of excellence are being finalised, with implementation steps to follow. The centre of excellence will assist institutions with capacity, skills and documentation, enabling them to access and learn from standardised template documents based on knowledge acquired from previous feasibility studies, procurement documentation and PPP agreements. This should reduce the time it takes for a PPP project to reach financial closure.
- A dedicated regulatory unit for PPPs is being established in the National Treasury. This will enable the National Treasury to fast-track the provision of legislated approvals for national and provincial departments, and views and recommendations for municipalities.
- **Improving the quantification of fiscal risks and contingent liabilities:** A framework will be put in place to assess fiscal risks, manage contingent liabilities and report on PPPs and blended projects.
- **Financial support mechanisms:** To bridge the affordability gap for PPP projects, financial support mechanisms through the BFI will be considered with further assessments on fiscal affordability through the budgeting process.

Implementing recommendations for the municipal PPP framework

The 2022 Budget also included recommendations from the review relating to municipal PPPs. These recommendations included amending the Municipal Systems Act (2000) and the Municipal Finance Management Act (2003) to streamline and simplify consultation requirements, and issuing directives to improve guidance and clarity for priority use cases.

To facilitate the implementation of municipal recommendations, the following actions will be prioritised over the next 12 months.

Amendments to the legal and regulatory framework

Once enacted, the Public Procurement Bill will trigger the review of regulations falling under the abovementioned legislation to streamline and simplify consultation requirements.

Issuing directives

Pending changes to legislation, directives will be issued to guide interpretation of the application of "external mechanism" in section 78 of the Municipal Systems Act in the event of priority use cases and clarify the application and interpretation of other relevant legislative provisions and regulations per priority use case. The priority use cases include build-operate-transfer contracts for water reuse, wastewater treatment and desalination; embedded energy generation from rooftop solar, both photovoltaics and water heating; and municipal power purchase agreements for the supply of renewable energy.

Providing dedicated support to procuring institutions

The National Treasury will facilitate the establishment of a municipal PPP championing body to proactively facilitate a municipal PPP project pipeline. It will also develop standard documents and templates for the implementation of priority programmes.

CONTINGENT LIABILITIES

Government incurs contingent liabilities if the contingency is likely to occur and the amount of the liability can be reasonably estimated. Most national and provincial PPPs are guaranteed by the Minister of Finance and create a contingent liability. The materialisation of such liabilities – and their costs – can have a significant impact on institutions' budgets. It is important to disclose all contingent liabilities as they can affect the public finances.

The National Treasury uses a four-stage approval process to ensure that contingent liabilities arising from contracts are acceptable and monitors these liabilities on an ongoing basis.

There are various categories of contingent liabilities, depending on whether the termination is the result of private-sector default, government default or *force majeure* – an event beyond the party's control. Compensation depends on the reason the contract ended, but termination due to government default usually results in the greatest compensation. Table D.3 shows potential termination amounts for national and provincial departments and public entities. Total contingent liabilities amount to R15.8 billion for 2022/23.

Table D.3 Public-sector infrastructure expenditure and estimates

R million	Termination for private party		Termination for force majeure		Termination for government default	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
National departments' exposure	2 580.3	2 880.9	3 400.5	3 262.3	3 893.0	3 882.9
Provincial departments' exposure	1 773.6	1 030.9	805.7	687.7	3 629.3	3 307.0
Public entities' exposure	300.4	255.4	254.8	216.5	377.3	320.7
Total	**4 654.3**	**4 167.2**	**4 461.0**	**4 166.5**	**7 899.6**	**7 510.6**

1. Municipalities are an autonomous sphere of government so their liabilities are not part of the fiscus
Source: National Treasury

Estimated contingent liabilities for PPPs that are likely to accrue to government if contracts are terminated due to government default have decreased from R7.9 billion in 2021/22 to R7.5 billion in 2022/23. This decline was expected as government continues to pay off debt and equity owed to the private sector and as contract terms of PPP projects end. National departments account for the greatest exposure, amounting to R3.9 billion in 2022/23. Head office accommodation projects and the Gautrain Rapid Rail Link project are the biggest contributors to government's exposure to contingent liabilities. Government manages the risk emanating from PPP contingent liabilities by closely monitoring each party's performance against their contractual obligations and enforcing regulatory requirements.

Improving the quantification of fiscal risks and contingent liabilities

Since the onset of COVID-19, projects reliant on steady growth in their business models, particularly in the tourism and transport sectors, have experienced steep revenue reductions, causing the responsible department or private partner involved to seek financial assistance from national government. This has highlighted the need for the National Treasury to better understand and manage fiscal risks in externally financed public projects. Identifying, assessing, managing and reporting fiscal risks and contingent liabilities have become critically important for both designing new project financing methods and monitoring and reporting on the existing portfolio.

In 2023/24, the National Treasury will issue a guidance note and a standard reporting template for fiscal commitments and contingent liabilities to help public institutions report on their PPPs. It will roll out training on how to use these tools.

MAJOR CAPITAL PROJECTS

Infrastructure Fund project pipeline

Table D.4 outlines potential blended finance projects under consideration for the Infrastructure Fund pipeline. These include building the Lanseria wastewater treatment works, building the Ngqura manganese export terminal, expanding Cape Town's container terminal and building the student housing infrastructure programme (Cluster 1 and 3). Overall, the pipeline has a consolidated capital cost of R83.6 billion.

Table D.4 Projects at advanced stages of preparation

Project name	Project description	Estimate of potential total investment (R million)	Progress to date
Lanseria Wastewater Treatment Works	The project entails the planning, design and implementation of the Lanseria wastewater treatment works and associated bulk outfall sewer. The objective is to construct and commission a module of 50 megalitres/day (Ml/d) as part of a programme to deliver 150 Ml/day	3 400	Feasibility studies completed
Olifants Management Model Programme	Development of raw water and potable water pipelines in five phases to deliver 250 Ml/d. The project will benefit municipalities, industries and mines	24 900	Phases 2B and 2B+ have completed project preparation activities. BFI application is being packaged for the social component. Other phases are under preparation
One-Stop Border Posts	To modernise border post infrastructure to ensure efficient movement of goods and people through six inland border posts	9 100	Feasibility studies completed. Supplementary studies under way. The request for proposal was submitted in March 2022 and resubmitted in December 2022
Ngqura Manganese Export Terminal Project	Development of a world-class 16 million ton per annum (mtpa) manganese export facility at the port of Ngqura to complement 6mtpa from port of Saldanha to cater for projected demand of 22mtpa	10 000	Feasibility studies completed
Cape Town Container Terminal Expansion Project	Phase 2 was to increase the landside terminal capacity to 1.4 million twenty-foot equivalent units (TEUs) per annum, to match the "waterside" capacity. Part of the Phase 2 work was completed in 2009. This increased the landside terminal capacity from 800 000 to 1 million TEUs and was grouped as Phase 2A of the project	1 800	Feasibility studies completed
Student Housing Infrastructure Programme (Cluster 1 and 3)	The programme seeks to ensure that housing is developed into an attractive and reliable asset class for potential investors and to attract greater sources of financing into this market	5 200	Feasibility studies completed. Resolving legal arrangements with Department of Higher Education and Training

Source: Infrastructure Fund Unit and Project Preparation Division

Table D.4 Projects at advanced stages of preparation *(continued)*

Project name	Project description	Estimate of potential total investment (R million)	Progress to date
eThekwini Avoca Node Phase 2	The programme is located on a 350-hectare site in the northern corridor of the KwaZulu-Natal metro. It consists of the Brickworks, Northfield, and Caneridge developments and will provide for industrial and social housing needs	12 000	Advanced project preparation
Leeuwpoort Integrated Human Settlements Project	The project is in a 1 300-hectare site with a variety of land uses including mixed-income residential, industrial, commercial, open space, education and other amenities. It is in Ekurhuleni across three sub-township extensions: Rieger Park, Park Dene and Sunward Park	15 600	Advanced project preparation
Six water and sanitation projects	To improve the integrity of the bulk water and sanitation infrastructure in selected priority district municipalities, to improve supply reliability	1 600	Feasibility studies being completed
Total		**83 600**	

Source: Infrastructure Fund Unit and Project Preparation Division

Pipeline of other major public-sector projects

Table D.5 summarises other major public infrastructure projects, some of which are public-private partnerships.

Table D.5 Other major public-sector infrastructure projects

Project name	Project stage	Project description	Estimated project cost
Salvakop Precinct PPP Project	Feasibility	Collaborative project between the three spheres of government to build four government headquarters, commercial buildings and a shelter for the vulnerable	R18 billion
Gauteng Schools PPP Programme	Feasibility	Construction, expansion, refurbishment and facilities management of 64 schools in Gauteng	R4.7 billion
Inkosi Albert Luthuli Central Hospital PPP Project	Procurement	Design, construction, operation and provision of ICT equipment	R10.4 billion
Renewable Energy for Public Buildings	Procurement	Procurement of renewable energy and energy efficiency for public buildings	R55 billion
Kopanong Precinct PPP Project	Procurement	Construction of Gauteng Provincial Government office to consolidate administration function of 19 buildings in the Johannesburg CBD	R6.5 billion
Rural Bridges Programme	Feasibility	Construction of rural bridges invarious parts of the country	R7.8 billion
KwaMashu Wastewater Treatment Works	Feasibility	Design, finance, build and operate wastewater treatment works in KwaMashu, eThekwini Municipality	R1.2 billion
City of Cape Town Water Desalination	Feasibility	Desalination of sea water for bulk and reticulation	R2.5 billion
Comprehensive Urban Management Programme	Feasibility	Improvement and maintenance of public spaces in various cities and towns to promote economic growth	R3.3 billion
Limpopo Central Hospital PPP Project	Implementation	Construction of a new 488-bed central hospital in Polokwane, which will form part of an academic health complex attached to the University of Limpopo's medical school	R4.5 billion
Boegoebaai Port and Rail Development PPP Project	Feasibility	Port and rail development in Boegoebaai in the Northern Cape	R13 billion
Gauteng Rapid Rail Network Extension Parts 1 and 2 (Gautrain 2) PPP Project	Feasibility	A two-phase extension of the existing Gautrain rail system	R65.4 billion
Midvaal Electricity Distribution Project	Procurement	Refurbishment and expansion of the existing distribution lines owned by the municipality	R1 billion

Table D.5 Other major public-sector infrastructure projects *(continued)*

Project name	Project stage	Project description	Estimated project cost
Solar Water Initiatives	Feasibility	Rollout of solar water heaters across the residential market through partnering with the insurance industry and banks	R6.8 billion
National Roads Programme – upgrades to existing non-concession national toll roads	Feasibility	Major upgrades to various sectionsof the N1, N2 and N3	R22 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Expansion of the MyCiTi Bus Rapid Transport System in Cape Town	Implementation	Expansion of the MyCiTi bus rapid transit system network to areas including Langa, Mitchells Plain and Khayelitsha	R7.1 billion
Tygerberg Hospital	Implementation	Construction of a 550-bed regional hospital	R4.2 billion
Klipfontein Hospital	Implementation	Construction of a new hospital to replace the GF Jooste Hospital	R4.3 billion
Bravos - Berg River Voëlvlei Dam Pipeline (Western Cape)	Construction	Construction of a weir and abstraction works with a pump station on the Berg River, with a 6.3-km-long pipeline to the Voëlvlei Dam	R1 billion
Vaal River System Phase 2	Construction	Bulk water infrastructure development	R32 billion
Makhulu Crocodile Water Project	Feasibility	Bulk water infrastructure development	R15 billion
Olifants Economic Development Project	Various stages	Bulk water infrastructure development	R20 billion

Source: National Treasury

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2023 BUDGET REVIEW

FINANCIAL SECTOR UPDATE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

RESPONDING TO THE FATF MUTUAL EVALUATION REPORT

Since late 2022, government has engaged with the Financial Action Task Force (FATF) and its team of reviewers on South Africa's work to address weaknesses in the country's legal and regulatory framework and deficiencies in its anti-money laundering enforcement regime.

Since the FATF published its mutual evaluation report in 2021, South Africa has made considerable progress in assessing vulnerabilities in the anti-money laundering system, the risks associated with high levels of proceeds-generating crime and corruption, and the challenges of building more effective enforcement.

Nevertheless, additional work across all these dimensions is needed over the medium term. A national strategy approved by Cabinet in November 2022 prioritises efforts to build a financial system that is less vulnerable to abuse, and where abuses are effectively prosecuted. In this regard, government is strengthening supervision of financial institutions (which are generally well supervised) and a range of non-financial businesses and professions that are sometimes used to launder the proceeds of crime. These include estate agents, lawyers, providers of crypto assets and services, and dealers in high-value goods. Changes in the relevant legislation have already been made, and increased resources will be provided to supervisory bodies to strengthen oversight. Government will identify and prosecute money launderers and their enablers in the financial system.

Two laws have been enacted to address what the FATF characterises as "technical" deficiencies in the legislative framework: the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022), and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act (2022). Draft regulations for the former have been published for public comment and are expected to be finalised by April 2023.

Addressing several other concerns identified by the FATF is more complex – and here government is still engaging with the FATF on its progress. Key deficiencies identified include:

- Weak implementation of new beneficial ownership legislative requirements for legal entities like companies, trusts and non-profit organisations.
- Poor anti-money laundering controls in non-financial sectors such as the legal profession, estate agents, crypto (virtual) asset service providers and trust services providers.
- A need to sustainably increase investigations, prosecutions and asset forfeitures related to money laundering and terror financing.

At its February 2023 plenary, the FATF will pronounce on South Africa's progress and the extent to which it will face enhanced monitoring, including possible grey listing. Over the longer term, government has asked the FATF to formally reassess South Africa's compliance during its June 2023 plenary.

ENERGY CRISIS RESPONSE AND RECOVERY MEASURES

In 2023, the National Treasury will amend the bounce-back scheme to address energy-related constraints hampering businesses' recovery from the COVID-19 pandemic. As part of the amendments:

- Government will guarantee solar-related loans for small and medium enterprises.
- Commercial banks will be permitted to borrow directly from the scheme to facilitate the leasing of solar energy equipment to small businesses.
- Small businesses installing solar will be able to borrow finance for working capital.

These amendments will be finalised by May 2023.

RESPONDING TO CLIMATE RISKS AND WORKING TOWARDS NET ZERO

The National Treasury is working to improve the resilience of the financial system through the Climate Risk Forum and the Intergovernmental Sustainable Finance Working Group, composed of private-sector and government representatives respectively. In 2023, the Climate Risk Forum will be reconstituted as the Sustainable Finance Initiative to reflect its coverage of broader environmental, transition and social risks. Key focus areas will include climate-related disclosures, scenario development and analysis, data requirements, market development and further work on the country's green finance taxonomy – a classification governing which assets, projects and sectors may be defined as "green".

Regulatory response to climate-related risks

In August 2022, the Prudential Authority published an advisory on climate-related risks. It is finalising indicators for piloting in 2023 to better understand and measure climate-related transition and physical risks to the financial sector. The Financial Sector Conduct Authority (FSCA) will soon publish a draft sustainable finance and investment roadmap.

Carbon tax credit trading

In 2023, the National Treasury will consider stakeholder inputs on the possibility of a domestic market to trade tax credits created through the carbon tax. The consultation will focus on the building blocks needed to ensure seamless trading, including the legal nature of carbon credits as a financial asset; trading and post-trade market architecture; licences for private carbon credit funds; and carbon credit certification.

PROMOTING FINANCIAL INNOVATION

Crypto assets

The broad collapse of the crypto asset market during 2022 highlights the significant risks associated with this investment, underlining the need for a sound regulatory approach. The Intergovernmental Fintech Working Group published a position paper on regulating crypto assets in June 2021, and several frameworks have been developed in line with this approach.

In addition:

- Schedule 1 of the Financial Intelligence Centre Act (2001) has been amended to make crypto asset service providers accountable institutions. The Financial Intelligence Centre will supervise crypto asset service providers and enforce their compliance with anti-money laundering, combating of terrorist financing and combating of proliferation financing obligations.
- The Reserve Bank is working with the National Treasury to enhance the monitoring and reporting of crypto asset transactions to comply with the exchange control regulations.
- In 2023, the Intergovernmental Fintech Working Group intends to publish a position paper to address the risks posed by so-called stablecoins.

Digital payments and broader access to the national payment system

In 2022, the Reserve Bank began developing a digital payments strategy to support its 2025 vision for the national payment system. The strategy will explore how access for non-banks in the national payment system will level the playing field, enhance payment services, lead to greater consumer choice, foster greater competition and innovation, and increase financial inclusion. The strategy will be finalised through a consultative process and published during 2023, when plans for the implementation of specific interventions will also begin.

BOOSTING SAVINGS AND PROVIDING FOR AN ADEQUATE RETIREMENT

Early access to retirement funds

Chapter 4 of the *Budget Review* provides details of the first phase of legislative amendments to the retirement system, which take effect on 1 March 2024. Several areas identified during the public comment process still need to be addressed, including legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income. The first two matters will be clarified in forthcoming draft legislation. The final matter will be reviewed as a second phase of implementation.

Auto enrolment

In 2023, the National Treasury will finalise policy proposals on how to expand the participation and coverage of all formal and informal workers in a retirement fund without excessively burdening their disposable income. These proposals build on the National Treasury's December 2021 paper entitled *Encouraging South African Households to Save More for Retirement.* Consideration will be given to a voluntary and flexible savings scheme for informal workers.

Governance

Legislative amendments to improve governance of retirement funds – particularly commercial umbrella funds – will be published in 2023 and tabled in Parliament thereafter.

Unclaimed assets

In September 2022, building on joint work with the National Treasury, the FSCA published a discussion paper on the nearly R90 billion of unclaimed assets across the financial sector. One recommendation it put forward is to establish a fund into which all unclaimed assets must be transferred and managed. Alternatively, unclaimed assets could be transferred into the National Revenue Fund for the same purpose. Further consultation on the FSCA recommendations will take place in 2023. A final paper will be published in 2024.

OTHER REFORMS

Conduct of Financial Institutions Bill

The National Treasury has revised the Conduct of Financial Institutions Bill based on feedback from stakeholders. The bill is expected to be tabled in Parliament in early 2023. It will introduce a new legal framework for the regulation and supervision of the conduct of financial institutions, which will shift away from the institutional form to an activity-based licensing approach. A number of "new" licensing activities will be introduced to give effect to the FSCA's expanded mandate under the Financial Sector Regulation Act (2017). A financial institution will only be granted one licence but can be licensed for more than one activity. It is envisaged that the levy due to the FSCA by a licensed financial institution will be an aggregated amount based on the type and number of activities that the licensee provides.

Transformation and financial inclusion

The FSCA published its draft transformation strategy for the financial sector in 2022. In the first phase of implementation, the FSCA will engage with industry and other stakeholders on the current legal landscape governing transformation. In the second phase, it will set and supervise specific licensing and regulatory requirements for financial institutions in line with the relevant legislation. The FSCA has committed to following a proportionate approach that will not unduly burden small businesses. The final strategy will be published by March 2023.

Financial education policy

In 2023, the National Treasury will publish a consumer financial education policy document for public comment. This policy document addresses consumer protection in the financial sector in the context of financial inclusion and transformation.

Information technology governance and risk management

There has been a marked increase in cyber-attacks against financial institutions. To mitigate information technology (IT) and cyber risks to companies and consumers, the FSCA and the Prudential Authority will soon finalise joint standards aimed at ensuring better IT governance and risk management.

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2023 BUDGET REVIEW

SUMMARY OF THE BUDGET

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SUMMARY OF THE BUDGET

Summary of the national budget

R million	2022/23 Budget estimate	2022/23 Revised estimate	2023/24 Budget estimate	2024/25 Medium-term estimates	2025/26 Medium-term estimates
REVENUE					
Estimate of revenue before tax proposals			**1 772 229**		
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			-		
Estimate of revenue after tax proposals	**1 588 044**	**1 703 571**	**1 759 229**	**1 868 080**	**2 007 707**
Percentage change from previous year			*3.3%*	*6.2%*	*7.5%*
EXPENDITURE					
Direct charges against the National Revenue Fund	**902 658**	**919 377**	**950 638**	**995 606**	**1 059 557**
Debt-service costs	301 806	307 157	340 460	362 840	397 074
Provincial equitable share	560 757	570 868	567 528	587 500	614 271
General fuel levy sharing with metropolitan municipalities	15 335	15 335	15 433	16 127	16 849
Skills levy and sector education and training authorities	20 619	21 238	23 027	24 816	26 846
Other [1)]	4 141	4 779	4 189	4 324	4 517
Appropriated by vote	**1 057 029**	**1 084 609**	**1 077 438**	**1 097 744**	**1 153 439**
Current payments	260 680	263 006	262 937	276 178	287 580
Transfers and subsidies	755 267	739 040	794 183	802 416	845 880
Payments for capital assets	15 506	16 160	18 401	18 301	19 091
Payments for financial assets	25 577	66 403	1 917	850	888
Provisional allocations	**5 569**	**-**	**1 505**	**3 901**	**3 977**
Provisional allocation not assigned to votes	1 372	-	1 505	1 858	1 839
Infrastructure Fund not assigned to votes	4 197	-	-	2 043	2 138
Unallocated reserve	-	-	-	35 693	44 533
Total	**1 965 257**	**2 003 986**	**2 029 580**	**2 132 945**	**2 261 506**
Plus:					
Contingency reserve	10 000	-	5 000	5 000	5 000
Estimate of national expenditure	**1 975 257**	**2 003 986**	**2 034 580**	**2 137 945**	**2 266 506**
Percentage change from previous year			*1.5%*	*5.1%*	*6.0%*
2022 Budget estimate of expenditure		**1 975 257**	**1 992 007**	**2 096 559**	
Increase / decrease (-)		*28 730*	*42 573*	*41 385*	
Gross domestic product	*6 441 288*	*6 651 266*	*7 005 734*	*7 452 382*	*7 938 960*

1) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, National Revenue Fund payments (previously classified as extraordinary payments), Auditor-General of South Africa, the International Oil Pollution Compensation Fund and allocations made in the 2022/23 Second Adjustments Appropriation Bill.
Source: National Treasury

Summary of the consolidated budget

R million	2022/23		2023/24	2024/25	2025/26
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
National budget revenue [1]	**1 588 044**	**1 703 571**	**1 759 229**	**1 868 080**	**2 007 707**
Revenue of provinces, social security funds and public entities	182 601	189 176	199 678	209 707	217 619
Consolidated budget revenue [2]	**1 770 645**	**1 892 747**	**1 958 907**	**2 077 788**	**2 225 326**
National budget expenditure [1]	**1 975 257**	**2 003 986**	**2 034 580**	**2 137 945**	**2 266 506**
Expenditure of provinces, social security funds and public entities	182 011	164 813	208 009	221 804	210 892
Consolidated budget expenditure [2]	**2 157 267**	**2 168 799**	**2 242 589**	**2 359 749**	**2 477 398**
Consolidated budget balance	**-386 622**	**-276 052**	**-283 682**	**-281 961**	**-252 072**
Percentage of GDP	*-6.0%*	*-4.2%*	*-4.0%*	*-3.8%*	*-3.2%*
Redemptions	**-97 252**	**-87 474**	**-162 232**	**-168 794**	**-185 969**
Domestic long-term loans	-81 292	-71 712	-117 865	-131 369	-129 558
Foreign loans	-15 960	-15 762	-44 367	-37 426	-56 410
Eskom debt-relief arrangement	-	-	**-78 000**	**-66 154**	**-110 223**
Gross borrowing requirement	**-483 874**	**-363 526**	**-523 914**	**-516 909**	**-548 264**
Financing					
Domestic loans	**326 896**	**291 398**	**396 190**	**419 658**	**388 049**
Eskom debt-relief arrangement	-	-	-	-	**70 000**
Foreign loans	**50 645**	**64 484**	**43 981**	**34 633**	**79 102**
Change in cash and other balances	**106 334**	**7 644**	**83 744**	**62 618**	**11 112**
Total financing	**483 874**	**363 526**	**523 914**	**516 909**	**548 264**

1) Transfers to provinces, social security funds and public entities presented as part of the national budget.
2) Flows between national and provincial government, social security funds and public entities are netted out.
Source: National Treasury

G

2023 BUDGET REVIEW

GLOSSARY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting officer	The public servant who is accountable to Parliament for financial management of a government department, usually the director-general at the national level or the head of the department at the provincial level.
Accrual	An accounting convention by which payments and receipts are recorded as they occur, even if no cash flow takes place.
Acquisition debt	Debt used to buy shares or assets.
Adjustments estimate	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
Administered prices	Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator.
Ad valorem duties	Taxes levied on commodities as a certain percentage of their value.
Agro-processing	Manufacturing activities that transform raw materials and intermediary goods derived from agriculture into intermediate or final goods.
Allocated expenditure	The part of the national budget that can be divided between the national, provincial and local spheres of government, after interest and the contingency reserve have been taken into account.
Amortisation	The repayment of a loan by instalments over its duration.
Annuity	A fixed amount of money paid over a period of time as a return on an investment.
Anti-avoidance rule	A provision aimed at preventing tax avoidance. See also *principal purpose test*.
Appreciation (exchange rate)	An increase in the external value of a currency.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from a provincial revenue fund.
Asset price bubble	A condition occurring when prices for a category of assets rise above the level justified by economic fundamentals.
Balance of payments	A summary statement of all the international transactions of the residents of a country with the rest of the world over a particular period of time.
Base erosion and profit shifting	Corporate tax-planning strategies that exploit the gaps and mismatches in tax laws between countries to shift taxable income to lower- or no-tax jurisdictions. See also *tax evasion* and *profit shifting*.
Basel III	Reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Basis point	One hundredth of 1 per cent.
Beneficiation	Manufacturing activities that transform raw minerals into higher-value products.
Blended finance	The combination of public, private, development and multilateral sources of financing to leverage funding for projects.
Bond	A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date.
Bond premium	Amount by which the purchase price of a bond is greater than its par value.
Bond spread	The difference in yield between two bonds.
Bond-switch programme	An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-dated debt for longer-term debt. See also *switch auction*.
Bracket creep	Increased real tax liability that arises when the personal income tax tables are not fully adjusted for inflation.
Budget balance	The difference between budgeted expenditure and budgeted revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, it is in surplus.

Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Capital asset	Property of any kind, including assets that are movable or immovable, tangible or intangible, fixed or circulating, but excluding trading stock held to realise a financial or economic return.
Capital expenditure	Spending on assets such as buildings, land, infrastructure and equipment.
Capital flow	A flow of investments in or out of the country.
Capital formation	A measure of the net increase in the country's total stock of capital goods, after allowing for depreciation.
Capital gains tax	Tax levied on the income realised from the disposal of a capital asset by a taxpayer. A capital gain is the excess of the selling price over the purchase price of the capital asset.
Capital goods	Durable goods used over a period of time to produce other goods. See also *intermediate goods*.
Capitalised interest	The cost of borrowing to construct a capital asset, which is then included in the cost of the asset.
Capital market	A financial market where individuals and institutions raise capital or funding in the form of debt or equities.
Carbon budgeting	The process of allocating a greenhouse gas emissions allowance to a company for a specific period of time.
Category A, B and C municipalities	Municipal categories established by the Constitution: Category A, or metropolitan municipalities; Category B, or local municipalities; and Category C, or district municipalities.
Collateral	An asset placed as a guarantee for the repayment of debt, to be recouped in the case of a default.
Commercial paper issuances	Debt issued by companies through short-term promissory notes.
Commission of inquiry	An expert panel established by the President to investigate a specific issue.
Commutation	When a member of a pension fund, pension preservation fund or retirement annuity fund retires, they are allowed to take (commute) a lump sum equal to a maximum of one-third of the retirement interest.
Concessionary funding	Financing extended by major financial institutions, such as development banks and multilateral funds, at substantially cheaper rates than market loans.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Connected person debt/credit	Debt or credit granted by a person/entity to a connected person/entity. In the case of a holding company, for example, a subsidiary company would be a connected person.
Consolidated general government	National, provincial and local government, as well as extra-budgetary government institutions and social security funds.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers and subsidies to municipalities, businesses and other entities.
Consumer price index	The measure of inflation based on prices in a basket of goods and services.
Consumption expenditure	Expenditure on goods and services that are used within a short period of time, usually a year.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and to meet unforeseeable spending pressures.
Contingent liability	A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See also *government guarantee*.

Controlled foreign company	A foreign business in which South Africans hold a greater than 50 per cent interest, usually of the share capital of a company.
Corporatisation	The transformation of state-owned enterprises into commercial entities, subject to commercial legal requirements and governance structures, while the state retains ownership.
Cost-push inflation	Inflation that is caused by an increase in production costs, such as wages or oil prices.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Coupon (bond)	The periodic interest payment made to bondholders during the life of the bond. The interest is usually paid twice a year.
Covered person	Stock brokers that do not trade as a treasury operation; the Reserve Bank; banks and their controlling companies; and companies or trusts that form part of a banking group, excluding short- and long-term insurers, and these insurers' subsidiaries and companies in which they hold a controlling share.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument.
Credit risk	The probability of financial loss resulting from failure to repay a loan or meet a contractual obligation.
Crowding in	An increase in private investment through the income-raising effect of government spending financed by deficits.
Crowding out	A fall in private investment or consumption as a result of increased government expenditure financed through borrowing, thereby increasing competition for loanable funds and raising the interest rate, which curtails private investment and consumption spending.
Cryptocurrency	A digital medium of exchange that uses cryptography to secure its transactions, control the creation of additional units and verify the transfer of assets.
Currency risk	The potential for a change in the price of a currency that would affect investors with assets, liabilities or operations denominated in other currencies.
Current account (of the balance of payments)	The difference between total imports and total exports, taking into account service payments and receipts, interest, dividends and transfers. The current account can be in deficit or surplus. See also *trade balance*.
Current balance	The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land.
Current expenditure	Government expenditure on salaries and goods and services, such as rent, maintenance and interest payments. See also *consumption expenditure*.
Customs duties	A tax levied on imported goods.
Debenture	An unsecured debt instrument backed by the general creditworthiness of the issuer rather than by specific assets.
Debt redemption profile	The set of fixed repayment dates and amounts to which an issuer of debt, such as a preferred stock or bond, has committed to meeting.
Debt-service costs	The interest on government debt and other costs directly associated with borrowing.
Debt-service coverage ratio	The ratio of cash from operating activities available to service debt payments.
Debt stock	The total value of debt owed to all lenders.
Decommissioning	The removal or dismantling of a facility from service.
Default regulations	Retirement funds' trustee boards must offer a default in-fund preservation arrangement to members who leave the services of their

	employer before retirement, and a default investment portfolio to contributing members who do not or cannot choose how their savings should be invested.
Deflation	A consistent decrease in the price of goods and services.
Deleveraging	The reduction of debt previously used to increase the potential return of an investment.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Derivative financial instrument	A financial asset that derives its value from an underlying asset, which may be a physical asset such as gold or a financial asset such as a government bond.
Designated countries	Foreign countries from which income may be exempt from South African tax under certain circumstances. See also *double tax agreement*.
Development finance institutions	State agencies that aim to meet the credit needs of riskier but socially and economically desirable projects that are beyond the acceptance limits of commercial banks.
Digital economy	An economy based on digital computing technologies – increasingly through internet-based markets.
Direct taxes	Taxes charged on taxable income or capital of individuals and legal entities.
Discouraged work seekers	See *unemployment*.
Discretionary trust	A trust where the executor has the choice of whether and how much of the trust's income or capital is to be distributed to beneficiaries. The beneficiaries have only provisional rights to the income or capital of the trust.
Disposable income	Total income less all taxes and employee contributions.
Dissaving	An excess of current expenditure, including the depreciation of fixed capital, over current income.
Dividend	The distribution of a portion of a company's earnings to a class of its shareholders.
Dividend withholding tax	A tax on dividends that is subtracted and withheld by a company or intermediary before the net dividend is paid to the shareholder. See also *withholding tax*.
Division of revenue	The allocation of funds between spheres of government, as required by the Constitution. See also *equitable share*.
Domestic demand	The total level of spending in an economy, including imports but excluding exports.
Double tax agreement	An agreement between two countries to prevent income that is taxed in one country from being taxed in the other as well. Double taxation is juridical when the same person is taxed twice on the same income by more than one state. Double taxation is economic if more than one person is taxed on the same item. See also *designated countries* and *tax treaty*.
Early childhood development	The development of children from birth until the year they enter formal schooling.
Economically active population	The part of the population that is of working age and is either employed or seeking work.
Economic cost	The cost of an alternative that must be forgone to pursue a certain action. In other words, the benefits that could have been received by taking an alternative action. Also known as opportunity cost.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Economic prices	Financial prices that are adjusted for market distortions such as import tariffs, taxes or subsidies.
Economic rent	The difference between the return made by a factor of production (capital or labour) and the return necessary to keep the factor in its

	current occupation. For example, a firm making excess profits is earning economic rent.
Effective tax rate	Actual tax liability (or a reasonable estimate thereof) expressed as a percentage of a pre-tax income base rather than as a percentage of taxable income. In other words, tax rates that take into account not only the statutory or nominal tax rate, but also other aspects of the tax system (for example, allowable deductions) that determine the tax liability.
Embedded derivative	A provision in a contract modifying its cash flows by making them dependent on an underlying measure – such as interest or exchange rates, or commodity prices – the value of which changes independently.
Emerging economies	A name given by international investors to middle-income economies.
Employment coefficient	The ratio of employment growth to economic growth.
Equitable share	The allocation of revenue to the national, provincial and local spheres of government as required by the Constitution. See also *division of revenue*.
Equity finance	Raising money by selling shares of stock to investors, who receive an ownership interest in return.
Exchange control	Rules that regulate the flow of currency out of South Africa, or restrict the amount of foreign assets held by South African individuals and companies.
Exchange item	A foreign-currency amount relating to a debt, loan or foreign-exchange contract.
Excise duties	Taxes on the manufacture or sale of certain domestic or imported products. Excise duties are usually charged on products such as alcoholic beverages, tobacco and petroleum.
Expenditure ceiling	The maximum allowable level of expenditure to which government has committed itself.
Extra-budgetary institutions	Public entities not directly funded from the fiscus.
Fair-value adjustment	A change in the value of an asset or liability resulting from the periodic reassessment of its expected future economic in- or outflows.
Fee-free higher education and training	A government policy on higher education and training that makes provision for full-cost-of-study bursaries to students below a specified household-income threshold, covering tuition fees, prescribed study material, meals and a certain level of accommodation and/or travel allowances.
Financial account	A statement of all financial transactions between the nation and the rest of the world, including portfolio and fixed-investment flows and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established by the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial Sector Conduct Authority	A body responsible for regulating and supervising the market conduct of financial institutions and market infrastructure.
Financial Services Board	An independent institution established by statute that regulates insurers, intermediaries, retirement funds, friendly societies, unit trust schemes, management companies and financial markets.
Financial year	The 12 months according to which companies and organisations budget and account. See also *fiscal year*.
Fintech	An abbreviation of “financial technology”, which refers to new technologies and innovations that aim to compete with traditional methods to deliver financial services more efficiently.
Fiscal consolidation	Policy aimed at reducing government deficits and debt accumulation.
Fiscal framework	The arrangements, procedures, rules and institutions underlying the conduct of government’s budgetary policies.
Fiscal incidence	The combined overall economic impact that fiscal policy has on the economy.

Fiscal leakage	The outflow of revenue from an economy through tax evasion and avoidance.
Fiscal marking	The process of marking a product with a prescribed identification (or chemical). Marking allows the South African Revenue Service to trace products back to the manufacturers in order to collect excise duties.
Fiscal policy	Policy on taxation, public spending and borrowing by government.
Fiscal space	The ability of government's budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability.
Fiscal year	The 12 months on which government budgets are based, beginning 1 April and ending 31 March of the subsequent calendar year.
Fixed investment/capital formation	Spending on buildings, machinery and equipment contributing to production capacity in the economy. See also *gross fixed-capital formation*.
Fixed-rate bond	A bond that pays a specific interest rate over a specified period of time.
Floating rate notes	A bond on which the interest rate is reset periodically in line with a money market reference rate.
Foreign currency swaps	The exchange of principal and/or interest payments in one currency for those in another.
Foreign direct investment	The acquisition of a controlling interest by governments, institutions or individuals of a business in another country.
Forward book	The total amount of contracts for the future exchange of foreign currency entered into by the Reserve Bank at any given point in time.
Forward cover	Transactions involving an agreed exchange rate at which foreign currency will be bought or sold at a future date.
Free-trade area	A geographical region in which countries have signed an agreement and maintain few or no barriers to trade in the form of tariffs or quotas between them.
Fringe benefit	A benefit supplementing an employee's wages or salary, such as medical insurance, company cars, housing allowances and pension schemes.
Fuel levy	An excise tax on liquid fuels.
Fugitive emissions	Emissions that are unintentionally released into the atmosphere through, for example, leaks from industrial plants and pipelines.
Function shift	The movement of a function from one departmental vote or sphere of government to another.
Funded pension arrangements	A pension scheme in which expected future benefits are funded in advance and as entitlement accrues.
Gearing ratio	The ratio of company debt to equity capital.
Gold and foreign exchange reserves	Reserves held by the Reserve Bank to meet foreign-exchange obligations and to maintain liquidity in the presence of external shocks.
Government debt	The total amount of money owed by government as a consequence of its past borrowing.
Government guarantee	An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government entity is unable to repay the debt. See also *contingent liability*.
Government Technical Advisory Centre	An agency of the National Treasury that supports public finance management through professional advisory services, programme and project management and transaction support.
Green paper	A policy document intended for public discussion.
Gross borrowing requirement	The sum of the main budget balance, extraordinary receipts and payments (referred to as National Revenue Fund receipts and payments), and maturing debt. The amount is funded through domestic short- and long-term loans, foreign loans and changes in cash balances.
Gross domestic product	A measure of the total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, or goods and services that are produced outside the market economy, such as work within the household.

Gross domestic product inflation	A measure of the total increase in prices in the whole economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods.
Gross fixed-capital formation	The addition to a country's fixed-capital stock during a specific period, before provision for depreciation.
Gross loan debt	See *government debt*.
Gross value added	The value of output less intermediate consumption. It is also a measure of the contribution an industry or sector makes to the economy.
Group of Twenty (G20)	An international forum made up of finance ministers and central bank governors from 20 of the world's largest economies.
Hedging	An action taken by a buyer or seller to protect income against changes in prices, interest rates or exchange rates.
Horizontal equity	A principle in taxation that holds that similarly situated taxpayers should face a similar tax treatment or tax burden. In other words, taxpayers with the same amount of income or capital should be accorded equal treatment.
Impaired advances	Loans or advances that may not be collected in full.
Impairment	A reduction in the recorded value of a long-lived asset arising from circumstances that prevent the asset from generating the future economic benefits previously expected and recorded.
Import parity pricing	When a firm sells goods locally at the price customers would pay if they were to import the same goods from another country.
Inclusion rate	The portion of the net capital gain derived from the disposal of an asset that will be taxed at the applicable rate.
Independent power producer	A private-sector business that generates energy for the national grid.
Industrial development zone	Export-oriented manufacturing sites linked to an international air or sea port, supported by incentives to encourage investment and job creation.
Inflation	An increase in the overall price level of goods and services in an economy over a specific period of time.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time.
Infrastructure Fund	A fund that will provide government support for the co-financing of programmes and projects that blend public and private resources.
Integrated Resource Plan	The Department of Energy's long-term plan for the country's energy mix and generation expansion in order to meet electricity demand.
Intergenerational equity	A value based on ensuring that future generations do not have to repay debts taken on today, unless they also share in the benefits of assets.
Intermediate goods	Goods produced to be used as inputs in the production of final goods.
Intra-state debt	Money that different organs of state owe to each other.
Inventories	Stocks of goods held by firms. An increase in inventories reflects an excess of output relative to spending over a period of time.
Investment grade	A credit rating indicating minimal risk to investors.
Islamic bond	A financial certificate that complies with Islamic religious law. It represents partial ownership of an asset. The issuer buys back the bond at a future date at par value.
Just energy transition	A framework developed by the Presidential Climate Commission to ensure that workers and communities tied to high-emitting energy industries are supported in the shift towards a low-emissions economy.
Labour intensity	The relative amount of labour used to produce a unit of output.
Levelised cost of electricity	The estimated present value of the per-unit cost of electricity over the lifetime of a generating asset.
Liquidity	The ease with which assets can be bought and sold.
Liquidity requirements	The amount of liquid or freely convertible assets that banks are required to hold relative to their liabilities for prudential and regulatory purposes.

Liquidity risk	The risk that an asset might not easily and quickly be converted into cash through sale, or the risk to a debtor that it cannot meet its current debt obligations.
Load-shedding	A means of managing electricity supply when the power system is constrained by limiting the electricity supply to areas.
Loan covenant	A commitment, in a loan agreement, to certain activities. If violated, the covenant can trigger a default or penalties.
Loop structures	Structures that arise when private individuals are permitted by the Reserve Bank to acquire up to 40 per cent equity or voting rights in a foreign company, which may in turn hold investments and/or make loans in a Common Monetary Area country (South Africa, eSwatini, Lesotho and Namibia).
Lump-sum benefit	A one-time payment for the total or partial value of an asset, usually received in place of recurring smaller payments.
M3	The broadest definition of money supply in South Africa, including notes and coins, demand and fixed deposits, and credit.
Macroeconomics	The branch of economics that deals with the whole economy – including issues such as growth, inflation, unemployment and the balance of payments.
Macroprudential regulation	Rules that protect the stability of the financial sector and guard against systemic risk.
Marginal income tax rate	The rate of tax on an incremental unit of income.
Marginal lending rate	A penalty rate of interest charged by the Reserve Bank for lending to financial institutions in the money market in excess of the daily liquidity provided to the money market at the repurchase rate. See also *repurchase agreements*.
Marketable securities	Tradable financial securities listed with a securities exchange.
Means test	A method for determining whether someone qualifies for state assistance.
Medico-legal claims	A civil claim of alleged wrongful medical treatment against a health provider.
Medium Term Expenditure Committee	The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
Medium-term expenditure framework	The three-year spending plans of national and provincial governments, published at the time of the Budget.
Microeconomics	The branch of economics that deals with the behaviour of individual firms, consumers and sectors.
Ministers' Committee on the Budget	The political committee that considers key policy and budgetary issues that pertain to the budget process before they are tabled in Cabinet.
Monetary policy	Policy concerning total money supply, exchange rates and the general level of interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditures that flow through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
National Development Plan	A planning framework prepared by the National Planning Commission that aims to eliminate poverty and reduce inequality by 2030.
National Energy Regulator of South Africa	The authority that regulates electricity, piped-gas and petroleum pipelines industries in South Africa.
National Revenue Fund	The consolidated account of the national government into which all taxes, fees and charges collected by the South African Revenue Service and departmental revenue must be paid.
Negotiable certificate of deposit	Short-term deposit instruments issued by banks, at a variable interest rate, for a fixed period.
Net borrowing requirement	The main budget balance.

Net exports	Exports less imports.
Net loan debt	Gross loan debt less government's cash balances.
Net open foreign currency position	Gold and foreign exchange reserves minus the oversold forward book. The figure is expressed in dollars.
Net trade	The difference between the value of exports and imports.
New Development Bank	A multilateral lending institution established by Brazil, Russia, India, China and South Africa.
Nominal exchange rates	The current rate of exchange between the rand and foreign currencies. The "effective" exchange rate is a trade-weighted average of the rates of exchange with other currencies.
Nominal wage	The return, or wage, to employees at the current price level.
Non-competitive bid auction	An auction in which an investor agrees to purchase a certain number of securities such as bonds at the average price of all competitive bids over a given period of time.
Non-financial public enterprises	Government-owned or controlled organisations that deliver goods and non-financial services, trading as business enterprises, such as Eskom or Transnet.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Non-tax revenue	Income received by government as a result of administrative charges, licences, fees, sales of goods and services, and so on.
Occupation-specific salary dispensation	Revised salary structures unique to identified occupations in the public service, including doctors, nurses and teachers.
Open finance	The ability of a customer to transfer all data linked to their financial activity, such as credit and payment histories.
Opportunity cost	The value of that which must be given up to achieve or acquire something. It is represented by the next highest valued alternative use of a resource.
Organisation for Economic Co-operation and Development	An organisation of 35 mainly industrialised member countries. South Africa is not a member.
PAYE	The pay-as-you-earn (PAYE) system of income tax withholding requires employers to deduct income tax, and in some cases, the employees' portion of social benefit taxes, from each paycheque delivered to employees.
Payroll tax	Tax an employer withholds and/or pays on behalf of employees based on employee wages or salaries.
Permanent establishment	A fixed place of business from which a company operates. When two countries have a tax treaty, the concept of "permanent establishment" is used to determine the right of one state to tax the profits of the business in the other state.
Plastic bag levy	An environmental tax on certain types of plastic carrier and flat bags that is earmarked to establish recycling facilities.
Policy reserve	Additional money in the fiscus to fund new and crucial priorities.
Portfolio investment	Investment in financial assets such as stocks and bonds.
Potential growth	The fastest growth an economy can sustain without increasing inflation.
Presidential Infrastructure Coordinating Commission	A commission established by Cabinet to develop, review and coordinate a 20-year infrastructure plan.
Price discovery	The process of determining the price level of a commodity or asset, based on supply and demand factors.
Price sensitivity	The extent to which changes in price affect consumers' purchasing behaviour.
Primary bond auctions	The issuance of new bonds in the primary market by means of an auction.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure there is a surplus.
Primary market	The market where new securities (bonds or equities) are issued or sold by a company or government in the capital markets for the first time.

Primary sector	The agricultural, forestry, fishing, mining and quarrying sectors of the economy.
Principal purpose test	A test where the benefits of a tax treaty are denied if it is reasonable to conclude that obtaining the benefit was one of the principal purposes behind the arrangement or transaction.
Private-sector credit extension	Credit provided to the private sector. This includes all loans, credit cards and leases.
Privatisation	The full or partial sale of state-owned enterprises to private individuals or companies.
Producer price index	A measure of inflation based on the prices of production inputs as reported by producers across different sectors.
Productivity	A measure of the amount of output generated from every unit of input. Typically used to measure changes in labour efficiency.
Profit shifting	The allocation of income and expenses between related corporations or branches of the same legal entity to reduce overall tax liability.
Prudential Authority	The authority responsible for the prudential regulation of banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructure.
Public-benefit organisations	Organisations that engage in social activities to meet the needs of the general public. They are mainly funded by donations from the public and other institutions.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and are regulated by law.
Public Finance Management Act	The act regulating financial management of national and provincial government, including the efficiency and effectiveness of public expenditure and the responsibilities of those engaging with government financial management.
Public goods	Goods and services that would not be fully provided in a pure free-market system and are largely provided by government.
Public Investment Corporation	A government-owned investment management company that invests funds on behalf of public-sector entities. Its largest client is the Government Employees Pension Fund.
Public-private partnerships	A contractual arrangement in which a private party performs a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria. See also *unitary payment*.
Public sector	National government, provincial government, local government, extra-budgetary governmental institutions, social security funds and non-financial public enterprises.
Public-sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index	A composite index measuring the change in manufacturing activity. An index value of 50 indicates no change in activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity.
Quarterly Employment Statistics	An establishment-based survey conducted by Statistics South Africa to obtain information about the number of employees and gross salaries paid.
Quarterly Labour Force Survey	A household-based survey conducted by Statistics South Africa to measure the dynamics of the labour market, producing indicators such as employment, unemployment and inactivity.
Rating agency	A company that evaluates the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of sovereign risk. See also *credit rating*.
Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for price trends in South Africa and the countries included.

Real expenditure	Expenditure measured in constant prices after taking account of inflation.
Real interest rate	The level of interest after taking account of inflation.
Real wage	The return, or wage, to employees, measured at a constant price level.
Recapitalisation	Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity.
Recession	A period in which national output and income decline. A recession is usually defined as two consecutive quarters of negative growth.
Redemption	The return of an investor’s principal in a fixed-income security, such as a preferred stock or bond.
Refinancing	The repayment of debt at a scheduled time with the proceeds of new loans.
Refinancing risk	The risk that government will not be able to raise money to repay debt at any scheduled point, or that it will have to do so at a high cost.
Regional integration	An economic policy intended to boost economic activity in a geographical area extending beyond one country.
Remuneration	The costs of personnel, including salaries, housing allowances, car allowances and other benefits received by personnel.
Renewable Independent Power Producer Procurement Programme	A competitive tender process designed to facilitate private-sector investment in grid-connected renewable energy generation to increase South Africa’s generation capacity.
Repurchase agreements	Short-term contracts between the Reserve Bank and private banks in the money market to sell specified amounts of money at an interest rate determined by daily auction.
Repurchase (repo) rate	The rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
Residence-based income tax system	A tax system in which the worldwide income accruing to a resident of a country is subject to the taxes of that country.
Retail bond	A fixed-income security issued by the National Treasury targeting retail investors. Two variants are offered: fixed-rate and inflation-linked retail bonds.
Revaluation gain/loss	The difference between the value of a foreign currency deposit from the original (historical) rate to execution of a trade based on the spot rate.
Risk premium	A return that compensates for uncertainty.
Saving	The difference between income and spending.
Seasonally adjusted	The removal of seasonal volatility (monthly or quarterly) from a time series dataset. This provides a measure of the underlying trend in the data.
Secondary market	A market where securities are bought and sold by participants in the capital market following primary market issuance.
Secondary market pricing	The price at which securities are bought and sold in the secondary market.
Secondary rebate	A rebate from income tax, in addition to the primary rebate, that is available to taxpayers aged 65 years and older.
Secondary sector	The part of the economy concerned with the manufacture of goods.
Secondary tax on companies	Tax on dividends declared by a company, calculated at the rate of 10 per cent of the net amount of dividends declared. This was discontinued in 2012 and replaced with a 15 per cent dividend withholding tax.
Section 21 company	Non-profit entities registered in terms of section 21 of the Companies Act.
Sector education and training authorities	Institutions funded through skills development levies, responsible for learnership programmes and implementing strategic sector skills plans.
Secured debt instruments	Debt backed or secured by collateral to reduce the risk of lending.
Securitisation	The pooling of assets into a financial instrument to sell to different types of investors.

Service and transfer payments	Services involve transactions of non-tangible commodities, while transfers are unrequited transactions that do not generate a counter-economic value (for example, gifts and grants).
Significant owner	A person who directly or indirectly materially controls or influences the business or strategy of a financial institution.
Skills development levy	A payroll tax designed to finance training initiatives in terms of the skills development strategy.
Social infrastructure	Infrastructure that supports social services.
Social wage	Social benefits available to all individuals, funded wholly or partly by the state.
Source-based income tax system	A system in which income is taxed in the country where the income originates.
Southern African Customs Union agreement	An agreement between South Africa, Botswana, Namibia, Lesotho and eSwatini that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue.
Southern African Development Community	A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout southern Africa.
Sovereign debt	Debt issued by a government.
Sovereign debt rating	An assessment of the likelihood that a government will default on its debt obligations.
Spatial planning	Planning to influence the geographic distribution of people and economic activity.
Special appropriation	The approval by Parliament of spending from the National Revenue Fund to appropriate additional funds other than the main support appropriation in the Budget Act.
Special economic zone	A designated zone where business and trade laws incentivise trade, investment and employment.
Specific excise duty	A tax on each unit of output or sale of a good, unrelated to the value of a good.
Standing appropriations	Government’s expenditure obligations that do not require a vote or statutory provision, including contractual guarantees and international agreements.
Statutory appropriations	Amounts appropriated to be spent in terms of statutes and not requiring appropriation by vote.
Sterilisation	Action taken by the Reserve Bank to neutralise excess cash created in the money market when purchasing foreign currency.
Structural budget balance	A representation of what government revenue and expenditure would be if output were at its potential level, with cyclical variations stripped out.
Structural constraints	Imbalances in the structure of the economy that hinder growth and development.
Structural reforms	Measures put in place to substantially change the economy, or the institutional and regulatory framework in which people and businesses operate.
Sunset clause	A clause in a public policy that allows for a law to cease being in effect after a specified date.
Switch auction	An auction to exchange bonds to manage refinancing risk or improve tradability.
Syndicated loan	A large loan in which a group of banks work together to provide funds, which they solicit from their clients for the borrower.
Tax amnesty	A period allowed by tax authorities during which taxpayers who are outside the tax net, but should be registered for tax purposes, can register for tax without incurring penalties.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.

Tax base	The aggregate value of income, sales or transactions on which particular taxes are levied.
Tax buoyancy	The relationship between total tax revenue collections and economic growth. This measure includes the effects of policy changes on revenue. A value above 1 means that revenues are growing faster than the economy; a value below 1 means they are growing below the rate of GDP growth.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax expenditure	Government revenue forgone due to provisions that allow deductions, exclusions or exemptions from taxable income. The revenue can also be forgone through the deferral of tax liability or preferential tax rates.
Tax gap	A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources.
Tax incentives	Specific provisions in the tax code that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities.
Tax incidence	The final distribution of the burden of tax. Statutory incidence defines where the law requires a tax to be levied. Economic incidence refers to those who experience a decrease in real income as a result of the imposition of a tax.
Tax loopholes	Unintended weaknesses in the legal provisions of the tax system used by taxpayers to avoid paying tax liability.
Tax morality	The willingness, or motivation, of citizens to pay tax. This is separate from the statutory obligation to pay taxes, but may influence tax compliance.
Tax-to-GDP ratio	The total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.
Tax treaty	An agreement between two countries to resolve issues involving double taxation of income of their residents. See also *double tax agreement*.
Terms of trade	An index measuring the ratio of a country’s export prices relative to its import prices.
Term-to-maturity	The time between issuance and expiry.
Tertiary sector	The part of the economy concerned with the provision of services.
Total factor productivity	An index used to measure the efficiency of all inputs that contribute to the production process.
Trade balance	The monetary record of a country’s net imports and exports of physical merchandise and services. See also *current account*.
Trade regime	The system of tariffs, quotas and quantitative restrictions applied to protect domestic industries, together with subsidies and incentives used to promote international trade.
Trade-weighted rand	The value of the rand pegged to or expressed relative to a market basket of selected foreign currencies.
Transfer pricing	The setting of the price at which connected persons transfer goods or services between themselves.
Treasury bills	Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months.
Treaty shopping	When related companies in different countries establish a third entity in another location to take advantage of a favourable tax arrangement.
Trend GDP growth	The theoretical level of GDP growth, where growth above the trend rate results in macroeconomic imbalances such as rising inflation or a weakening of the current account.
Unallocated reserves	Potential expenditure provision not allocated to a particular use.
Unemployment (broad definition)	All those of working age who are unemployed, including those actively seeking employment and discouraged work seekers.

Unemployment (official definition)	Those of working age who are unemployed and actively seeking work (excludes discouraged work seekers).
Unitary payment	The payment made to a private party for meeting its obligations in a public-private partnership.
Unit labour cost	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
Unqualified audit	An assessment by a registered auditing firm or the Auditor-General of South Africa asserting that the financial statements of a department, entity or company are free of material misstatement.
Unsecured debt instruments	Debt not backed or secured by collateral to reduce the risk of lending.
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
VAT refund	The amount of value-added tax (VAT) repayable by the South African Revenue Service to a VAT vendor.
Venture capital company	In terms of South African regulation, a company whose sole objective is managing investments in qualifying companies (small businesses). Investments in venture capital companies are tax deductible.
Vertical equity	A principle in taxation that holds that differently situated taxpayers should be treated differently in terms of income tax provisions. In other words, taxpayers with more income and/or capital should pay more tax.
Vested right	The right to ownership of an asset that cannot be arbitrarily taken away by a third party.
Virement	The transfer of resources from one programme to another within the same department during a financial year.
Vote	An appropriation voted by Parliament.
Water trading account	A departmental account that ring-fences revenue from the sale of bulk water and related services to secure funding to manage the sustainability of water resources and infrastructure.
Weighted average cost of capital	The average rate of return an organisation expects to pay to investors in its securities, such as bonds, debt and shares. Each category of security is accorded a proportionate weight in the calculation.
White paper	A policy document used to present government policy preferences.
Withholding tax	Tax on income deducted at source. Withholding taxes are widely used for dividends, interest and royalties.
Yield	A financial return or interest paid to buyers of government bonds. The yield/rate of return on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity.
Yield curve	A graph showing the relationship between the yield on bonds of the same credit quality but different years to maturity at a given point in time.
Zero-rated tax items	Consumable goods that are exempt from the 15 per cent VAT rate.

2023 BUDGET REVIEW

STATISTICAL ANNEXURE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

EXPLANATORY NOTES

The statistical tables present details of the main budget; consolidated national, provincial and social security funds expenditure; consolidated government revenue and expenditure; consolidated government revenue, expenditure and financing; total debt of government; and net loan debt, provisions and contingent liabilities.

The tables are categorised according to government levels, from the main budget to the consolidated government account. The main budget consists of National Revenue Fund receipts, expenditure either voted by Parliament or allocated by statutory appropriation, and the financing of the deficit. This is the national budget, including transfers to other spheres of government.

Consolidated national, provincial and social security funds expenditure consists of the main (national) budget, and the provincial and the social security funds' budgets or expenditure. These budgets are aggregated and transfers between the three spheres of government are netted out to arrive at a total consolidated expenditure figure. The consolidated government revenue, expenditure and financing budget includes national, provincial and social security funds, the Reconstruction and Development Programme (RDP) Fund and national public entities. This is referred to as the consolidated budget.

While government revenues are concentrated at national level, a large proportion of expenditure has shifted to the provinces since 1994. Equitable share transfers to the nine provinces are included as a government statutory commitment on the National Treasury vote, while the local government equitable share is appropriated on the vote of the Department of Cooperative Governance. The consolidated government account consists of all the activities of national and provincial government, and includes most of the listed public entities. The consolidation also includes several national government business enterprises.

Since more than 50 per cent of total national expenditure on the 2023/24 main budget consists of transfer payments to other levels of general government, economic and functional classifications of national budget expenditure are not comprehensive. For the purposes of analysis, it would be preferable to present economic and functional classifications of general government expenditure, but this would require information on expenditure at all levels of general government, its financing through revenue, balances brought forward and transfer payments (mainly from the national budget). This information is not readily available for local government. Historical data on general government finances is, however, published by the Reserve Bank in its *Quarterly Bulletin* and by Statistics South Africa.

Change in recording of extraordinary receipts and payments in the budget tables

Since 2014, the consolidated government account has been presented in a more transparent format in line with the International Monetary Fund's *Government Finance Statistics Manual* (2014). This format provides details of operating activities, capital and infrastructure investment, as well as transactions in financial assets and liabilities. The calculation of the budget balance includes all government transactions. Previously, extraordinary receipts and payments were added to the budget deficit to calculate government's net borrowing requirement. In the new format, there is no longer a difference between the budget balance and the net borrowing requirement. These transactions are now referred to as National Revenue Fund receipts and payments.

Treatment of foreign grants to the RDP Fund

All international technical assistance and other RDP-related grants are paid to the RDP Fund account, which is separated from government accounts. Departments incur expenditure on RDP-related projects through direct requisitions from this account. However, disbursements of foreign grants and technical assistance are included in the consolidated national and provincial expenditure estimates in Tables 5 and 6, and in the consolidated government expenditure in Table 7.

Adjustments due to transactions in government debt

As part of the state's active management of its debt portfolio, government bonds are repurchased or switched into new bonds. In the process, government may make a capital profit, which is a book entry change in the bond discount. This capital profit does not represent actual cash flow and is regarded as a "book profit", which lowers the outstanding debt.

A premium may also be accrued, or payable, in managing the debt portfolio or when entering into new loans. Under the new format, premiums paid or received are included as National Revenue Fund receipts and payments, and no longer categorised as extraordinary receipts and payments.

Sources of information

The information in Tables 1 to 11 on national and provincial government and public entity finances is obtained from the following sources:

- Reports of the Auditor-General on the Appropriation and Miscellaneous Accounts
- Printed estimates of revenue and expenditure for the national and provincial budgets
- The Reserve Bank
- The South African Revenue Service (SARS)
- Monthly press releases from the National Treasury, published in terms of section 32 of the Public Finance Management Act (1999).

Main budget: revenue, expenditure, budget balance and financing (Table 1)

Table 1 summarises the main budget balances since 2016/17 and medium-term estimates to 2025/26. In line with the economic reporting format introduced in 2009, the revenue classification shows departmental sales of capital assets separately.

Repayments of loans and advances, which were previously shown as negative expenditure, have been reclassified as revenue. The national budget deficit (negative budget balance) is due to a higher increase in expenditure relative to the revenue collected over the same period.

Appropriations by vote are divided into current payments, transfers and subsidies, payments for capital assets and payments for financial assets. Both current and capital transfers are included in transfers and subsidies, in line with the economic reporting format's requirements.

The deficit figures presented in this table differ from those presented in budgets before 1995/96 because a number of items that were previously regarded as "below-the-line" expenditure have been included in total expenditure. In addition, revaluations of foreign loan obligations are excluded from expenditure, in keeping with international practice.

Under the "financing" item, domestic short-term loans include net transactions in Treasury bills and borrowing from the Corporation for Public Deposits. Long-term loans include all transactions in domestic government bonds and foreign loans (new loan issues, repayments on maturity, buybacks, switches and reverse purchase transactions).

Main budget: estimates of national revenue (Tables 2 and 3)

Table 2 presents a summary of revenue and the details are set out in Table 3. Main budget revenue collections are recorded on an adjusted cash basis as the revenue is recorded in the SARS ledgers. Tax revenue is classified according to standard international categories and departmental receipts according to the economic reporting format's requirements.

In Table 3, a large amount of data cannot be reclassified to align with the economic reporting format because departments capture these transactions in their ledgers as miscellaneous receipts.

Main budget: expenditure defrayed from the National Revenue Fund by vote (Table 4)

Table 4 contains estimates of expenditure on national budget votes for the period 2019/20 to 2025/26. In 2022/23, amounts included in the budget estimate, the adjusted appropriation and the revised estimate on each vote are shown. Historical data has been adjusted to account for function shifts between departments. As a result, the figures presented for some departments may differ from their financial statements. Total expenditure, however, is not influenced by these changes.

Consolidated national, provincial and social security funds expenditure (Tables 5 and 6)

Tables 5 and 6 show the economic and functional classification of payments for consolidated national and provincial government and social security funds, including the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Fund. Provincial expenditure estimates are preliminary because their budgets are tabled after the national budget. As such, these estimates are subject to change before being tabled in provincial legislatures.

The functional classification

The functional classification in this annexure is aligned with the classification of government functions set out in the *Government Finance Statistics Manual*. The historical data published in these tables has been reclassified accordingly. Chapter 5 of the *Budget Review*, which sets out the medium-term expenditure framework, outlines the budget allocations across these function groups.

To support this approach, data at programme and entity level is aggregated into spending categories, which provides for a higher level of aggregation than in the functional classification. For example, functional classification tables include local development and social infrastructure as distinct functions. The fiscal statistics are an outcome of the budget process and can only be used as a guide to categorise expenditure for budgeting purposes.

Some of the most important differences between the key spending categories presented in Chapter 5 and the more detailed functional classification presented in the statistical tables are as follows:

- *Learning and culture:* Expenditure in this category includes spending related to school and tertiary education, as well as arts, culture, sport and recreation. In the statistical tables, this expenditure is included as part of either the education or recreation, culture and religion functions.
- *Economic development:* Expenditure related to innovation, science and technology is included in the economic development function group, while in the statistical tables it is classified as research and development according to the function to which it relates.
- *Peace and security:* This includes expenditure by defence, police, justice and home affairs. In the statistical tables, the bulk of this expenditure is included in the public order and safety function, with home affairs split between general public services and public order and safety.
- *General public services:* In the key spending categories, transfers made to international organisations are classified within the category of the paying department. In the statistical tables, they are classified under general public services.

Consolidated government revenue and expenditure (Tables 7 and 8)

Tables 7 and 8 show the economic and functional classification of payments for the consolidated government budget. This consists of the consolidated national, provincial and social security figures presented in Tables 5 and 6, combined with general government entities, as well as some government business enterprises.

The government budget consolidation includes all entities controlled and mainly financed by government revenue, where such revenue is defined as either taxes, levies and administrative or service fees prescribed by government, or direct budgetary support in the form of transfer payments. This consolidation also includes several government business enterprises, based on the principle that they either sell most of their goods and services to government institutions or departments at regulated prices, and are therefore not businesses in the true sense of the word, or they are directly involved in infrastructure financing and development.

Accordingly, state-owned entities are broadly identified as one of the following:

- Enterprises that sell mainly to government departments or institutions, have no clear competitors and whose prices are therefore not clearly market related.
- Science councils that conduct research or fulfil a regulatory or advisory function, with government-determined regulatory or administration fees.
- Government-regulated businesses that are primarily financed by a dedicated tax, administration fee or levy (the level of which is dictated by government), or that are directly involved in the maintenance or extension of critical infrastructure.

To present consolidated accounts, all units use the same accounting standards and policies. The format of the accounts, terminology used, classification, transaction coverage and accounting base (cash or accrual) must be the same. In this respect, the consolidated government budget is prepared on an adjusted cash basis of accounting. This is not strictly comparable to the financial information published in the consolidated financial statements, which has two components – a consolidation of departments using the modified cash basis of accounting and a separate consolidation of public entities that apply the accrual basis of accounting.

All transactions that occur between units being consolidated are eliminated. A transaction of one unit is matched with the same transaction recorded for the second unit and both transactions are eliminated from the consolidation. For example, if a public entity sells a service to a government department and data for the two units is being consolidated, neither the sale nor the purchase of the service is reported. In this way, only transactions between government and non-government entities are recorded, without inflating total government revenue as a result of internal transactions.

Not all intra-entity transactions are eliminated, however, because they are not always identifiable in the accounting systems of government and many of its agencies. Only those that can be identified have been eliminated. These broadly include:

- Transactions involving transfers from one government unit to another, including transfers made by national departments to public entities and transfers between public entities (such as Water Trading Entity transfers to water boards).
- Purchases of goods and services from other government units included in the consolidation (such as transactions between the Trans-Caledon Tunnel Authority, water boards and the Water Trading Entity).

As data collection and recording procedures for transactions improve, additional intra-entity transactions will be identified and removed from the consolidated government budget.

A total of 162 national and provincial departments and 186 entities are included in the 2023 consolidated government budget. The National Treasury is committed to presenting a full consolidation of the whole of general government over time. Considerable work has been done to align the local government accounts with national and provincial accounts. A classification reporting framework has been developed for municipalities as a first step towards the consolidation of the financial information of all three spheres of government.

Consolidated government revenue, expenditure and financing (Table 9)

Table 9 presents the government account, which distinguishes between government's operating activities and its plans to invest in capital and infrastructure.

The balance on the operating account shows the outcome of government's operating activities, which is a measure of the cost of ongoing operations. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. The current balance demonstrates the sustainability of government operations.

Capital investment activities are presented in the capital account. Government's capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will mainly be in deficit due to continuous investment in infrastructure and substantial capital outlays.

Total debt of government (Table 10)

Table 10 shows the major components of government debt. Net loan debt consists of total domestic and foreign debt less the cash balances of the National Revenue Fund. The balances on the Gold and Foreign Exchange Reserve Account, which represent net revaluation profits and losses incurred on gold and foreign exchange transactions, are also disclosed.

Net loan debt, provisions and contingent liabilities (Table 11)

Provisions are liabilities with uncertain payment dates or amounts. The provisions for multilateral institutions are the unpaid portion of government's subscriptions to these institutions, which are payable on request. Contingent liabilities are obligations that only result in expenditure when an uncertain future event occurs. Both explicit and implicit contingent liabilities are disclosed. Implicit contingent liabilities are mostly the actuarial deficits of social security funds, while explicit contingent liabilities are mostly guarantees for state-owned companies, public-private partnership projects and the Renewable Energy Independent Power Producer Programme. In the case of guarantees for state-owned companies, the exposure disclosed is the amount borrowed against a guarantee, any related revaluation adjustments due to inflation rate and/or exchange rate movements, and any related interest on this amount, if guaranteed. The National Treasury published detailed information on provisions and contingent liabilities in the annual consolidated financial statements of national departments.

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Table 1
Main budget: revenue, expenditure, budget balance and financing *1)*

R million	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual outcome				Preliminary outcome	
Main budget revenue						
Current revenue	1 119 530.3	1 176 623.8	1 260 705.6	1 329 942.0	1 209 839.9	1 555 399.5
Tax revenue (gross) 2)	*1 144 081.0*	*1 216 463.9*	*1 287 690.2*	*1 355 766.3*	*1 249 711.2*	*1 563 754.2*
Less: SACU payments 3)	*-39 448.3*	*-55 950.9*	*-48 288.6*	*-50 280.3*	*-63 395.2*	*-45 966.2*
Non-tax revenue (departmental and other receipts) 4)	*14 897.7*	*16 110.8*	*21 304.0*	*24 456.1*	*23 523.9*	*37 611.5*
Financial transactions in assets and liabilities 5)	18 224.9	19 541.0	14 453.1	15 807.2	28 404.7	8 854.0
Sales of capital assets	149.2	197.5	111.9	120.7	124.1	136.3
Total revenue	**1 137 904.4**	**1 196 362.3**	**1 275 270.6**	**1 345 869.9**	**1 238 368.7**	**1 564 389.8**
Main budget expenditure						
Direct charges against the National Revenue Fund	588 731.7	636 337.0	685 914.8	746 088.0	784 602.2	855 628.6
Debt-service costs 6)	*146 496.7*	*162 644.6*	*181 849.1*	*204 769.4*	*232 595.7*	*268 071.6*
Provincial equitable share	*410 698.6*	*441 331.1*	*470 286.5*	*505 553.8*	*520 717.0*	*544 834.9*
General fuel levy sharing with metropolitan municipalities	*11 223.8*	*11 785.0*	*12 468.6*	*13 166.8*	*14 026.9*	*14 617.3*
Skills levy and SETAs	*15 233.0*	*16 293.6*	*17 479.9*	*18 283.8*	*12 413.0*	*19 011.6*
Other 7)	*5 079.5*	*4 282.7*	*3 830.7*	*4 314.2*	*4 849.7*	*9 093.2*
Appropriated by vote	716 658.5	768 602.9	820 690.4	944 914.2	1 004 413.6	1 031 822.6
Current payments 8)	*210 088.3*	*218 942.9*	*229 630.8*	*244 878.1*	*237 979.6*	*255 893.2*
Transfers and subsidies 9)	*486 109.1*	*516 024.6*	*562 337.2*	*623 356.6*	*665 858.8*	*692 979.6*
Payments for capital assets 10)	*15 598.5*	*15 232.9*	*14 357.9*	*12 107.9*	*12 001.6*	*14 253.4*
Payments for financial assets 11)	*4 862.5*	*18 402.5*	*14 364.4*	*64 571.6*	*88 573.6*	*68 696.4*
Provisional allocations not assigned to votes	–	–	–	–	–	–
Infrastructure Fund not assigned to votes	–	–	–	–	–	–
Unallocated reserve				–	–	–
Total	**1 305 390.1**	**1 404 939.9**	**1 506 605.2**	**1 691 002.2**	**1 789 015.8**	**1 887 451.2**
Contingency reserve	–	–	–	–	–	–
Total expenditure	**1 305 390.1**	**1 404 939.9**	**1 506 605.2**	**1 691 002.2**	**1 789 015.8**	**1 887 451.2**
Main budget balance	**-167 485.7**	**-208 577.7**	**-231 334.6**	**-345 132.2**	**-550 647.1**	**-323 061.4**
Percentage of GDP	*-3.5%*	*-4.1%*	*-4.3%*	*-6.1%*	*-9.8%*	*-5.1%*
Redemptions	**-73 039.8**	**-28 375.0**	**-15 569.9**	**-70 656.6**	**-67 638.9**	**-65 292.2**
Domestic long-term loans	-57 349.8	-24 254.0	-13 528.7	-19 427.7	-53 222.6	-61 373.4
Foreign loans 12)	-15 690.0	-4 121.0	-2 041.3	-51 229.0	-14 416.3	-3 918.8
Eskom debt-relief arrangement	**–**	**–**	**–**	**–**	**–**	**–**
Gross borrowing requirement	**-240 525.5**	**-236 952.7**	**-246 904.5**	**-415 788.8**	**-618 286.0**	**-388 353.6**
Financing						
Change in loan liabilities						
Domestic short-term loans (net)	**40 507.1**	**33 407.0**	**14 060.6**	**36 077.5**	**95 325.4**	**-7 954.8**
Domestic long-term loans	**174 034.1**	**198 692.0**	**183 003.1**	**305 449.2**	**523 417.9**	**290 294.8**
Market loans	*175 070.5*	*200 200.0*	*183 503.3*	*305 738.5*	*523 376.1*	*289 933.1*
Loans issued for switches	*-1 036.4*	*-1 508.0*	*-500.3*	*-289.3*	*41.7*	*361.7*
Eskom debt-relief arrangement	**–**	**–**	**–**	**–**	**–**	**–**
Foreign loans	**52 070.7**	**33 895.0**	**25 257.7**	**76 052.0**	**91 919.7**	**31 315.5**
Market loans	*50 959.3*	*33 895.0*	*25 257.7*	*76 052.0*	*91 919.7*	*31 315.5*
Loans issued for switches	*1 111.4*	–	–	–	–	–
Change in cash and other balances (- increase)	**-26 086.4**	**-29 041.3**	**24 583.2**	**-1 789.9**	**-92 377.1**	**74 698.1**
Total financing	**240 525.5**	**236 952.7**	**246 904.5**	**415 788.8**	**618 286.0**	**388 353.6**
GDP	*4 831 201.0*	*5 135 258.0*	*5 413 621.0*	*5 699 236.0*	*5 606 651.0*	*6 287 621.0*
National Revenue Fund transactions 13)						
National Revenue Fund receipts	*14 240.6*	*16 600.3*	*11 999.4*	*12 801.3*	*25 769.9*	*6 068.4*
National Revenue Fund payments	*-1 778.0*	*-587.1*	*-161.6*	*-468.5*	*-588.3*	*-2 173.4*
Net	***12 462.6***	***16 013.2***	***11 837.8***	***12 332.9***	***25 181.6***	***3 895.0***

1) This table summarises revenue, expenditure and the main budget balance since 2016/17. As available data is incomplete, the estimates are not fully consistent with other sources, such as the Government Finance Statistics series of the Reserve Bank.
2) Mining leases and ownership have been reclassified as non-tax revenue (rent on land). Historical numbers have been adjusted for comparative purposes.
3) Payments in terms of Southern African Customs Union (SACU) agreements.
4) Excludes sales of capital assets, discount and revaluation of foreign loan repayments. Includes receipts for which a department serves as a conduit to deposit funds into the National Revenue Fund.
5) Includes National Revenue Fund receipts (previously classified as extraordinary receipts).
6) Includes interest, cost of raising loans and management cost but excludes discount on the issue of new government debt instruments and the revaluation of foreign loan repayments.
Source: National Treasury

Table 1
Main budget: revenue, expenditure, budget balance and financing *1)*

2022/23			2023/24	2024/25	2025/26		
Budget estimate	Revised estimate	Deviation	Medium-term estimates				R million
							Main budget revenue
1 582 758.6	1 687 545.9	104 787.3	1 745 076.1	1 861 594.5	2 005 644.0		Current revenue
1 598 447.5	*1 692 176.7*	*93 729.2*	*1 787 456.5*	*1 907 726.5*	*2 043 456.3*	2)	*Tax revenue (gross)*
-43 683.4	*-43 683.4*	*–*	*-79 811.0*	*-86 504.8*	*-80 059.4*	3)	*Less: SACU payments*
27 994.5	*39 052.7*	*11 058.1*	*37 430.6*	*40 372.7*	*42 247.1*	4)	*Non-tax revenue (departmental and other receipts)*
5 154.0	15 898.0	10 744.0	14 021.5	6 352.0	1 927.8	5)	Financial transactions in assets and liabilities
131.1	127.2	-3.9	131.3	133.9	135.3		Sales of capital assets
1 588 043.7	**1 703 571.1**	**115 527.4**	**1 759 228.8**	**1 868 080.4**	**2 007 707.1**		**Total revenue**
							Main budget expenditure
902 658.4	919 377.2	16 718.7	950 637.6	995 605.8	1 059 556.8		Direct charges against the National Revenue Fund
301 806.3	*307 156.9*	*5 350.6*	*340 460.3*	*362 839.9*	*397 074.0*	6)	*Debt-service costs*
560 756.8	*570 868.2*	*10 111.4*	*567 527.7*	*587 499.7*	*614 270.8*		*Provincial equitable share*
15 334.8	*15 334.8*	*–*	*15 433.5*	*16 126.6*	*16 849.1*		*General fuel levy sharing with metropolitan municipalities*
20 619.3	*21 238.1*	*618.8*	*23 027.0*	*24 815.6*	*26 845.7*		*Skills levy and SETAs*
4 141.2	*4 779.1*	*637.9*	*4 189.2*	*4 324.0*	*4 517.2*	7)	*Other*
1 057 028.6	1 084 609.1	27 580.5	1 077 437.8	1 097 744.5	1 153 439.2		Appropriated by vote
260 679.5	*263 006.2*	*2 326.7*	*262 936.9*	*276 177.6*	*287 579.7*	8)	*Current payments*
755 266.9	*739 040.0*	*-16 226.9*	*794 182.5*	*802 416.2*	*845 880.4*	9)	*Transfers and subsidies*
15 505.5	*16 159.6*	*654.1*	*18 401.2*	*18 300.6*	*19 091.4*	10)	*Payments for capital assets*
25 576.7	*66 403.3*	*40 826.6*	*1 917.1*	*850.1*	*887.7*	11)	*Payments for financial assets*
1 372.1	–	-1 372.1	1 504.7	1 858.1	1 839.1		Provisional allocations not assigned to votes
4 197.4	–	-4 197.4	–	2 042.7	2 138.1		Infrastructure Fund not assigned to votes
–	–	–	–	35 693.3	44 532.7		Unallocated reserve
1 965 256.5	**2 003 986.3**	**38 729.8**	**2 029 580.1**	**2 132 944.5**	**2 261 505.9**		**Total**
10 000.0	–	-10 000.0	5 000.0	5 000.0	5 000.0		Contingency reserve
1 975 256.5	**2 003 986.3**	**28 729.8**	**2 034 580.1**	**2 137 944.5**	**2 266 505.9**		**Total expenditure**
-387 212.8	**-300 415.2**	**86 797.6**	**-275 351.2**	**-269 864.1**	**-258 798.8**		**Main budget balance**
-6.0%	*-4.5%*	*1.5%*	*-3.9%*	*-3.6%*	*-3.3%*		*Percentage of GDP*
-97 252.0	**-87 474.0**	**9 778.0**	**-162 232.2**	**-168 794.4**	**-185 968.5**		**Redemptions**
-81 292.0	-71 712.4	9 579.6	-117 864.8	-131 368.6	-129 558.3		*Domestic long-term loans*
-15 960.0	-15 761.6	198.4	-44 367.4	-37 425.8	-56 410.3	12)	*Foreign loans*
–	**–**	**–**	**-78 000.0**	**-66 154.0**	**-110 223.0**		**Eskom debt-relief arrangement**
-484 464.8	**-387 889.1**	**96 575.7**	**-515 583.5**	**-504 812.5**	**-554 990.4**		**Gross borrowing requirement**
							Financing
							Change in loan liabilities
–	**-25 493.0**	**-25 493.0**	**48 000.0**	**42 000.0**	**46 000.0**		**Domestic short-term loans (net)**
47 880.0	**310 900.0**	**263 020.0**	**329 900.0**	**377 700.0**	**411 000.0**		**Domestic long-term loans**
47 880.0	*310 987.0*	*263 107.0*	*329 900.0*	*377 700.0*	*341 000.0*		*Market loans*
–	*-87.0*	*-87.0*	*–*	*–*	*–*		*Loans issued for switches*
–	**–**	**–**	**–**	**–**	**70 000.0**		**Eskom debt-relief arrangement**
330 400.0	**64 465.6**	**-265 934.4**	**44 360.3**	**34 960.0**	**79 380.0**		**Foreign loans**
330 400.0	*64 465.6*	*-265 934.4*	*44 360.3*	*34 960.0*	*79 380.0*		*Market loans*
–	*–*	*–*	*–*	*–*	*–*		*Loans issued for switches*
106 184.8	**38 016.6**	**-68 168.2**	**93 323.2**	**50 152.5**	**18 610.4**		**Change in cash and other balances (- increase)**
484 464.8	**387 889.1**	**-96 575.7**	**515 583.5**	**504 812.5**	**554 990.4**		**Total financing**
6 441 287.8	*6 651 265.5*	*209 977.8*	*7 005 733.5*	*7 452 382.3*	*7 938 960.0*		*GDP*
						13)	National Revenue Fund transactions
2 646.0	*4 573.5*	*1 927.5*	*11 053.0*	*5 490.0*	*1 055.0*		*National Revenue Fund receipts*
-56.1	*-263.2*	*-207.1*	*-50.5*	*–*	*–*		*National Revenue Fund payments*
2 589.9	***4 310.3***	***1 720.4***	***11 002.5***	***5 490.0***	***1 055.0***		***Net***

7) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, Auditor-General of South Africa, National Revenue Fund payments (previously classified as extraordinary payments), the International Oil Pollution Compensation Fund and allocations made in the 2022/23 Second Adjustments Appropriation Bill.

8) Includes compensation of employees, payments for goods and services, interest and rent on land. Payment for medical benefits to former employees has been moved to transfers.

9) Includes current and capital transfers and subsidies to business, households, foreign countries and other levels and funds of general government.

10) Includes acquisition and own account construction of new assets and the cost of upgrading, improving and extending existing capital assets.

11) Consists mainly of lending to public corporations or making equity investments in them for policy purposes. Previously included in transfers and subsidies.

12) Revaluation estimates are based on the National Treasury's projection of exchange rates.

13) National Revenue Fund payments include premiums paid on loan transactions and revaluation adjustments when utilising foreign exchange deposits. National Revenue Fund receipts include proceeds from the sale of state assets, premiums received on loan transactions and revaluation adjustments when utilising foreign exchange deposits.

Table 2
Main budget: estimates of national revenue
Summary of revenue

R million		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Taxes on income and profits		**230 803.6**	**279 990.5**	**332 058.3**	**383 482.7**	**359 044.8**	**379 941.2**	**426 583.7**
Personal income tax		125 645.3	140 578.3	168 774.4	195 145.7	205 145.0	226 925.0	250 399.6
Corporate income tax		86 160.8	118 998.6	140 119.8	165 539.0	134 883.4	132 901.7	151 626.7
Secondary tax on companies/dividends tax and interest withholding tax		12 277.6	15 291.4	20 585.4	20 017.6	15 467.8	17 178.2	21 965.4
Tax on retirement funds		4 783.1	3 190.5	285.4	143.3	42.7	2.8	6.7
Other	1)	1 936.7	1 931.7	2 293.3	2 637.2	3 505.9	2 933.6	2 585.3
Taxes on payroll and workforce		**4 872.0**	**5 597.4**	**6 330.9**	**7 327.5**	**7 804.8**	**8 652.3**	**10 173.1**
Skills development levy	2)	4 872.0	5 597.4	6 330.9	7 327.5	7 804.8	8 652.3	10 173.1
Taxes on property		**11 137.5**	**10 332.3**	**11 883.9**	**9 477.1**	**8 826.4**	**9 102.3**	**7 817.5**
Donations tax		29.5	47.0	27.6	125.0	60.1	64.6	52.7
Estate duty		624.7	747.4	691.0	756.7	759.3	782.3	1 045.2
Securities transfer tax	3)	1 973.4	2 763.9	3 757.1	3 664.5	3 324.0	2 932.9	2 886.1
Transfer duties		8 510.0	6 774.0	7 408.2	4 930.9	4 683.0	5 322.5	3 833.6
Domestic taxes on goods and services		**151 362.5**	**174 637.9**	**194 690.3**	**201 416.0**	**203 666.8**	**249 490.4**	**263 949.9**
Value-added tax	4)	114 351.6	134 462.6	150 442.8	154 343.1	147 941.3	183 571.4	191 020.2
Specific excise duties		14 546.5	16 369.5	18 218.4	20 184.5	21 289.3	22 967.6	25 411.1
Health promotion levy		–	–	–	–	–	–	–
Ad valorem excise duties		1 157.3	1 282.7	1 480.5	1 169.5	1 275.9	1 596.2	1 828.3
Fuel levies		20 506.7	21 844.6	23 740.5	24 883.8	28 832.5	34 417.6	36 602.3
Air departure tax		458.2	484.8	540.6	549.4	580.3	647.8	762.4
Electricity levy		–	–	–	–	3 341.7	4 996.4	6 429.7
Other	5)	342.2	193.7	267.5	285.7	405.7	1 293.3	1 895.8
Taxes on international trade and transactions		**18 201.3**	**24 002.2**	**27 081.9**	**22 852.4**	**19 318.9**	**26 977.1**	**34 121.0**
Customs duties		18 303.5	23 697.0	26 469.9	22 751.0	19 577.1	26 637.4	34 197.9
Health promotion levy on imports		–	–	–	–	–	–	–
Import surcharges		–	–	–	–	–	–	–
Other	6)	-102.1	305.2	612.0	101.4	-258.3	339.7	-76.9
Stamp duties and fees		**792.8**	**615.7**	**557.1**	**571.8**	**49.5**	**3.1**	**-2.9**
State miscellaneous revenue	7)	**164.2**	**339.2**	**212.2**	**-27.4**	**-5.7**	**16.7**	**7.4**
TOTAL TAX REVENUE (gross)		**417 334.0**	**495 515.1**	**572 814.6**	**625 100.2**	**598 705.4**	**674 183.1**	**742 649.7**
Non-tax revenue	8)	**15 602.3**	**14 281.4**	**14 542.4**	**20 819.6**	**15 323.1**	**16 474.0**	**24 401.5**
Less: SACU payments	9)	**-14 144.9**	**-25 194.9**	**-24 712.6**	**-28 920.6**	**-27 915.4**	**-14 991.3**	**-21 760.0**
Other adjustment	10)	**–**	**–**	**–**	**–**	**–**	**-2 914.4**	**–**
TOTAL MAIN BUDGET REVENUE		**418 791.4**	**484 601.6**	**562 644.4**	**616 999.2**	**586 113.1**	**672 751.5**	**745 291.3**
Current revenue		**418 573.8**	**484 596.3**	**562 414.2**	**616 868.0**	**586 076.8**	**672 716.0**	**745 176.5**
Direct taxes		236 329.7	286 382.4	339 107.8	391 691.9	367 669.0	389 440.5	437 854.7
Indirect taxes		180 701.8	208 827.1	233 494.6	233 435.6	231 042.1	284 726.0	304 787.6
State miscellaneous revenue		164.2	339.2	212.2	-27.4	-5.7	16.7	7.4
Non-tax revenue (excluding sales of capital assets)	11)	15 523.0	14 242.6	14 312.2	20 688.4	15 286.8	16 438.5	24 286.8
Less: SACU payments		-14 144.9	-25 194.9	-24 712.6	-28 920.6	-27 915.4	-17 905.7	-21 760.0
Sales of capital assets		**79.3**	**38.8**	**230.2**	**131.2**	**36.3**	**35.4**	**114.7**
National Revenue Fund receipts	12)	*6 905.2*	*3 438.1*	*1 849.8*	*8 203.4*	*6 428.6*	*3 013.9*	*5 209.2*

1) Includes interest on overdue income tax and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).
2) Levy on payroll dedicated to skills development.
3) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.
4) Value-added tax (VAT) replaced general sales tax in September 1991.
5) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1999/00), levies on financial services (up to 2004/05), CO_2 motor vehicle emissions (from 2010/11), incandescent light bulb levy (from 2009/10), turnover tax for micro businesses (from 2009/10), tyre levy, International Oil Pollution Compensation Fund (from 2016/17) and carbon tax (from 2020/21). Mining leases and ownership have been reclassified as non-tax revenue. The historical years from 2000/01 have been adjusted for comparative purposes.

Source: National Treasury

Table 2
Main budget: estimates of national revenue
Summary of revenue

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19		R million
Actual collections								
457 313.8	**507 759.2**	**561 789.8**	**606 820.5**	**664 526.4**	**711 703.0**	**738 740.6**		**Taxes on income and profits**
275 821.6	309 931.2	352 950.4	388 102.4	424 545.2	460 952.8	492 082.9		Personal income tax
159 259.2	177 459.6	184 925.4	191 151.6	204 431.8	217 412.0	212 046.1		Corporate income tax
19 738.7	17 308.8	21 247.3	24 152.8	31 575.7	28 559.6	30 523.1		Secondary tax on companies/dividends tax and interest withholding tax
0.2	–	–	–	–	–	–		Tax on retirement funds
2 494.1	3 059.6	2 666.7	3 413.7	3 973.8	4 778.6	4 088.6	*1)*	Other
11 378.5	**12 475.6**	**14 032.1**	**15 220.2**	**15 314.8**	**16 012.4**	**17 439.0**		**Taxes on payroll and workforce**
11 378.5	12 475.6	14 032.1	15 220.2	15 314.8	16 012.4	17 439.0	*2)*	Skills development levy
8 645.2	**10 487.1**	**12 471.5**	**15 044.1**	**15 661.2**	**16 584.6**	**15 251.8**		**Taxes on property**
82.1	112.8	167.0	134.8	280.3	732.1	604.4		Donations tax
1 013.0	1 101.5	1 488.6	1 982.2	1 619.5	2 292.0	2 069.3		Estate duty
3 271.9	3 784.3	4 150.1	5 530.7	5 553.2	5 837.5	5 334.8	*3)*	Securities transfer tax
4 278.3	5 488.5	6 665.8	7 396.3	8 208.3	7 723.0	7 243.2		Transfer duties
296 921.5	**324 548.2**	**356 554.4**	**385 955.9**	**402 463.9**	**422 248.3**	**460 544.6**		**Domestic taxes on goods and services**
215 023.0	237 666.6	261 294.8	281 111.4	289 166.7	297 997.6	324 766.0	*4)*	Value-added tax
28 377.7	29 039.5	32 333.6	35 076.7	35 773.8	37 355.9	40 829.7		Specific excise duties
–	–	–	–	–	–	3 195.1		Health promotion levy
2 231.9	2 363.3	2 962.3	3 014.1	3 396.2	3 780.9	4 191.9		*Ad valorem* excise duties
40 410.4	43 684.7	48 466.5	55 607.3	62 778.8	70 948.6	75 372.2		Fuel levies
873.1	878.7	906.6	941.2	1 003.9	1 086.0	1 082.9		Air departure tax
7 983.9	8 818.9	8 648.2	8 471.8	8 457.7	8 501.0	8 404.0		Electricity levy
2 021.4	2 096.5	1 942.5	1 733.5	1 886.8	2 578.3	2 702.9	*5)*	Other
39 549.1	**44 732.2**	**41 462.9**	**46 942.3**	**46 102.5**	**49 939.4**	**55 722.9**		**Taxes on international trade and transactions**
38 997.9	44 178.7	40 678.8	46 250.1	45 579.1	49 151.7	54 968.1		Customs duties
–	–	–	–	–	–	53.1		Health promotion levy on imports
–	–	–	–	–	–	–		Import surcharges
551.2	553.4	784.1	692.2	523.4	787.7	701.8	*6)*	Other
0.5	**31.7**	**-1.2**	**0.4**	**-0.1**	**-0.3**	**0.0**		**Stamp duties and fees**
17.2	**-19.1**	**-14.6**	**-0.8**	**12.2**	**-23.5**	**-8.7**	*7)*	**State miscellaneous revenue**
813 825.8	**900 014.7**	**986 295.0**	**1 069 982.6**	**1 144 081.0**	**1 216 463.9**	**1 287 690.2**		**TOTAL TAX REVENUE (gross)**
28 467.7	**30 725.8**	**30 899.6**	**57 275.7**	**33 271.8**	**35 849.3**	**35 869.0**	*8)*	**Non-tax revenue**
-42 151.3	**-43 374.4**	**-51 737.7**	**-51 021.9**	**-39 448.3**	**-55 950.9**	**-48 288.6**	*9)*	**Less: SACU payments**
–	**–**	**–**	**–**	**–**	**–**	**–**	*10)*	**Other adjustment**
800 142.2	**887 366.2**	**965 456.9**	**1 076 236.4**	**1 137 904.4**	**1 196 362.3**	**1 275 270.6**		**TOTAL MAIN BUDGET REVENUE**
800 047.9	**887 329.2**	**965 379.5**	**1 076 115.3**	**1 137 755.2**	**1 196 164.8**	**1 275 158.7**		**Current revenue**
469 787.4	521 449.0	577 477.5	624 157.7	681 741.0	730 739.5	758 853.4		Direct taxes
344 021.2	378 584.8	408 832.1	445 825.7	462 327.8	485 747.9	528 845.5		Indirect taxes
17.2	-19.1	-14.6	-0.8	12.2	-23.5	-8.7		State miscellaneous revenue
28 373.4	30 688.8	30 822.1	57 154.6	33 122.6	35 651.8	35 757.1	*11)*	Non-tax revenue (excluding sales of capital assets)
-42 151.3	-43 374.4	-51 737.7	-51 021.9	-39 448.3	-55 950.9	-48 288.6		Less: SACU payments
94.3	**37.0**	**77.4**	**121.1**	**149.2**	**197.5**	**111.9**		**Sales of capital assets**
12 302.8	*11 709.3*	*12 647.0*	*14 377.5*	*14 240.7*	*16 600.3*	*11 999.4*	*12)*	*National Revenue Fund receipts*

6) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and export duties (duty on scrap metal from 2021/22).
7) Includes revenue received by SARS that could not be allocated to a specific revenue type.
8) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties and mining leases and ownership), sales of capital assets as well as transactions in financial assets and liabilities.
9) Payments in terms of SACU agreements.
10) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.
11) Excludes sales of capital assets.
12) Previously classified as extraordinary revenue, includes sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund.

Table 2
Main budget: estimates of national revenue
Summary of revenue

R million		2019/20	2020/21	2021/22	2022/23	2022/23	2023/24	2023/24
		Actual collections			Revised estimates	% change on actual 2021/22	Budget estimates Before tax proposals	Budget estimates After tax proposals
Taxes on income and profits		**772 684.8**	**718 180.5**	**912 870.0**	**989 876.7**	**8.4%**	**1 030 213.3**	**1 021 213.3**
Personal income tax		527 632.5	487 011.1	553 951.5	601 649.4	8.6%	644 300.0	640 300.0
Corporate income tax		211 522.2	202 123.4	320 446.9	344 944.4	7.6%	341 118.9	336 118.9
Secondary tax on companies/dividends tax and interest withholding tax		28 526.4	25 335.7	33 898.2	39 282.0	15.9%	40 612.4	40 612.4
Tax on retirement funds		–	–	-0.2	–	-100.0%	–	–
Other	1)	5 003.7	3 710.3	4 573.7	4 000.8	-12.5%	4 182.0	4 182.0
Taxes on payroll and workforce		**18 486.3**	**12 250.2**	**19 335.9**	**21 238.1**	**9.8%**	**23 027.0**	**23 027.0**
Skills development levy	2)	18 486.3	12 250.2	19 335.9	21 238.1	9.8%	23 027.0	23 027.0
Taxes on property		**15 979.9**	**15 946.6**	**22 032.8**	**22 655.5**	**2.8%**	**23 862.9**	**23 862.9**
Donations tax		572.3	602.0	635.4	664.6	4.6%	700.0	700.0
Estate duty		2 047.8	2 316.3	3 140.8	3 826.5	21.8%	4 030.4	4 030.4
Securities transfer tax	3)	6 240.2	5 422.3	7 680.5	6 426.1	-16.3%	6 768.6	6 768.6
Transfer duties		7 119.6	7 606.0	10 576.1	11 738.4	11.0%	12 363.9	12 363.9
Domestic taxes on goods and services		**492 282.8**	**455 866.6**	**549 806.3**	**581 870.9**	**5.8%**	**646 765.3**	**642 765.3**
Value-added tax	4)	346 760.8	331 196.8	390 895.1	426 283.1	9.1%	471 476.8	471 476.8
Specific excise duties		46 826.6	32 273.0	49 705.1	55 228.0	11.1%	58 955.8	58 955.8
Health promotion levy		2 446.2	2 046.2	2 182.3	2 319.7	6.3%	2 476.3	2 476.3
Ad valorem excise duties		4 124.2	3 385.5	4 725.1	4 461.1	-5.6%	4 698.9	4 698.9
Fuel levies		80 175.2	75 502.8	88 889.1	79 131.0	-11.0%	94 407.8	90 407.8
Air departure tax		1 068.3	138.5	285.1	748.3	162.5%	785.2	785.2
Electricity levy		8 290.7	7 739.3	7 890.6	7 644.1	-3.1%	7 719.5	7 719.5
Other	5)	2 590.9	3 584.4	5 233.9	6 055.5	15.7%	6 245.0	6 245.0
Taxes on international trade and transactions		**56 322.4**	**47 455.4**	**59 719.3**	**76 535.4**	**28.2%**	**76 588.1**	**76 588.1**
Customs duties		55 428.4	47 290.4	57 993.8	74 175.8	27.9%	74 221.0	74 221.0
Health promotion levy on imports		66.6	67.4	77.5	113.5	46.4%	113.6	113.6
Import surcharges		–	–	–	–	–	–	–
Other	6)	827.4	97.6	1 648.0	2 246.1	36.3%	2 253.5	2 253.5
Stamp duties and fees		**–**	**–**	**–**	**–**	**–**	**–**	**–**
State miscellaneous revenue	7)	**10.0**	**11.9**	**-10.1**	**–**	**–**	**–**	**–**
TOTAL TAX REVENUE (gross)		**1 355 766.3**	**1 249 711.2**	**1 563 754.2**	**1 692 176.7**	**8.2%**	**1 800 456.5**	**1 787 456.5**
Non-tax revenue	8)	**40 384.0**	**52 052.7**	**46 601.8**	**55 077.8**	**18.2%**	**51 583.4**	**51 583.4**
Less: SACU payments	9)	**-50 280.3**	**-63 395.2**	**-45 966.2**	**-43 683.4**	**-5.0%**	**-79 811.0**	**-79 811.0**
Other adjustment	10)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL MAIN BUDGET REVENUE		**1 345 869.9**	**1 238 368.7**	**1 564 389.8**	**1 703 571.1**	**8.9%**	**1 772 228.8**	**1 759 228.8**
Current revenue		**1 345 749.2**	**1 238 244.6**	**1 564 253.5**	**1 703 443.9**	**8.9%**	**1 772 097.6**	**1 759 097.6**
Direct taxes		793 791.2	733 349.0	935 982.2	1 015 605.9	8.5%	1 057 970.6	1 048 970.6
Indirect taxes		561 965.0	516 350.3	627 782.1	676 570.8	7.8%	742 485.9	738 485.9
State miscellaneous revenue		10.0	11.9	-10.1	–	–	–	–
Non-tax revenue (excluding sales of capital assets)	11)	40 263.2	51 928.6	46 465.5	54 950.6	18.3%	51 452.1	51 452.1
Less: SACU payments		-50 280.3	-63 395.2	-45 966.2	-43 683.4	-5.0%	-79 811.0	-79 811.0
Sales of capital assets		**120.7**	**124.1**	**136.3**	**127.2**	**-6.7%**	**131.3**	**131.3**
National Revenue Fund receipts	*12)*	*12 801.3*	*25 769.9*	*6 068.4*	*4 573.5*	*-24.6%*	*11 053.0*	*11 053.0*

1) Includes interest on overdue income tax and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).
2) Levy on payroll dedicated to skills development.
3) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.
4) Value-added tax (VAT) replaced general sales tax in September 1991.
5) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1999/00), levies on financial services (up to 2004/05), CO_2 motor vehicle emissions (from 2010/11), incandescent light bulb levy (from 2009/10), turnover tax for micro businesses (from 2009/10), tyre levy, International Oil Pollution Compensation Fund (from 2016/17) and carbon tax (from 2020/21). Mining leases and ownership have been reclassified as non-tax revenue. The historical years from 2000/01 have been adjusted for comparative purposes.

Source: National Treasury

Table 2
Main budget: estimates of national revenue
Summary of revenue

2023/24		2024/25		2025/26			
% change on revised 2022/23	% of total budget revenue	Estimates	% change after tax proposals 2023/24	Estimates	% change on 2024/25		R million
3.2%	**58.0%**	**1 089 123.4**	**6.6%**	**1 172 033.0**	**7.6%**		**Taxes on income and profits**
6.4%	36.4%	696 624.1	8.8%	752 627.0	8.0%		Personal income tax
-2.6%	19.1%	345 434.2	2.8%	369 476.7	7.0%		Corporate income tax
3.4%	2.3%	42 625.6	5.0%	45 199.9	6.0%		Secondary tax on companies/dividends tax and interest withholding tax
–	–		–		–		Tax on retirement funds
4.5%	0.2%	4 439.5	6.2%	4 729.5	6.5%	*1)*	Other
8.4%	**1.3%**	**24 815.6**	**7.8%**	**26 845.7**	**8.2%**		**Taxes on payroll and workforce**
8.4%	1.3%	24 815.6	7.8%	26 845.7	8.2%	*2)*	Skills development levy
5.3%	**1.4%**	**25 384.3**	**6.4%**	**27 040.2**	**6.5%**		**Taxes on property**
5.3%	0.0%	744.6	6.4%	793.2	6.5%		Donations tax
5.3%	0.2%	4 287.4	6.4%	4 567.1	6.5%		Estate duty
5.3%	0.4%	7 200.1	6.4%	7 669.8	6.5%	*3)*	Securities transfer tax
5.3%	0.7%	13 152.2	6.4%	14 010.2	6.5%		Transfer duties
10.5%	**36.5%**	**687 208.2**	**6.9%**	**731 031.8**	**6.4%**		**Domestic taxes on goods and services**
10.6%	26.8%	505 408.6	7.2%	537 867.9	6.4%	*4)*	Value-added tax
6.7%	3.4%	62 864.6	6.6%	67 049.6	6.7%		Specific excise duties
6.7%	0.1%	2 640.4	6.6%	2 816.2	6.7%		Health promotion levy
5.3%	0.3%	4 998.4	6.4%	5 324.5	6.5%		*Ad valorem* excise duties
14.3%	5.1%	96 171.7	6.4%	102 445.4	6.5%		Fuel levies
4.9%	0.0%	822.8	4.8%	861.2	4.7%		Air departure tax
1.0%	0.4%	7 847.0	1.7%	7 992.8	1.9%		Electricity levy
3.1%	0.4%	6 454.5	3.4%	6 674.2	3.4%	*5)*	Other
0.1%	**4.4%**	**81 195.0**	**6.0%**	**86 505.6**	**6.5%**		**Taxes on international trade and transactions**
0.1%	4.2%	78 748.8	6.1%	83 962.8	6.6%		Customs duties
0.1%	0.0%	120.5	6.1%	128.5	6.6%		Health promotion levy on imports
–	–	–	–	–	–		Import surcharges
0.3%	0.1%	2 325.7	3.2%	2 414.4	3.8%	*6)*	Other
–	**–**	**–**	**–**	**–**	**–**		**Stamp duties and fees**
–	**–**	**–**	**–**	**–**	**–**	*7)*	**State miscellaneous revenue**
5.6%	**101.6%**	**1 907 726.5**	**6.7%**	**2 043 456.3**	**7.1%**		**TOTAL TAX REVENUE (gross)**
-6.3%	**2.9%**	**46 858.7**	**-9.2%**	**44 310.2**	**-5.4%**	*8)*	**Non-tax revenue**
82.7%	**-4.5%**	**-86 504.8**	**8.4%**	**-80 059.4**	**-7.5%**	*9)*	**Less: SACU payments**
–	**–**	**–**	**–**	**–**	**–**	*10)*	**Other adjustment**
3.3%	**100.0%**	**1 868 080.4**	**6.2%**	**2 007 707.1**	**7.5%**		**TOTAL MAIN BUDGET REVENUE**
3.3%	**100.0%**	**1 867 946.5**	**6.2%**	**2 007 571.8**	**7.5%**		**Current revenue**
3.3%	59.6%	1 118 971.1	6.7%	1 204 238.9	7.6%		Direct taxes
9.2%	42.0%	788 755.5	6.8%	839 217.4	6.4%		Indirect taxes
–	–	–	–	–	–		State miscellaneous revenue
-6.4%	2.9%	46 724.8	-9.2%	44 174.8	-5.5%	*11)*	Non-tax revenue (excluding sales of capital assets)
82.7%	-4.5%	-86 504.8	8.4%	-80 059.4	-7.5%		Less: SACU payments
3.2%	**0.0%**	**133.9**	**2.0%**	**135.3**	**1.1%**		**Sales of capital assets**
141.7%	*0.6%*	*5 490.0*	*-50.3%*	*1 055.0*	*-80.8%*	*12)*	*National Revenue Fund receipts*

6) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and export duties (duty on scrap metal from 2021/22).
7) Includes revenue received by SARS that could not be allocated to a specific revenue type.
8) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties and mining leases and ownership), sales of capital assets as well as transactions in financial assets and liabilities.
9) Payments in terms of SACU agreements.
10) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.
11) Excludes sales of capital assets.
12) Previously classified as extraordinary revenue, includes sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund.

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

R thousand		2019/20	2020/21	2021/22			
		Actual collections		Before tax proposals	After tax proposals	Revised estimate	Actual collection
Taxes on income and profits		**772 684 806**	**718 180 499**	**764 177 629**	**761 977 629**	**910 106 674**	**912 870 032**
Personal income tax		527 632 509	487 011 071	518 157 332	515 957 332	553 529 186	553 951 488
Tax on corporate income							
Corporate income tax		211 522 203	202 123 447	213 114 219	213 114 219	318 380 351	320 446 871
Secondary tax on companies/dividends tax		27 929 888	24 845 362	26 172 131	26 172 131	32 182 238	33 429 472
Interest withholding tax		596 498	490 305	542 524	542 524	479 858	468 752
Other							
Interest on overdue income tax		5 003 687	3 710 242	6 191 383	6 191 383	5 535 041	4 573 663
Small business tax amnesty		21	72	40	40	–	–
Taxes on payroll and workforce		**18 486 280**	**12 250 229**	**17 812 864**	**17 812 864**	**18 932 767**	**19 335 917**
Skills development levy		18 486 280	12 250 229	17 812 864	17 812 864	18 932 767	19 335 917
Taxes on property		**15 979 940**	**15 946 618**	**16 837 117**	**16 837 117**	**19 693 303**	**22 032 795**
Estate, inheritance and gift taxes							
Donations tax		572 261	602 003	645 722	645 722	626 277	635 423
Estate duty		2 047 843	2 316 293	2 559 252	2 559 252	2 929 427	3 140 787
Taxes on financial and capital transactions							
Securities transfer tax	*1)*	6 240 209	5 422 275	6 095 252	6 095 252	6 629 230	7 680 453
Transfer duties		7 119 627	7 606 047	7 536 890	7 536 890	9 508 369	10 576 131
Domestic taxes on goods and services		**492 282 788**	**455 866 615**	**512 729 587**	**514 529 587**	**541 296 114**	**549 806 294**
Value-added tax							
Domestic VAT		399 288 366	392 935 790	430 061 872	430 061 872	446 738 030	448 760 190
Import VAT		179 987 357	166 454 473	181 332 787	181 332 787	196 927 831	204 551 808
Refunds		-232 514 956	-228 193 414	-241 217 288	-241 217 288	-259 941 983	-262 416 899
Specific excise duties							
Beer		15 524 759	11 020 597	14 154 251	14 764 311	18 313 546	19 957 814
Sorghum beer and sorghum flour		4 366	3 496	4 241	4 241	5 176	4 808
Wine and other fermented beverages		4 574 469	3 442 572	4 573 424	4 718 649	5 946 246	6 112 700
Spirits		8 994 734	7 642 522	7 969 675	8 314 388	11 462 890	11 308 512
Cigarettes and cigarette tobacco		13 969 782	7 536 755	12 417 753	13 089 833	9 157 845	8 958 630
Pipe tobacco and cigars		495 694	438 049	424 077	451 997	498 513	413 154
Petroleum products	*2)*	825 673	685 488	861 035	861 035	951 797	745 552
Revenue from neighbouring countries	*3)*	2 437 098	1 503 551	1 529 450	1 529 450	1 875 943	2 203 959
Health promotion levy		2 446 184	2 046 177	2 149 910	2 149 910	2 210 621	2 182 323
Ad valorem excise duties		4 124 241	3 385 507	3 536 499	3 536 499	4 276 262	4 725 140
Fuel levy		80 175 160	75 502 814	83 147 932	83 147 932	89 883 837	88 889 070
Taxes on use of goods or permission to use goods or to perform activities							
Air departure tax		1 068 258	138 465	140 017	140 017	201 118	285 088
Plastic bag levy		317 897	581 434	559 907	559 907	611 353	658 216
Electricity levy		8 290 676	7 739 340	8 140 779	8 140 779	8 005 287	7 890 565
Incandescent light bulb levy		33 963	24 881	24 735	24 735	24 623	23 345
CO_2 tax - motor vehicle emissions		1 327 417	1 469 582	1 443 726	1 443 726	1 798 386	2 173 481
Tyre levy		708 018	601 143	537 571	537 571	663 300	714 927
International Oil Pollution Compensation Fund		3 093	2 671	3 027	3 027	2 347	–
Carbon tax		–	650 374	656 206	656 206	1 399 655	1 397 618
Turnover tax for micro businesses		8 450	8 513	2 387	2 387	6 811	8 793
Other							
Universal Service Fund		192 088	245 837	275 616	275 616	276 679	257 500
Taxes on international trade and transactions		**56 322 406**	**47 455 394**	**53 567 108**	**53 967 108**	**57 041 647**	**59 719 265**
Import duties							
Customs duties		55 428 360	47 290 375	53 142 376	53 142 376	55 821 013	57 993 758
Health promotion levy on imports		66 606	67 429	65 053	65 053	78 229	77 510
Other							
Miscellaneous customs and excise receipts		732 759	46 582	299 984	299 984	748 234	1 070 568
Diamond export levy		94 681	51 009	59 694	59 694	92 105	169 992
Export tax		–	–	–	400 000	302 066	407 437
Other taxes		**–**	**–**	**3**	**3**	**1**	**–**
Stamp duties and fees		–	–	3	3	1	–
State miscellaneous revenue	*4)*	**10 037**	**11 880**	**–**	**–**	**–**	**-10 057**
TOTAL TAX REVENUE (gross)		**1 355 766 258**	**1 249 711 235**	**1 365 124 307**	**1 365 124 307**	**1 547 070 505**	**1 563 754 245**
Less: SACU payments	*5)*	**-50 280 313**	**-63 395 241**	**-45 966 211**	**-45 966 211**	**-45 966 211**	**-45 966 211**
Payments in terms of SACU agreements		-50 280 313	-63 395 241	-45 966 211	-45 966 211	-45 966 211	-45 966 211
TOTAL TAX REVENUE (net of SACU payments)		**1 305 485 945**	**1 186 315 994**	**1 319 158 095**	**1 319 158 095**	**1 501 104 294**	**1 517 788 033**

1) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.
2) Specific excise duties on petrol, distillate fuel, residual fuel and base oil.
3) Excise duties that are collected by Botswana, Lesotho, Namibia and eSwatini.
Source: National Treasury

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

2022/23 Budget estimates Before tax proposals	2022/23 Budget estimates After tax proposals	2022/23 Revised estimate	% change on 2021/22 actual	2023/24 Before tax proposals	2023/24 After tax proposals		R thousand
896 499 557	**894 299 557**	**989 876 665**	**8.4%**	**1 030 213 252**	**1 021 213 252**		**Taxes on income and profits**
590 107 299	587 907 299	601 649 444	8.6%	644 299 958	640 299 958		Personal income tax
							Tax on corporate income
269 931 285	269 931 285	344 944 415	7.6%	341 118 898	336 118 898		Corporate income tax
30 449 778	30 449 778	38 514 527	15.2%	39 818 928	39 818 928		Secondary tax on companies/dividends tax
454 026	454 026	767 451	63.7%	793 443	793 443		Interest withholding tax
							Other
5 557 169	5 557 169	4 000 829	-12.5%	4 182 025	4 182 025		Interest on overdue income tax
–	–	–	–	–	–		Small business tax amnesty
20 619 315	**20 619 315**	**21 238 137**	**9.8%**	**23 026 959**	**23 026 959**		**Taxes on payroll and workforce**
20 619 315	20 619 315	21 238 137	9.8%	23 026 959	23 026 959		Skills development levy
20 291 186	**20 291 186**	**22 655 536**	**2.8%**	**23 862 925**	**23 862 925**		**Taxes on property**
							Estate, inheritance and gift taxes
645 290	645 290	664 560	4.6%	699 977	699 977		Donations tax
3 018 363	3 018 363	3 826 501	21.8%	4 030 428	4 030 428		Estate duty
							Taxes on financial and capital transactions
6 830 492	6 830 492	6 426 109	-16.3%	6 768 577	6 768 577	*1)*	Securities transfer tax
9 797 041	9 797 041	11 738 366	11.0%	12 363 942	12 363 942		Transfer duties
603 732 266	**600 732 266**	**581 870 917**	**5.8%**	**646 765 255**	**642 765 255**		**Domestic taxes on goods and services**
							Value-added tax
475 948 200	475 948 200	489 819 505	9.1%	522 881 471	522 881 471		Domestic VAT
215 534 094	215 534 094	251 031 602	22.7%	251 184 661	251 184 661		Import VAT
-251 801 648	-251 801 648	-314 568 056	19.9%	-302 589 358	-302 589 358		Refunds
							Specific excise duties
17 518 807	17 677 849	21 036 382	5.4%	22 456 301	22 456 301		Beer
5 281	5 281	4 494	-6.5%	4 798	4 798		Sorghum beer and sorghum flour
5 228 728	5 261 769	6 405 120	4.8%	6 837 455	6 837 455		Wine and other fermented beverages
10 151 137	10 359 055	13 455 854	19.0%	14 364 101	14 364 101		Spirits
14 188 760	14 280 554	10 915 105	21.8%	11 651 855	11 651 855		Cigarettes and cigarette tobacco
606 013	614 219	431 670	4.5%	460 807	460 807		Pipe tobacco and cigars
1 209 450	1 209 450	732 512	-1.7%	781 956	781 956	*2)*	Petroleum products
2 456 140	2 456 140	2 246 911	1.9%	2 398 574	2 398 574	*3)*	Revenue from neighbouring countries
2 355 163	2 355 163	2 319 698	6.3%	2 476 274	2 476 274		Health promotion levy
4 406 088	4 406 088	4 461 119	-5.6%	4 698 867	4 698 867		*Ad valorem* excise duties
92 612 682	89 112 682	79 131 044	-11.0%	94 407 780	90 407 780		Fuel levy
							Taxes on use of goods or permission to use goods or to perform activities
210 224	210 224	748 302	162.5%	785 219	785 219		Air departure tax
639 033	639 033	741 868	12.7%	778 468	778 468		Plastic bag levy
8 158 930	8 158 930	7 644 149	-3.1%	7 719 455	7 719 455		Electricity levy
25 096	25 096	25 979	11.3%	26 235	26 235		Incandescent light bulb levy
1 832 902	1 832 902	2 693 663	23.9%	2 720 199	2 720 199		CO_2 tax - motor vehicle emissions
693 332	693 332	789 073	10.4%	828 002	828 002		Tyre levy
2 393	2 393	–	–	2 500	2 500		International Oil Pollution Compensation Fund
1 463 027	1 463 027	1 689 042	20.9%	1 772 370	1 772 370		Carbon tax
6 445	6 445	10 226	16.3%	10 573	10 573		Turnover tax for micro businesses
							Other
281 989	281 989	105 653	-59.0%	106 694	106 694		Universal Service Fund
62 505 172	**62 505 172**	**76 535 408**	**28.2%**	**76 588 081**	**76 588 081**		**Taxes on international trade and transactions**
							Import duties
61 095 130	61 095 130	74 175 774	27.9%	74 221 001	74 221 001		Customs duties
85 620	85 620	113 502	46.4%	113 571	113 571		Health promotion levy on imports
							Other
762 594	762 594	1 275 882	19.2%	1 288 451	1 288 451		Miscellaneous customs and excise receipts
89 221	89 221	151 110	-11.1%	150 302	150 302		Diamond export levy
472 607	472 607	819 139	101.0%	814 756	814 756		Export tax
1	**1**	**–**	**–**	**–**	**–**		**Other taxes**
1	1	–	–	–	–		Stamp duties and fees
–	**–**	**–**	**-100.0%**	**–**	**–**	*4)*	**State miscellaneous revenue**
1 603 647 497	**1 598 447 497**	**1 692 176 663**	**8.2%**	**1 800 456 472**	**1 787 456 472**		**TOTAL TAX REVENUE (gross)**
-43 683 418	**-43 683 418**	**-43 683 418**	**-5.0%**	**-79 810 981**	**-79 810 981**	*5)*	**Less: SACU payments**
-43 683 418	-43 683 418	-43 683 418	-5.0%	-79 810 981	-79 810 981		Payments in terms of SACU agreements
1 559 964 079	**1 554 764 079**	**1 648 493 245**	**8.6%**	**1 720 645 491**	**1 707 645 491**		**TOTAL TAX REVENUE (net of SACU payments)**

3) Excise duties that are collected by Botswana, Lesotho, Namibia and eSwatini.
4) Revenue received by SARS in respect of taxation that could not be allocated to specific revenue types.
5) Payments in terms of SACU agreements (section 51(2) of the Customs and Excise Duties Act of 1964).

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

R thousand		2019/20	2020/21	2021/22			
		Actual collections		Before tax proposals	After tax proposals	Revised estimate	Actual collection
TOTAL TAX REVENUE (net of SACU payments)		**1 305 485 945**	**1 186 315 994**	**1 319 158 095**	**1 319 158 095**	**1 501 104 294**	**1 517 788 033**
Sales of goods and services other than capital assets		**2 714 926**	**1 610 613**	**2 549 423**	**2 549 423**	**3 114 546**	**2 821 922**
Sales of goods and services produced by departments							
Sales by market establishments	6)	61 365	53 458	74 003	74 003	62 690	57 141
Administrative fees		1 263 977	660 745	1 552 495	1 552 495	839 930	1 033 462
Other sales		1 350 542	890 523	911 865	911 865	2 202 512	1 723 903
Sales of scrap, waste, arms and other used current goods		39 042	5 887	11 060	11 060	9 414	7 416
Transfers received		**388 398**	**422 588**	**634 488**	**634 488**	**536 520**	**363 953**
Fines, penalties and forfeits		**367 146**	**563 497**	**462 306**	**462 306**	**301 210**	**428 113**
Interest, dividends and rent on land		**20 985 598**	**20 927 165**	**21 431 580**	**21 431 580**	**35 402 962**	**33 997 493**
Interest							
Cash and cash equivalents		8 276 106	6 502 135	5 095 042	5 095 042	7 144 373	5 524 230
Dividends							
Airports Company South Africa		42 293	–	–	–	–	916
South African Special Risks Insurance Association		171 305	187 901	198 048	198 048	198 048	–
Vodacom		–	–	32	32	32	–
Industrial Development Corporation		370	–	50 000	50 000	50 000	–
Reserve Bank (National Treasury)		–	–	–	–	–	–
Telkom		664 292	103 759	108 914	108 914	–	–
Other		–	–	1 200	1 200	1 004	–
Rent on land							
Mineral and petroleum royalties	7)	11 830 241	14 227 647	15 937 248	15 937 248	27 978 513	28 456 419
Mining leases and ownership	8)	-25 187	-105 789	–	–	–	–
Royalties, prospecting fees and surface rental	9)	21 160	9 412	27 466	27 466	27 466	13 035
Land rent		5 018	2 100	13 630	13 630	3 526	2 893
Sales of capital assets		**120 742**	**124 134**	**132 422**	**132 422**	**131 660**	**136 303**
Financial transactions in assets and liabilities	10)	**15 807 178**	**28 404 741**	**7 303 810**	**7 303 810**	**8 477 013**	**8 854 020**
TOTAL NON-TAX REVENUE	11)	**40 383 988**	**52 052 738**	**32 514 029**	**32 514 029**	**47 963 911**	**46 601 804**
TOTAL MAIN BUDGET REVENUE		**1 345 869 934**	**1 238 368 732**	**1 351 672 124**	**1 351 672 124**	**1 549 068 205**	**1 564 389 838**
National Revenue Fund receipts		***12 801 333***	***25 769 918***	***4 856 000***	***4 856 000***	***5 339 507***	***6 068 425***
Revaluation profits on foreign currency transactions		*8 958 256*	*11 042 461*	*4 856 000*	*4 856 000*	*3 389 241*	*3 172 356*
Premiums on loan transactions		*3 462 654*	*14 327 910*	–	–	*738 558*	*1 380 512*
Premiums on debt portfolio restructuring (switches)		*378 078*	*397 326*	–	–	*1 208 353*	*1 313 261*
Liquidation of South African Special Risks Insurance Association investment		–	–	–	–	–	–
Other		*2 345*	*2 221*	–	–	*3 355*	*202 296*

6) New item introduced on the standard chart of accounts from 2008/09.
7) Mineral royalties imposed on the transfer of mineral resources in terms of the Mineral and Petroleum Resources Royalty Act (2008), which came into operation on 1 May 2009.
8) Mining leases and ownership have been reclassified as non-tax revenue.
9) Royalties, prospecting fees and surface rental collected by the Department of Mineral Resources and Energy.
10) Includes recoveries of loans and advances.
11) Includes National Revenue Fund receipts previously accounted for separately.
Source: National Treasury

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

2022/23				2023/24			
Budget estimates Before tax proposals	Budget estimates After tax proposals	Revised estimate	% change on 2021/22 actual	Before tax proposals	After tax proposals		R thousand
1 559 964 079	**1 554 764 079**	**1 648 493 245**	**8.6%**	**1 720 645 491**	**1 707 645 491**		**TOTAL TAX REVENUE (net of SACU payments)**
1 654 820	**1 654 820**	**3 874 536**	**37.3%**	**2 346 228**	**2 346 228**		**Sales of goods and services other than capital assets**
							Sales of goods and services produced by departments
73 099	73 099	72 258	26.5%	70 084	70 084	6)	Sales by market establishments
662 913	662 913	1 073 586	3.9%	1 140 408	1 140 408		Administrative fees
908 673	908 673	2 718 113	57.7%	1 125 737	1 125 737		Other sales
10 135	10 135	10 579	42.7%	9 999	9 999		Sales of scrap, waste, arms and other used current goods
646 380	**646 380**	**646 229**	**77.6%**	**660 393**	**660 393**		**Transfers received**
349 565	**349 565**	**476 607**	**11.3%**	**462 803**	**462 803**		**Fines, penalties and forfeits**
25 343 758	**25 343 758**	**34 055 279**	**0.2%**	**33 961 142**	**33 961 142**		**Interest, dividends and rent on land**
							Interest
6 394 289	6 394 289	8 342 837	51.0%	11 209 889	11 209 889		Cash and cash equivalents
							Dividends
–	–	234	-74.5%	51 424	51 424		Airports Company South Africa
198 048	198 048	198 048	–	198 048	198 048		South African Special Risks Insurance Association
32	32	–	–	–	–		Vodacom
50 000	50 000	–	–	–	–		Industrial Development Corporation
–	–	–	–	–	–		Reserve Bank (National Treasury)
114 360	114 360	–	–	–	–		Telkom
1 205	1 205	–	–	–	–		Other
							Rent on land
18 554 237	18 554 237	25 482 573	-10.5%	22 468 607	22 468 607	7)	Mineral and petroleum royalties
–	–	–	–	–	–	8)	Mining leases and ownership
27 878	27 878	27 878	113.9%	29 272	29 272	9)	Royalties, prospecting fees and surface rental
3 709	3 709	3 709	28.2%	3 902	3 902		Land rent
131 084	**131 084**	**127 217**	**-6.7%**	**131 285**	**131 285**		**Sales of capital assets**
5 153 995	**5 153 995**	**15 897 977**	**79.6%**	**14 021 505**	**14 021 505**	10)	**Financial transactions in assets and liabilities**
33 279 602	**33 279 602**	**55 077 844**	**18.2%**	**51 583 356**	**51 583 356**	11)	**TOTAL NON-TAX REVENUE**
1 593 243 681	**1 588 043 681**	**1 703 571 089**	**8.9%**	**1 772 228 847**	**1 759 228 847**		**TOTAL MAIN BUDGET REVENUE**
2 646 000	***2 646 000***	***4 573 527***	***-24.6%***	***11 053 000***	***11 053 000***		***National Revenue Fund receipts***
2 646 000	*2 646 000*	*4 128 433*	*30.1%*	*11 053 000*	*11 053 000*		*Revaluation profits on foreign currency transactions*
–	–	*442 778*	*-67.9%*	–	–		*Premiums on loan transactions*
–	–	–	*-100.0%*	–	–		*Premiums on debt portfolio restructuring (switches)*
–	–	–	–	–	–		*Liquidation of South African Special Risks Insurance Association investment*
–	–	*2 316*	*-98.9%*	–	–		*Other*

Table 4
Main budget: expenditure defrayed from the National Revenue Fund by vote

R million	2019/20 Expenditure on budget vote outcome	2019/20 *of which* *transfers to provinces 1)*	2019/20 *of which* *transfers to local government 2)*	2020/21 Expenditure on budget vote outcome	2020/21 *of which transfers to provinces 1)*
1 The Presidency	639.3	–	–	517.8	–
2 Parliament	1 993.5	–	–	2 015.8	–
3 Cooperative Governance	86 782.0	*466.4*	*81 433.5*	103 305.8	*138.5*
of which: local government equitable share	–	–	*65 627.3*	–	–
4 Government Communication and Information System	675.6	–	–	712.1	–
5 Home Affairs	9 527.5	–	–	8 470.3	–
6 International Relations and Cooperation	6 368.6	–	–	6 245.9	–
7 National School of Government	183.0	–	–	221.6	–
8 National Treasury	29 771.2	–	*1 584.0*	34 081.5	–
9 Planning, Monitoring and Evaluation	439.2	–	–	387.1	–
10 Public Enterprises	56 846.4	–	–	77 503.4	–
11 Public Service and Administration	488.8	–	–	430.6	–
12 Public Service Commission	274.5	–	–	261.2	–
13 Public Works and Infrastructure	7 820.2	*868.2*	*730.0*	7 531.0	*832.5*
14 Statistics South Africa	2 553.5	–	–	2 691.3	–
15 Traditional Affairs	160.7	–	–	137.5	–
16 Basic Education	24 376.8	*19 079.0*	–	24 323.2	*19 238.0*
17 Higher Education and Training	88 783.5	–	–	93 697.5	–
18 Health	50 772.8	*45 863.4*	–	58 086.1	*52 082.0*
19 Social Development	199 183.2	–	–	227 500.1	–
20 Women, Youth and Persons with Disabilities	730.9	–	–	602.4	–
21 Civilian Secretariat for the Police Service	137.4	–	–	131.5	–
22 Correctional Services	25 184.8	–	–	25 027.1	–
23 Defence	50 229.7	–	–	54 086.2	–
24 Independent Police Investigative Directorate	336.6	–	–	340.9	–
25 Justice and Constitutional Development	18 187.8	–	–	17 885.5	–
26 Military Veterans	477.2	–	–	429.3	–
27 Office of the Chief Justice	1 133.9	–	–	1 071.9	–
28 Police	95 930.2	–	–	95 483.1	–
29 Agriculture, Land Reform and Rural Development	16 948.1	*2 157.5*	–	14 109.1	*1 688.5*
30 Communications and Digital Technologies	5 663.8	–	–	3 164.6	–
31 Employment and Labour	3 215.9	–	–	3 103.1	–
32 Forestry, Fisheries and the Environment	8 691.4	–	–	8 300.0	–
33 Human Settlements	33 345.6	*19 572.3*	*11 802.5*	28 775.5	*15 342.5*
34 Mineral Resources and Energy	8 915.5	–	*2 086.9*	7 184.9	–
35 Science and Innovation	8 081.4	–	–	7 165.3	–
36 Small Business Development	2 228.8	–	–	2 249.2	–
37 Sport, Arts and Culture	5 468.5	*2 121.2*	–	5 175.5	*1 520.9*
38 Tourism	2 384.4	–	–	1 392.2	–
39 Trade, Industry and Competition	10 876.0	–	–	9 039.7	–
40 Transport	63 888.6	*17 768.2*	*6 484.0*	57 073.8	*17 216.9*
41 Water and Sanitation	15 217.6	–	*5 697.8*	14 502.6	–
Total appropriation by vote	**944 914.2**	***107 896.2***	***109 818.7***	**1 004 413.6**	***108 059.8***
Plus:					
Direct charges against the National Revenue Fund					
President and deputy president salaries (The Presidency)	5.7	–	–	5.7	–
Members' remuneration (Parliament)	622.7	–	–	510.6	–
Debt-service costs (National Treasury)	204 769.4	–	–	232 595.7	–
Provincial equitable share (National Treasury) 4)	505 553.8	*505 553.8*	–	520 717.0	*520 717.0*
General fuel levy sharing with metropolitan municipalities (National Treasury)	13 166.8	–	*13 166.8*	14 026.9	–
National Revenue Fund payments (National Treasury)	468.5	–	–	588.3	–
Auditor-General of South Africa (National Treasury)	62.8	–	–	70.0	–
Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of South Africa (National Treasury)	–	–	–	74.4	–
Section 70 of the Public Finance Management Act (1999) payment: South African Express Airways (Public Enterprises)	–	–	–	143.4	–
Section 70 of the Public Finance Management Act (1999) payment: South African Airways (Public Enterprises)	–	–	–	266.9	–
Section 70 of the Public Finance Management Act (1999) payment: Denel (Public Enterprises)	–	–	–	–	–
Skills levy and sector education and training authorities (Higher Education and Training)	18 283.8	–	–	12 413.0	–
Magistrates' salaries (Justice and Constitutional Development)	2 100.2	–	–	2 146.8	–
Judges' salaries (Office of the Chief Justice)	1 051.7	–	–	1 043.6	–
International Oil Pollution Compensation Fund (Transport)	2.6	–	–	–	–
Total direct charges against the National Revenue Fund	**746 088.0**	***505 553.8***	***13 166.8***	**784 602.2**	***520 717.0***
Provisional allocations not assigned to votes	–	–	–	–	–
Infrastructure Fund not assigned to votes	–	–	–	–	–
Unallocated reserve	–	–	–	–	–
Total	**1 691 002.2**	***613 449.9***	***122 985.5***	**1 789 015.8**	***628 776.8***
Contingency reserve	–	–	–	–	–
National government projected underspending	–	–	–	–	–
Local government repayment to the National Revenue Fund	–	–	–	–	–
Main budget expenditure	**1 691 002.2**	***613 449.9***	***122 985.5***	**1 789 015.8**	***628 776.8***

1) Includes provincial equitable share and conditional grants allocated to provinces.
2) Includes local government equitable share and conditional grants allocated to local government, as well as general fuel levy sharing with metropolitan municipalities.
3) Budget estimate adjusted for function shifts.
Source: National Treasury

Table 4
Main budget: expenditure defrayed from the National Revenue Fund by vote

2020/21	2021/22			2022/23		
of which transfers to local government 2)	**Expenditure on budget vote outcome**	*of which transfers to provinces 1)*	*of which transfers to local government 2)*	**Budget estimate** *3)*	**Adjusted appro-priation** *5)*	**R million**
–	518.2	–	–	606.9	618.3	1 The Presidency
–	2 144.1	–	–	2 212.2	2 367.3	2 Parliament
98 680.8	98 443.1	*48.1*	*93 100.7*	111 364.9	115 027.4	3 Cooperative Governance
83 102.4	–	–	*76 168.6*	–	–	*of which: local government equitable share*
–	755.0	–	–	719.9	729.7	4 Government Communication and Information System
–	9 431.4	–	–	9 406.0	11 096.2	5 Home Affairs
–	6 037.0	–	–	6 600.5	6 784.3	6 International Relations and Cooperation
–	207.5	–	–	228.1	231.1	7 National School of Government
1 481.9	62 369.9	–	*2 366.2*	33 939.2	38 837.7	8 National Treasury
–	396.7	–	–	470.9	481.4	9 Planning, Monitoring and Evaluation
–	36 027.2	–	–	23 928.9	34 145.4	10 Public Enterprises
–	457.6	–	–	540.3	550.1	11 Public Service and Administration
–	265.8	–	–	288.4	295.5	12 Public Service Commission
748.0	8 082.2	*835.5*	*758.7*	8 547.3	8 152.7	13 Public Works and Infrastructure
–	4 648.3	–	–	2 758.5	2 999.4	14 Statistics South Africa
–	154.7	–	–	177.0	180.1	15 Traditional Affairs
–	28 414.9	*21 935.7*	–	29 560.2	29 693.2	16 Basic Education
–	97 415.0	–	–	109 514.9	109 737.6	17 Higher Education and Training
–	65 137.4	*52 462.2*	–	64 531.0	64 555.7	18 Health
–	231 865.2	–	–	257 001.4	247 854.9	19 Social Development
–	1 164.4	–	–	987.3	991.7	20 Women, Youth and Persons with Disabilities
–	138.4	–	–	152.3	155.9	21 Civilian Secretariat for the Police Service
–	25 693.6	–	–	26 108.7	26 536.0	22 Correctional Services
–	48 775.9	–	–	49 090.1	51 601.6	23 Defence
–	347.9	–	–	357.2	363.5	24 Independent Police Investigative Directorate
–	19 100.3	–	–	20 021.9	20 482.0	25 Justice and Constitutional Development
–	515.6	–	–	666.4	670.0	26 Military Veterans
–	1 156.2	–	–	1 265.8	1 362.9	27 Office of the Chief Justice
–	99 595.4	–	–	100 695.3	102 555.0	28 Police
–	16 931.2	*2 235.3*	–	17 287.7	17 533.6	29 Agriculture, Land Reform and Rural Development
–	3 569.5	–	–	2 717.2	5 327.8	30 Communications and Digital Technologies
–	3 232.2	–	–	3 956.0	4 107.8	31 Employment and Labour
–	7 490.0	–	–	8 947.9	8 994.8	32 Forestry, Fisheries and the Environment
10 738.4	30 959.5	*17 302.7*	*11 416.6*	33 024.7	33 478.5	33 Human Settlements
1 551.3	8 903.5	–	*2 223.0*	10 345.7	10 447.5	34 Mineral Resources and Energy
–	8 962.0	–	–	9 133.3	9 145.3	35 Science and Innovation
–	2 613.2	–	–	2 563.1	2 532.9	36 Small Business Development
–	5 643.7	*2 086.9*	–	6 295.1	6 305.5	37 Sport, Arts and Culture
–	2 537.8	–	–	2 491.6	2 502.4	38 Tourism
–	11 614.1	–	–	10 859.3	10 913.6	39 Trade, Industry and Competition
4 497.5	64 903.3	*19 057.4*	*5 284.4*	69 125.9	95 134.2	40 Transport
5 373.2	15 203.5	–	*5 857.8*	18 539.7	18 555.0	41 Water and Sanitation
123 071.1	**1 031 822.6**	***115 963.7***	***121 007.4***	**1 057 028.6**	**1 104 035.7**	**Total appropriation by vote**
						Plus:
						Direct charges against the National Revenue Fund
–	5.7	–	–	7.7	7.7	President and deputy president salaries (The Presidency)
–	501.9	–	–	471.7	471.7	Members' remuneration (Parliament)
–	268 071.6	–	–	301 806.3	307 156.9	Debt-service costs (National Treasury)
–	544 834.9	*544 834.9*	–	560 756.8	570 868.2	*4)* Provincial equitable share (National Treasury)
14 026.9	14 617.3	–	*14 617.3*	15 334.8	15 334.8	General fuel levy sharing with metropolitan municipalities (National Treasury)
–	2 173.4	–	–	56.1	263.2	National Revenue Fund payments (National Treasury)
–	140.0	–	–	72.6	72.6	Auditor-General of South Africa (National Treasury)
–	–	–	–	–	101.6	Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of South Africa (National Treasury)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: South African Express Airways (Public Enterprises)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: South African Airways (Public Enterprises)
–	3 030.9	–	–	–	204.7	Section 70 of the Public Finance Management Act (1999) payment: Denel (Public Enterprises)
–	19 011.6	–	–	20 619.3	21 238.1	Skills levy and sector education and training authorities (Higher Education and Training)
–	2 174.5	–	–	2 398.5	2 398.5	Magistrates' salaries (Justice and Constitutional Development)
–	1 063.3	–	–	1 122.6	1 247.1	Judges' salaries (Office of the Chief Justice)
–	3.4	–	–	12.0	12.0	International Oil Pollution Compensation Fund (Transport)
14 026.9	**855 628.6**	***544 834.9***	***14 617.3***	**902 658.4**	**919 377.2**	**Total direct charges against the National Revenue Fund**
–	–	–	–	1 372.1	–	Provisional allocations not assigned to votes
–	–	–	–	4 197.4	–	Infrastructure Fund not assigned to votes
–	–	–	–	–	–	Unallocated reserve
137 098.0	**1 887 451.2**	***660 798.6***	***135 624.7***	**1 965 256.5**	**2 023 412.8**	**Total**
–	–	–	–	10 000.0	–	Contingency reserve
–	–	–	–	–	-15 826.5	National government projected underspending
–	–	–	–	–	-3 600.0	Local government repayment to the National Revenue Fund
137 098.0	**1 887 451.2**	***660 798.6***	***135 624.7***	**1 975 256.5**	**2 003 986.3**	**Main budget expenditure**

4) Provincial equitable share excluding conditional grants to provinces.
5) Adjusted appropriation includes allocations made in the 2022/23 Second Adjustments Appropriation Bill.

Table 4
Main budget: expenditure defrayed from the National Revenue Fund by vote

R million	2022/23 Revised estimate	2022/23 of which transfers to provinces 1)	2022/23 of which transfers to local government 2)	2023/24 Budget estimate	2023/24 of which transfers to provinces 1)	2023/24 of which transfers to local government 2)
1 The Presidency	580.9	–	–	617.2	–	–
2 Parliament	2 367.3	–	–	3 423.5	–	–
3 Cooperative Governance	109 499.1	*96.9*	*103 793.6*	121 698.3	*145.8*	*115 957.4*
of which: local government equitable share	–	–	*83 711.5*	–	–	*96 546.3*
4 Government Communication and Information System	729.7	–	–	750.7	–	–
5 Home Affairs	11 096.2	–	–	10 863.3	–	–
6 International Relations and Cooperation	6 682.3	–	–	6 694.1	–	–
7 National School of Government	231.1	–	–	229.0	–	–
8 National Treasury	37 701.2	–	*2 379.6*	34 889.4	–	*2 580.0*
9 Planning, Monitoring and Evaluation	452.4	–	–	475.8	–	–
10 Public Enterprises	33 934.7	–	–	302.9	–	–
11 Public Service and Administration	524.1	–	–	553.5	–	–
12 Public Service Commission	289.6	–	–	292.1	–	–
13 Public Works and Infrastructure	8 028.7	*857.9*	*778.4*	8 782.1	*861.2*	*781.4*
14 Statistics South Africa	2 999.4	–	–	2 691.7	–	–
15 Traditional Affairs	177.6	–	–	193.1	–	–
16 Basic Education	29 593.2	*23 124.4*	–	31 782.7	*25 329.0*	–
17 Higher Education and Training	109 537.6	–	–	110 781.6	–	–
18 Health	62 108.8	*56 251.5*	–	60 111.4	*54 183.4*	–
19 Social Development	241 703.2	–	–	263 029.2	–	–
20 Women, Youth and Persons with Disabilities	983.2	–	–	1 036.4	–	–
21 Civilian Secretariat for the Police Service	155.9	–	–	154.2	–	–
22 Correctional Services	26 062.7	–	–	26 026.7	–	–
23 Defence	51 601.6	–	–	51 124.4	–	–
24 Independent Police Investigative Directorate	363.5	–	–	364.4	–	–
25 Justice and Constitutional Development	20 482.0	–	–	20 793.9	–	–
26 Military Veterans	670.0	–	–	894.7	–	–
27 Office of the Chief Justice	1 344.9	–	–	1 304.5	–	–
28 Police	102 555.0	–	–	102 137.7	–	–
29 Agriculture, Land Reform and Rural Development	17 533.6	*2 294.4*	–	17 254.3	*2 333.3*	–
30 Communications and Digital Technologies	5 285.7	–	–	3 512.2	–	–
31 Employment and Labour	4 098.3	–	–	4 092.2	–	–
32 Forestry, Fisheries and the Environment	8 834.8	–	–	9 873.6	–	–
33 Human Settlements	33 415.5	*19 172.5*	*11 680.3*	34 942.4	*19 246.4*	*12 514.1*
34 Mineral Resources and Energy	10 201.6	–	*2 342.9*	10 701.2	–	*2 436.1*
35 Science and Innovation	9 145.3	–	–	10 874.2	–	–
36 Small Business Development	2 532.9	–	–	2 574.8	–	–
37 Sport, Arts and Culture	6 265.5	*2 176.1*	–	6 357.7	*2 174.8*	–
38 Tourism	2 437.4	–	–	2 524.2	–	–
39 Trade, Industry and Competition	10 839.7	–	–	10 922.5	–	–
40 Transport	94 880.9	*19 755.9*	*6 127.9*	79 552.4	*23 270.0*	*6 909.5*
41 Water and Sanitation	16 682.2	–	*5 348.5*	22 257.3	–	*7 359.9*
Total appropriation by vote	**1 084 609.1**	***123 729.6***	***132 451.2***	**1 077 437.8**	***127 543.9***	***148 538.4***
Plus:						
Direct charges against the National Revenue Fund						
President and deputy president salaries (The Presidency)	7.7	–	–	7.9	–	–
Members' remuneration (Parliament)	471.7	–	–	471.7	–	–
Debt-service costs (National Treasury)	307 156.9	–	–	340 460.3	–	–
Provincial equitable share (National Treasury) 4)	570 868.2	*570 868.2*	–	567 527.7	*567 527.7*	–
General fuel levy sharing with metropolitan municipalities (National Treasury)	15 334.8	–	*15 334.8*	15 433.5	–	*15 433.5*
National Revenue Fund payments (National Treasury)	263.2	–	–	50.5	–	–
Auditor-General of South Africa (National Treasury)	72.6	–	–	123.1	–	–
Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of South Africa (National Treasury)	101.6	–	–	–	–	–
Section 70 of the Public Finance Management Act (1999) payment: South African Express Airways (Public Enterprises)	–	–	–	–	–	–
Section 70 of the Public Finance Management Act (1999) payment: South African Airways (Public Enterprises)	–	–	–	–	–	–
Section 70 of the Public Finance Management Act (1999) payment: Denel (Public Enterprises)	204.7	–	–	–	–	–
Skills levy and sector education and training authorities (Higher Education and Training)	21 238.1	–	–	23 027.0	–	–
Magistrates' salaries (Justice and Constitutional Development)	2 398.5	–	–	2 398.7	–	–
Judges' salaries (Office of the Chief Justice)	1 247.1	–	–	1 124.7	–	–
International Oil Pollution Compensation Fund (Transport)	12.0	–	–	12.6	–	–
Total direct charges against the National Revenue Fund	**919 377.2**	***570 868.2***	***15 334.8***	**950 637.6**	***567 527.7***	***15 433.5***
Provisional allocations not assigned to votes	–	–	–	1 504.7	–	–
Infrastructure Fund not assigned to votes	–	–	–	–	–	–
Unallocated reserve	–	–	–	–	–	–
Total	**2 003 986.3**	***694 597.9***	***147 786.0***	**2 029 580.1**	***695 071.6***	***163 971.9***
Contingency reserve	–	–	–	5 000.0	–	–
National government projected underspending	–	–	–	–	–	–
Local government repayment to the National Revenue Fund	–	–	–	–	–	–
Main budget expenditure	**2 003 986.3**	***694 597.9***	***147 786.0***	**2 034 580.1**	***695 071.6***	***163 971.9***

1) Includes provincial equitable share and conditional grants allocated to provinces.
2) Includes local government equitable share and conditional grants allocated to local government, as well as general fuel levy sharing with metropolitan municipalities.
3) Budget estimate adjusted for function shifts.
Source: National Treasury

Table 4
Main budget: expenditure defrayed from the National Revenue Fund by vote

2024/25			2025/26			
	of which			*of which*		
Budget estimate	*transfers to provinces 1)*	*transfers to local government 2)*	Budget estimate	*transfers to provinces 1)*	*transfers to local government 2)*	R million
644.4	–	–	672.8	–	–	1 The Presidency
3 032.2	–	–	3 146.1	–	–	2 Parliament
129 717.9	*152.4*	*123 719.6*	136 475.9	*159.2*	*130 209.3*	3 Cooperative Governance
–	–	*103 772.0*	–	–	*109 368.1*	*of which: local government equitable share*
782.8	–	–	816.4	–	–	4 Government Communication and Information System
10 508.9	–	–	11 010.9	–	–	5 Home Affairs
6 992.2	–	–	7 303.0	–	–	6 International Relations and Cooperation
238.8	–	–	249.4	–	–	7 National School of Government
33 140.8	–	*1 801.9*	34 625.2	–	*1 882.6*	8 National Treasury
497.0	–	–	519.0	–	–	9 Planning, Monitoring and Evaluation
316.4	–	–	330.4	–	–	10 Public Enterprises
578.0	–	–	603.6	–	–	11 Public Service and Administration
305.0	–	–	318.5	–	–	12 Public Service Commission
9 167.6	*899.9*	*816.5*	9 569.0	*940.2*	*853.1*	13 Public Works and Infrastructure
2 823.0	–	–	2 948.1	–	–	14 Statistics South Africa
201.3	–	–	209.7	–	–	15 Traditional Affairs
33 026.4	*26 485.0*	–	34 928.7	*28 093.3*	–	16 Basic Education
121 657.1	–	–	125 241.1	–	–	17 Higher Education and Training
62 444.3	*56 170.8*	–	65 357.9	*58 687.2*	–	18 Health
242 104.5	–	–	258 000.3	–	–	19 Social Development
821.6	–	–	858.3	–	–	20 Women, Youth and Persons with Disabilities
161.0	–	–	168.1	–	–	21 Civilian Secretariat for the Police Service
27 182.6	–	–	28 387.2	–	–	22 Correctional Services
51 045.6	–	–	53 004.6	–	–	23 Defence
380.6	–	–	397.4	–	–	24 Independent Police Investigative Directorate
21 599.6	–	–	22 541.1	–	–	25 Justice and Constitutional Development
974.6	–	–	1 060.0	–	–	26 Military Veterans
1 361.0	–	–	1 419.8	–	–	27 Office of the Chief Justice
109 065.3	–	–	114 920.5	–	–	28 Police
18 106.2	*2 515.7*	–	18 884.7	*2 596.3*	–	29 Agriculture, Land Reform and Rural Development
4 383.6	–	–	2 594.5	–	–	30 Communications and Digital Technologies
3 902.4	–	–	4 097.5	–	–	31 Employment and Labour
9 570.3	–	–	9 777.8	–	–	32 Forestry, Fisheries and the Environment
36 292.7	*19 614.4*	*13 353.9*	38 074.7	*20 493.1*	*14 108.5*	33 Human Settlements
11 233.3	–	*2 553.9*	11 735.6	–	*2 668.3*	34 Mineral Resources and Energy
10 523.7	–	–	10 105.0	–	–	35 Science and Innovation
2 690.3	–	–	2 810.6	–	–	36 Small Business Development
6 160.1	*2 272.4*	–	6 435.8	*2 374.2*	–	37 Sport, Arts and Culture
2 637.2	–	–	2 755.0	–	–	38 Tourism
10 588.7	–	–	11 062.0	–	–	39 Trade, Industry and Competition
86 705.4	*24 852.6*	*7 872.8*	94 138.3	*27 058.0*	*8 495.1*	40 Transport
24 180.1	–	*8 137.1*	25 884.6	–	*8 263.8*	41 Water and Sanitation
1 097 744.5	***132 963.1***	***158 255.6***	**1 153 439.2**	***140 401.6***	***166 480.6***	**Total appropriation by vote**
						Plus:
						Direct charges against the National Revenue Fund
8.2	–	–	8.6	–	–	President and deputy president salaries (The Presidency)
492.9	–	–	515.0	–	–	Members' remuneration (Parliament)
362 839.9	–	–	397 074.0	–	–	Debt-service costs (National Treasury)
587 499.7	*587 499.7*	–	614 270.8	*614 270.8*	–	*4)* Provincial equitable share (National Treasury)
16 126.6	–	*16 126.6*	16 849.1	–	*16 849.1*	General fuel levy sharing with metropolitan municipalities (National Treasury)
–	–	–	–	–	–	National Revenue Fund payments (National Treasury)
128.6	–	–	134.3	–	–	Auditor-General of South Africa (National Treasury)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of South Africa (National Treasury)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: South African Express Airways (Public Enterprises)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: South African Airways (Public Enterprises)
–	–	–	–	–	–	Section 70 of the Public Finance Management Act (1999) payment: Denel (Public Enterprises)
24 815.6	–	–	26 845.7	–	–	Skills levy and sector education and training authorities (Higher Education and Training)
2 505.9	–	–	2 617.7	–	–	Magistrates' salaries (Justice and Constitutional Development)
1 175.2	–	–	1 227.9	–	–	Judges' salaries (Office of the Chief Justice)
13.1	–	–	13.7	–	–	International Oil Pollution Compensation Fund (Transport)
995 605.8	***587 499.7***	***16 126.6***	**1 059 556.8**	***614 270.8***	***16 849.1***	**Total direct charges against the National Revenue Fund**
1 858.1	–	–	1 839.1	–	–	Provisional allocations not assigned to votes
2 042.7	–	–	2 138.1	–	–	Infrastructure Fund not assigned to votes
35 693.3	–	–	44 532.7	–	–	Unallocated reserve
2 132 944.5	***720 462.8***	***174 382.3***	**2 261 505.9**	***754 672.5***	***183 329.7***	**Total**
5 000.0	–	–	5 000.0	–	–	Contingency reserve
–	–	–	–	–	–	National government projected underspending
–	–	–	–	–	–	Local government repayment to the National Revenue Fund
2 137 944.5	***720 462.8***	***174 382.3***	**2 266 505.9**	***754 672.5***	***183 329.7***	**Main budget expenditure**

4) Provincial equitable share excluding conditional grants to provinces.
5) Adjusted appropriation includes allocations made in the 2022/23 Second Adjustments Appropriation Bill.

Table 5
Consolidated national, provincial and social security funds expenditure: economic classification *1)*

R million	2019/20 Outcome	2019/20 % of total	2020/21 Outcome	2020/21 % of total	2021/22 Outcome	2021/22 % of total	2022/23 Revised estimate
Current payments	**976 962.2**	**55.2%**	**1 012 465.0**	**52.6%**	**1 094 813.8**	**54.9%**	**1 169 596.7**
Compensation of employees	565 111.7	31.9%	575 042.1	29.9%	603 190.2	30.2%	623 086.9
Goods and services	206 584.4	11.7%	204 420.3	10.6%	222 973.3	11.2%	238 951.1
Interest and rent on land	205 266.1	11.6%	233 002.6	12.1%	268 650.3	13.5%	307 558.7
Transfers and subsidies	**682 449.3**	**38.6%**	**776 737.0**	**40.4%**	**778 324.8**	**39.0%**	**825 494.6**
Municipalities	131 725.3	7.4%	145 596.7	7.6%	144 532.5	7.2%	157 655.5
of which: local government share *2)*	*109 818.7*	*6.2%*	*123 071.1*	*6.4%*	*121 007.4*	*6.1%*	*132 451.2*
Departmental agencies and accounts	145 595.4	8.2%	146 224.3	7.6%	160 295.9	8.0%	171 118.5
Higher education institutions	47 694.3	2.7%	48 838.6	2.5%	48 780.8	2.4%	52 131.7
Foreign governments and international organisations	2 467.5	0.1%	2 227.7	0.1%	2 953.4	0.1%	3 303.8
Public corporations and private enterprises	45 154.8	2.6%	35 791.6	1.9%	46 751.8	2.3%	49 781.2
Public corporations	34 441.8	1.9%	25 470.4	1.3%	36 519.8	1.8%	39 095.5
Subsidies on products and production	22 759.4	1.3%	13 755.2	0.7%	24 253.4	1.2%	26 818.8
Other transfers	11 682.4	0.7%	11 715.3	0.6%	12 266.4	0.6%	12 276.7
Private enterprises	10 713.0	0.6%	10 321.1	0.5%	10 232.0	0.5%	10 685.7
Subsidies on products and production	4 832.1	0.3%	8 007.5	0.4%	9 732.4	0.5%	4 724.4
Other transfers	5 880.8	0.3%	2 313.7	0.1%	499.6	0.0%	5 961.3
Non-profit institutions	31 580.0	1.8%	38 479.7	2.0%	39 108.3	2.0%	40 217.2
Households	278 232.0	15.7%	359 578.3	18.7%	335 902.2	16.8%	351 286.8
Social benefits	250 506.9	14.2%	337 287.8	17.5%	311 414.8	15.6%	322 132.1
Other transfers to households	27 725.1	1.6%	22 290.5	1.2%	24 487.3	1.2%	29 154.7
Payments for capital assets	**44 911.2**	**2.5%**	**44 936.4**	**2.3%**	**48 435.4**	**2.4%**	**54 123.5**
Buildings and other fixed structures	32 499.9	1.8%	30 992.6	1.6%	34 052.1	1.7%	37 616.6
Buildings	21 162.7	1.2%	19 726.7	1.0%	18 758.6	0.9%	23 095.2
Other fixed structures	11 337.2	0.6%	11 266.0	0.6%	15 293.6	0.8%	14 521.4
Machinery and equipment	11 236.1	0.6%	12 202.2	0.6%	11 692.1	0.6%	13 386.2
Transport equipment	4 215.4	0.2%	4 812.4	0.3%	4 446.8	0.2%	4 412.6
Other machinery and equipment	7 020.8	0.4%	7 389.8	0.4%	7 245.3	0.4%	8 973.6
Land and sub-soil assets	136.9	0.0%	744.2	0.0%	1 906.2	0.1%	1 919.3
Software and other intangible assets	967.2	0.1%	890.6	0.0%	734.4	0.0%	627.1
Other assets *3)*	71.1	0.0%	106.8	0.0%	50.5	0.0%	574.4
Payments for financial assets *4)*	**65 128.3**	**3.7%**	**89 865.2**	**4.7%**	**74 072.0**	**3.7%**	**66 999.4**
Subtotal: votes and direct charges	**1 769 451.0**	**100.0%**	**1 924 003.5**	**100.0%**	**1 995 646.0**	**100.0%**	**2 116 214.2**
Plus:							
Contingency reserve	–	–	–	–	–	–	–
Unallocated reserve	–	–	–	–	–	–	–
Total consolidated expenditure	**1 769 451.0**	**100.0%**	**1 924 003.5**	**100.0%**	**1 995 646.0**	**100.0%**	**2 116 214.2**

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank. The numbers in this table are not strictly comparable to those published in previous years due to the reclassification of expenditure items for previous years. Data for the previous years has been adjusted accordingly.
2) Includes equitable share and conditional grants to local government.
Source: National Treasury

Table 5
Consolidated national, provincial and social security funds expenditure: economic classification *1)*

2022/23	2023/24		2024/25		2025/26		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
55.3%	**1 210 939.3**	**56.2%**	**1 270 156.3**	**56.2%**	**1 346 587.6**	**56.9%**	**Current payments**
29.4%	628 995.6	29.2%	654 350.7	29.0%	682 808.2	28.8%	Compensation of employees
11.3%	241 107.2	11.2%	252 566.8	11.2%	266 286.4	11.3%	Goods and services
14.5%	340 836.5	15.8%	363 238.9	16.1%	397 493.0	16.8%	Interest and rent on land
39.0%	**876 725.2**	**40.7%**	**886 863.9**	**39.2%**	**906 946.4**	**38.3%**	**Transfers and subsidies**
7.4%	172 348.8	8.0%	183 142.7	8.1%	192 198.1	8.1%	Municipalities
6.3%	*148 538.4*	*6.9%*	*158 255.6*	*7.0%*	*166 480.6*	*7.0%*	*2) of which: local government share*
8.1%	185 559.3	8.6%	194 054.2	8.6%	205 948.5	8.7%	Departmental agencies and accounts
2.5%	50 192.3	2.3%	56 513.1	2.5%	57 159.1	2.4%	Higher education institutions
0.2%	3 090.1	0.1%	3 404.5	0.2%	3 552.8	0.2%	Foreign governments and international organisations
2.4%	53 025.6	2.5%	55 951.3	2.5%	57 529.0	2.4%	Public corporations and private enterprises
1.8%	41 290.2	1.9%	43 964.4	1.9%	45 073.4	1.9%	Public corporations
1.3%	27 687.4	1.3%	28 900.7	1.3%	30 250.5	1.3%	Subsidies on products and production
0.6%	13 602.8	0.6%	15 063.7	0.7%	14 822.9	0.6%	Other transfers
0.5%	11 735.4	0.5%	11 986.9	0.5%	12 455.6	0.5%	Private enterprises
0.2%	4 754.8	0.2%	4 938.3	0.2%	5 099.0	0.2%	Subsidies on products and production
0.3%	6 980.6	0.3%	7 048.5	0.3%	7 356.6	0.3%	Other transfers
1.9%	40 281.9	1.9%	38 945.4	1.7%	41 429.4	1.8%	Non-profit institutions
16.6%	372 227.2	17.3%	354 852.7	15.7%	349 129.4	14.8%	Households
15.2%	341 465.1	15.9%	322 654.2	14.3%	315 141.3	13.3%	Social benefits
1.4%	30 762.2	1.4%	32 198.4	1.4%	33 988.0	1.4%	Other transfers to households
2.6%	**59 183.2**	**2.7%**	**61 687.0**	**2.7%**	**62 869.9**	**2.7%**	**Payments for capital assets**
1.8%	43 886.3	2.0%	47 904.4	2.1%	48 691.7	2.1%	Buildings and other fixed structures
1.1%	26 701.6	1.2%	28 622.8	1.3%	29 424.5	1.2%	Buildings
0.7%	17 184.7	0.8%	19 281.6	0.9%	19 267.2	0.8%	Other fixed structures
0.6%	12 891.8	0.6%	12 133.8	0.5%	12 659.3	0.5%	Machinery and equipment
0.2%	4 657.9	0.2%	4 468.8	0.2%	4 626.5	0.2%	Transport equipment
0.4%	8 233.9	0.4%	7 665.0	0.3%	8 032.8	0.3%	Other machinery and equipment
0.1%	1 282.2	0.1%	1 007.4	0.0%	934.1	0.0%	Land and sub-soil assets
0.0%	492.9	0.0%	475.4	0.0%	461.7	0.0%	Software and other intangible assets
0.0%	630.0	0.0%	166.1	0.0%	123.2	0.0%	*3)* Other assets
3.2%	**1 973.5**	**0.1%**	**856.2**	**0.0%**	**894.1**	**0.0%**	*4)* **Payments for financial assets**
100.0%	**2 148 821.1**	**99.8%**	**2 219 563.4**	**98.2%**	**2 317 298.0**	**97.91%**	**Subtotal: votes and direct charges**
							Plus:
–	5 000.0	0.2%	5 000.0	0.2%	5 000.0	0.2%	Contingency reserve
–	–	–	35 693.3	1.6%	44 532.7	1.9%	Unallocated reserve
100.0%	**2 153 821.1**	**100.0%**	**2 260 256.7**	**100.0%**	**2 366 830.7**	**100.0%**	**Total consolidated expenditure**

3) Includes biological, heritage and specialised military assets.
4) Includes National Revenue Fund payments previously accounted for separately.

Table 6
Consolidated national, provincial and social security funds expenditure: functional classification *1)*

R million		2019/20 Estimated outcome	2019/20 % of total	2020/21 Estimated outcome	2020/21 % of total	2021/22 Estimated outcome	2021/22 % of total	2022/23 Revised estimate
General public services	2)	**298 990.1**	**16.9%**	**328 875.2**	**17.1%**	**399 489.7**	**20.0%**	**413 178.4**
of which: debt-service costs		*204 769.4*	*11.6%*	*232 595.7*	*12.1%*	*268 071.6*	*13.4%*	*307 156.9*
Defence		**50 000.7**	**2.8%**	**53 674.5**	**2.8%**	**48 468.0**	**2.4%**	**51 718.1**
Public order and safety		**152 480.8**	**8.6%**	**151 382.4**	**7.9%**	**155 443.1**	**7.8%**	**165 281.3**
Police services		104 050.8	5.9%	103 562.2	5.4%	105 064.8	5.3%	112 720.7
Law courts		23 245.3	1.3%	22 793.1	1.2%	24 684.7	1.2%	26 497.9
Prisons		25 184.8	1.4%	25 027.1	1.3%	25 693.6	1.3%	26 062.7
Economic affairs		**223 317.5**	**12.6%**	**224 284.8**	**11.7%**	**211 866.3**	**10.6%**	**240 433.3**
General economic, commercial and labour affairs		28 862.2	1.6%	26 873.4	1.4%	33 923.6	1.7%	29 980.9
Agriculture, forestry, fishing and hunting		22 826.0	1.3%	21 145.6	1.1%	23 986.8	1.2%	25 360.0
Fuel and energy		56 347.9	3.2%	61 702.3	3.2%	39 151.2	2.0%	30 304.6
Mining, manufacturing and construction		1 643.6	0.1%	1 613.5	0.1%	1 510.3	0.1%	1 735.2
Transport		95 415.3	5.4%	99 725.5	5.2%	97 016.5	4.9%	132 911.4
Communication		6 033.5	0.3%	3 088.7	0.2%	3 036.7	0.2%	5 919.5
Other industries		3 576.0	0.2%	2 375.2	0.1%	3 671.3	0.2%	4 338.6
Economic affairs not elsewhere classified		8 613.0	0.5%	7 760.6	0.4%	9 569.8	0.5%	9 883.2
Environmental protection		**9 703.7**	**0.5%**	**10 287.3**	**0.5%**	**8 642.0**	**0.4%**	**10 787.9**
Housing and community amenities		**144 370.6**	**8.2%**	**152 939.5**	**7.9%**	**150 877.5**	**7.6%**	**163 737.9**
Housing development		35 764.3	2.0%	30 284.7	1.6%	34 313.1	1.7%	37 091.9
Community development		93 479.0	5.3%	108 233.1	5.6%	101 443.0	5.1%	110 072.2
Water supply		15 127.3	0.9%	14 421.7	0.7%	15 121.4	0.8%	16 573.7
Health		**218 683.8**	**12.4%**	**239 709.4**	**12.5%**	**251 790.3**	**12.6%**	**254 107.7**
Recreation and culture		**12 654.1**	**0.7%**	**11 946.7**	**0.6%**	**13 544.0**	**0.7%**	**14 122.4**
Education		**373 989.5**	**21.1%**	**380 131.8**	**19.8%**	**407 402.2**	**20.4%**	**438 366.4**
Social protection		**285 260.2**	**16.1%**	**370 771.9**	**19.3%**	**348 122.9**	**17.4%**	**364 480.9**
Subtotal: votes and direct charges		**1 769 451.0**	**100.0%**	**1 924 003.5**	**100.0%**	**1 995 646.0**	**100.0%**	**2 116 214.2**
Plus:								
Contingency reserve		–	–	–	–	–	–	–
Unallocated reserve		–		–		–		–
Total		**1 769 451.0**	**100.0%**	**1 924 003.5**	**100.0%**	**1 995 646.0**	**100.0%**	**2 116 214.2**

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa. The numbers in this table are not strictly comparable to those published in previous years due to the allocation of some of the unallocable expenditure for previous years. Data for the previous years has been adjusted accordingly.

Source: National Treasury

Table 6
Consolidated national, provincial and social security funds expenditure: functional classification *1)*

2022/23	2023/24		2024/25		2025/26		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
19.5%	**445 046.4**	**20.7%**	**467 828.1**	**21.1%**	**506 338.8**	**21.9%**	2) **General public services**
14.5%	*340 460.3*	*15.8%*	*362 839.9*	*16.3%*	*397 074.0*	*17.1%*	*of which: debt-service costs*
2.4%	**51 722.9**	**2.4%**	**51 834.8**	**2.3%**	**53 874.3**	**2.3%**	**Defence**
7.8%	**165 934.7**	**7.7%**	**175 257.9**	**7.9%**	**183 915.1**	**7.9%**	**Public order and safety**
5.3%	113 207.9	5.3%	120 568.4	5.4%	126 817.7	5.5%	Police services
1.3%	26 700.2	1.2%	27 506.9	1.2%	28 710.2	1.2%	Law courts
1.2%	26 026.7	1.2%	27 182.6	1.2%	28 387.2	1.2%	Prisons
11.4%	**189 154.9**	**8.8%**	**201 737.5**	**9.1%**	**210 148.2**	**9.1%**	**Economic affairs**
1.4%	29 245.7	1.4%	29 010.8	1.3%	30 001.1	1.3%	General economic, commercial and labour affairs
1.2%	24 698.3	1.1%	25 735.1	1.2%	26 864.7	1.2%	Agriculture, forestry, fishing and hunting
1.4%	8 700.1	0.4%	9 089.9	0.4%	9 491.7	0.4%	Fuel and energy
0.1%	2 219.2	0.1%	2 357.1	0.1%	2 457.4	0.1%	Mining, manufacturing and construction
6.3%	104 109.5	4.8%	114 621.5	5.2%	122 392.0	5.3%	Transport
0.3%	4 232.9	0.2%	5 133.9	0.2%	3 377.8	0.1%	Communication
0.2%	4 301.2	0.2%	4 473.2	0.2%	4 639.1	0.2%	Other industries
0.5%	11 648.0	0.5%	11 316.0	0.5%	10 924.6	0.5%	Economic affairs not elsewhere classified
0.5%	**12 041.7**	**0.6%**	**11 760.8**	**0.5%**	**12 048.2**	**0.5%**	**Environmental protection**
7.7%	**185 843.9**	**8.6%**	**198 835.5**	**9.0%**	**209 417.0**	**9.0%**	**Housing and community amenities**
1.8%	40 062.1	1.9%	41 538.7	1.9%	43 451.0	1.9%	Housing development
5.2%	123 631.0	5.8%	131 185.9	5.9%	138 059.8	6.0%	Community development
0.8%	22 150.9	1.0%	26 110.9	1.2%	27 906.1	1.2%	Water supply
12.0%	**251 713.0**	**11.7%**	**261 933.6**	**11.8%**	**274 219.5**	**11.8%**	**Health**
0.7%	**14 054.4**	**0.7%**	**14 023.6**	**0.6%**	**14 551.5**	**0.6%**	**Recreation and culture**
20.7%	**449 379.7**	**20.9%**	**469 189.1**	**21.1%**	**489 718.8**	**21.1%**	**Education**
17.2%	**383 929.4**	**17.9%**	**367 162.6**	**16.5%**	**363 066.6**	**15.7%**	**Social protection**
100.0%	**2 148 821.1**	**99.8%**	**2 219 563.4**	**98.2%**	**2 317 298.0**	**97.9%**	**Subtotal: votes and direct charges**
							Plus:
–	5 000.0	0.2%	5 000.0	0.2%	5 000.0	0.2%	Contingency reserve
	–		35 693.3		44 532.7		Unallocated reserve
100.0%	**2 153 821.1**	**100.0%**	**2 260 256.7**	**100.0%**	**2 366 830.7**	**100.0%**	**Total**

2) Mainly general administration, cost of raising loans and unallocable capital expenditure, as well as National Revenue Fund payments previously accounted for separately.

Table 7
Consolidated government revenue and expenditure: economic classification *1)*

R million		2019/20 Outcome	2019/20 % of total	2020/21 Outcome	2020/21 % of total	2021/22 Outcome	2021/22 % of total	2022/23 Revised estimate
Revenue								
Current revenue		1 519 316.7	100.0%	1 408 987.9	100.0%	1 750 293.7	100.0%	1 892 542.1
Tax revenue (net of SACU)		*1 390 638.4*	*91.5%*	*1 267 724.5*	*90.0%*	*1 609 966.4*	*92.0%*	*1 745 983.0*
Non-tax revenue	2)	*128 678.3*	*8.5%*	*141 263.4*	*10.0%*	*140 327.3*	*8.0%*	*146 559.1*
Sales of capital assets		308.9	0.0%	247.1	0.0%	310.9	0.0%	205.2
Total revenue		**1 519 625.5**	**100.0%**	**1 409 235.0**	**100.0%**	**1 750 604.6**	**100.0%**	**1 892 747.3**
Expenditure								
Economic classification								
Current payments		**1 082 801.3**	**59.9%**	**1 119 090.3**	**57.0%**	**1 208 493.9**	**59.2%**	**1 299 359.3**
Compensation of employees		624 182.2	34.5%	634 925.1	32.3%	666 358.2	32.6%	690 374.2
Goods and services		244 598.4	13.5%	243 266.2	12.4%	265 008.2	13.0%	292 955.4
Interest and rent on land		214 020.8	11.8%	240 899.0	12.3%	277 127.6	13.6%	316 029.7
Transfers and subsidies		**594 969.8**	**32.9%**	**691 938.0**	**35.2%**	**685 173.1**	**33.5%**	**731 230.5**
Municipalities		135 199.0	7.5%	148 869.1	7.6%	148 992.4	7.3%	162 603.7
Departmental agencies and accounts		26 874.2	1.5%	28 698.1	1.5%	27 000.0	1.3%	27 260.5
Higher education institutions		48 687.4	2.7%	49 535.3	2.5%	50 093.0	2.5%	53 866.3
Foreign governments and international organisations		2 530.8	0.1%	2 405.7	0.1%	3 141.3	0.2%	3 356.4
Public corporations and private enterprises		36 571.1	2.0%	29 884.5	1.5%	34 884.0	1.7%	42 067.6
Non-profit institutions		33 689.3	1.9%	40 127.7	2.0%	41 499.3	2.0%	41 825.2
Households		311 418.0	17.2%	392 417.5	20.0%	379 563.1	18.6%	400 250.8
Payments for capital assets		**63 197.5**	**3.5%**	**62 279.9**	**3.2%**	**72 874.6**	**3.6%**	**91 896.7**
Buildings and other fixed structures		45 363.2	2.5%	41 806.4	2.1%	48 285.2	2.4%	61 956.1
Machinery and equipment		15 348.6	0.8%	17 799.0	0.9%	20 731.7	1.0%	24 929.7
Land and sub-soil assets		601.5	0.0%	928.5	0.0%	2 231.9	0.1%	2 323.5
Software and other intangible assets		1 715.5	0.1%	1 582.5	0.1%	1 459.6	0.1%	1 972.6
Other assets	3)	168.7	0.0%	163.5	0.0%	166.3	0.0%	714.7
Payments for financial assets	4)	**66 147.0**	**3.7%**	**91 043.2**	**4.6%**	**76 376.7**	**3.7%**	**46 312.9**
Subtotal: economic classification		**1 807 115.6**	**100%**	**1 964 351.3**	**100.0%**	**2 042 918.4**	**100.0%**	**2 168 799.4**
Contingency reserve		–		–		–		–
Unallocated reserve		–		–		–		–
Total consolidated expenditure		**1 807 115.6**		**1 964 351.3**		**2 042 918.4**		**2 168 799.4**
Budget balance		**-287 490.0**		**-555 116.3**		**-292 313.8**		**-276 052.1**
Percentage of GDP		*-5.0%*		*-9.9%*		*-4.6%*		*-4.2%*
Redemptions		**-70 656.6**		**-67 638.9**		**-65 292.2**		**-87 474.0**
Domestic long-term loans		*-19 427.7*		*-53 222.6*		*-61 373.4*		*-71 712.4*
Foreign loans		*-51 229.0*		*-14 416.3*		*-3 918.8*		*-15 761.6*
Eskom debt-relief arrangement		**–**		**–**		**–**		**–**
Gross borrowing requirement		**-358 146.7**		**-622 755.2**		**-357 606.0**		**-363 526.0**
Financing								
Change in loan liabilities		**433 528.7**		**716 823.1**		**325 530.1**		**355 882.3**
Domestic short- and long-term loans		*357 443.7*		*624 821.8*		*294 125.2*		*291 398.3*
Eskom debt-relief arrangement		–		–		–		–
Foreign loans		*76 085.0*		*92 001.3*		*31 404.8*		*64 484.0*
Change in cash and other balances (- increase)		**-75 382.0**		**-94 067.9**		**32 075.9**		**7 643.8**
Total financing		**358 146.7**		**622 755.2**		**357 606.0**		**363 526.0**
GDP		*5 699 236.0*		*5 606 651.0*		*6 287 621.0*		*6 651 265.5*

1) Consisting of national and provincial government, social security funds and public entities. Refer to Annexure W2 for a detailed list of entities included. In some cases figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank.
2) Includes National Revenue Fund receipts previously accounted for separately.
Source: National Treasury

Table 7
Consolidated government revenue and expenditure: economic classification *1)*

2022/23	2023/24		2024/25		2025/26			
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total		R million
								Revenue
100.0%	1 958 600.3	100.0%	2 077 517.2	100.0%	2 225 048.1	100.0%		Current revenue
92.2%	*1 807 719.5*	*92.3%*	*1 924 000.5*	*92.6%*	*2 068 779.4*	*93.0%*		*Tax revenue (net of SACU)*
7.7%	*150 880.8*	*7.7%*	*153 516.7*	*7.4%*	*156 268.7*	*7.0%*	*2)*	*Non-tax revenue*
0.0%	307.0	0.0%	270.4	0.0%	277.8	0.0%		Sales of capital assets
100.0%	**1 958 907.3**	**100.0%**	**2 077 787.6**	**100.0%**	**2 225 325.9**	**100.0%**		**Total revenue**
								Expenditure
								Economic classification
59.9%	**1 355 805.6**	**60.6%**	**1 418 715.0**	**61.2%**	**1 503 379.5**	**61.9%**		**Current payments**
31.8%	701 164.8	31.3%	728 747.0	31.4%	760 607.5	31.3%		Compensation of employees
13.5%	305 184.6	13.6%	317 590.6	13.7%	335 792.5	13.8%		Goods and services
14.6%	349 456.1	15.6%	372 377.4	16.1%	406 979.4	16.8%		Interest and rent on land
33.7%	**767 061.6**	**34.3%**	**771 535.2**	**33.3%**	**782 974.8**	**32.2%**		**Transfers and subsidies**
7.5%	177 626.3	7.9%	188 811.1	8.1%	198 204.4	8.2%		Municipalities
1.3%	27 858.7	1.2%	26 227.4	1.1%	26 413.2	1.1%		Departmental agencies and accounts
2.5%	51 871.4	2.3%	58 450.5	2.5%	59 189.2	2.4%		Higher education institutions
0.2%	3 147.4	0.1%	3 456.6	0.1%	3 607.5	0.1%		Foreign governments and international organisations
1.9%	40 555.5	1.8%	43 237.0	1.9%	45 863.4	1.9%		Public corporations and private enterprises
1.9%	42 148.7	1.9%	40 807.3	1.8%	42 540.4	1.8%		Non-profit institutions
18.5%	423 853.5	18.9%	410 545.3	17.7%	407 156.7	16.8%		Households
4.2%	**110 670.6**	**4.9%**	**125 228.0**	**5.4%**	**137 615.7**	**5.7%**		**Payments for capital assets**
2.9%	77 433.0	3.5%	94 243.1	4.1%	104 235.0	4.3%		Buildings and other fixed structures
1.1%	28 870.9	1.3%	27 385.2	1.2%	30 004.8	1.2%		Machinery and equipment
0.1%	1 652.5	0.1%	1 329.9	0.1%	1 305.1	0.1%		Land and sub-soil assets
0.1%	1 929.5	0.1%	1 865.3	0.1%	1 814.1	0.1%		Software and other intangible assets
0.0%	784.7	0.0%	404.5	0.0%	256.7	0.0%	*3)*	Other assets
2.1%	**4 051.6**	**0.2%**	**3 577.0**	**0.2%**	**3 895.1**	**0.2%**	*4)*	**Payments for financial assets**
100.0%	**2 237 589.3**	**100.0%**	**2 319 055.2**	**100.0%**	**2 427 865.1**	**100.0%**		**Subtotal: economic classification**
	5 000.0		5 000.0		5 000.0			Contingency reserve
	–		35 693.3		44 532.7			Unallocated reserve
	2 242 589.3		**2 359 748.5**		**2 477 397.9**			**Total consolidated expenditure**
	-283 682.0		**-281 960.9**		**-252 072.0**			**Budget balance**
	-4.0%		*-3.8%*		*-3.2%*			*Percentage of GDP*
	-162 232.2		**-168 794.4**		**-185 968.5**			**Redemptions**
	-117 864.8		*-131 368.6*		*-129 558.3*			Domestic long-term loans
	-44 367.4		*-37 425.8*		*-56 410.3*			Foreign loans
	-78 000.0		**-66 154.0**		**-110 223.0**			**Eskom debt-relief arrangement**
	-523 914.3		**-516 909.3**		**-548 263.5**			**Gross borrowing requirement**
								Financing
	440 170.1		**454 290.9**		**537 151.1**			**Change in loan liabilities**
	396 189.6		*419 657.7*		*388 049.4*			*Domestic short- and long-term loans*
	–		*–*		*70 000.0*			*Eskom debt-relief arrangement*
	43 980.5		*34 633.3*		*79 101.7*			*Foreign loans*
	83 744.1		**62 618.4**		**11 112.4**			**Change in cash and other balances (- increase)**
	523 914.3		**516 909.3**		**548 263.5**			**Total financing**
	7 005 733.5		*7 452 382.3*		*7 938 536.0*			*GDP*

3) Includes biological, heritage and specialised military assets.
4) Includes extraordinary payments previously accounted for separately.

Table 8
Consolidated government expenditure: functional classification *1)*

R million		2019/20 Outcome	2019/20 % of total	2020/21 Outcome	2020/21 % of total	2021/22 Outcome	2021/22 % of total	2022/23 Revised estimate
General public services	*2)*	**307 297.9**	**17.0%**	**332 820.1**	**16.9%**	**407 210.9**	**19.9%**	**423 631.6**
of which: debt-service costs		*204 769.4*	*11.3%*	*232 595.7*	*11.8%*	*268 071.6*	*13.1%*	*307 156.9*
Defence		**49 870.6**	**2.8%**	**53 683.3**	**2.7%**	**48 358.7**	**2.4%**	**52 042.5**
Public order and safety		**154 296.0**	**8.5%**	**153 019.3**	**7.8%**	**157 350.0**	**7.7%**	**167 810.9**
Police services		106 053.2	5.9%	105 229.6	5.4%	106 890.6	5.2%	114 887.4
Law courts		23 058.1	1.3%	22 762.6	1.2%	24 765.8	1.2%	26 860.9
Prisons		25 184.8	1.4%	25 027.1	1.3%	25 693.6	1.3%	26 062.7
Economic affairs		**228 493.2**	**12.6%**	**233 394.9**	**11.9%**	**220 778.9**	**10.8%**	**244 375.7**
General economic, commercial and labour affairs		35 279.9	2.0%	32 657.5	1.7%	41 317.3	2.0%	38 886.9
Agriculture, forestry, fishing and hunting		22 574.3	1.2%	22 210.4	1.1%	23 823.6	1.2%	25 979.4
Fuel and energy		57 758.1	3.2%	62 929.5	3.2%	40 365.8	2.0%	31 948.7
Mining, manufacturing and construction		2 246.9	0.1%	2 599.9	0.1%	3 156.9	0.2%	2 824.7
Transport		89 485.3	5.0%	97 749.0	5.0%	94 687.1	4.6%	119 790.9
Communication		8 972.7	0.5%	5 282.6	0.3%	4 811.4	0.2%	10 710.0
Other industries		3 690.3	0.2%	2 857.0	0.1%	3 285.9	0.2%	4 464.9
Economic affairs not elsewhere classified		8 485.8	0.5%	7 109.0	0.4%	9 331.0	0.5%	9 770.3
Environmental protection		**11 587.5**	**0.6%**	**12 062.9**	**0.6%**	**11 086.1**	**0.5%**	**13 502.7**
Housing and community amenities		**163 408.2**	**9.0%**	**176 795.1**	**9.0%**	**174 377.9**	**8.5%**	**189 800.6**
Housing development		38 399.1	2.1%	31 142.7	1.6%	37 012.9	1.8%	40 283.6
Community development		94 590.0	5.2%	108 997.2	5.5%	102 116.8	5.0%	111 237.2
Water supply		30 419.2	1.7%	36 655.2	1.9%	35 248.1	1.7%	38 279.8
Health		**218 800.6**	**12.1%**	**241 986.3**	**12.3%**	**252 590.8**	**12.4%**	**255 595.7**
Recreation and culture		**13 074.4**	**0.7%**	**11 749.3**	**0.6%**	**14 012.8**	**0.7%**	**14 371.6**
Education		**374 694.2**	**20.7%**	**377 018.3**	**19.2%**	**407 887.8**	**20.0%**	**440 709.2**
Social protection		**285 579.0**	**15.8%**	**371 810.5**	**18.9%**	**349 250.4**	**17.1%**	**366 946.0**
Subtotal: functional classification		**1 807 101.8**	**100%**	**1 964 339.9**	**100%**	**2 042 904.3**	**100%**	**2 168 786.4**
Plus:								
Contingency reserve		–		–		–		–
Unallocated reserve		–		–		–		–
Total consolidated expenditure		**1 807 101.8**		**1 964 339.9**		**2 042 904.3**		**2 168 786.4**

1) Consisting of national and provincial government, social security funds and public entities. Refer to Annexure W2 for a detailed list of entities included.
In some cases figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank.
Source: National Treasury

Table 8
Consolidated government expenditure: functional classification *1)*

2022/23	2023/24		2024/25		2025/26		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
19.5%	**455 755.8**	**20.4%**	**478 677.6**	**20.6%**	**516 988.4**	**21.3%**	*2)* **General public services**
14.2%	*340 460.3*	*15.2%*	*362 839.9*	*15.6%*	*397 074.0*	*16.4%*	*of which: debt-service costs*
2.4%	**52 320.5**	**2.3%**	**52 369.7**	**2.3%**	**54 370.3**	**2.2%**	**Defence**
7.7%	**168 430.3**	**7.5%**	**177 935.4**	**7.7%**	**186 664.7**	**7.7%**	**Public order and safety**
5.3%	115 495.3	5.2%	122 916.2	5.3%	129 241.9	5.3%	Police services
1.2%	26 908.2	1.2%	27 836.7	1.2%	29 035.5	1.2%	Law courts
1.2%	26 026.7	1.2%	27 182.6	1.2%	28 387.2	1.2%	Prisons
11.3%	**222 152.6**	**9.9%**	**241 109.7**	**10.4%**	**251 992.6**	**10.4%**	**Economic affairs**
1.8%	37 579.3	1.7%	37 494.7	1.6%	37 976.2	1.6%	General economic, commercial and labour affairs
1.2%	24 931.8	1.1%	25 784.3	1.1%	26 955.2	1.1%	Agriculture, forestry, fishing and hunting
1.5%	10 706.3	0.5%	11 320.6	0.5%	11 672.3	0.5%	Fuel and energy
0.1%	3 267.6	0.1%	3 429.4	0.1%	3 555.1	0.1%	Mining, manufacturing and construction
5.5%	123 470.3	5.5%	140 828.0	6.1%	151 416.8	6.2%	Transport
0.5%	6 300.1	0.3%	6 671.7	0.3%	5 071.6	0.2%	Communication
0.2%	4 431.3	0.2%	4 609.2	0.2%	4 786.1	0.2%	Other industries
0.5%	11 465.8	0.5%	10 971.8	0.5%	10 559.3	0.4%	Economic affairs not elsewhere classified
0.6%	**15 198.1**	**0.7%**	**15 761.2**	**0.7%**	**16 335.6**	**0.7%**	**Environmental protection**
8.8%	**217 601.4**	**9.7%**	**234 320.7**	**10.1%**	**253 610.0**	**10.4%**	**Housing and community amenities**
1.9%	43 183.6	1.9%	45 066.1	1.9%	47 235.3	1.9%	Housing development
5.1%	124 847.6	5.6%	132 525.7	5.7%	139 527.4	5.7%	Community development
1.8%	49 570.1	2.2%	56 728.9	2.4%	66 847.4	2.8%	Water supply
11.8%	**254 951.0**	**11.4%**	**264 851.9**	**11.4%**	**277 099.2**	**11.4%**	**Health**
0.7%	**14 430.4**	**0.6%**	**14 115.6**	**0.6%**	**14 619.0**	**0.6%**	**Recreation and culture**
20.3%	**451 178.9**	**20.2%**	**471 059.1**	**20.3%**	**491 575.8**	**20.2%**	**Education**
16.9%	**385 558.3**	**17.2%**	**368 840.9**	**15.9%**	**364 595.5**	**15.0%**	**Social protection**
100%	**2 237 577.2**	**100%**	**2 319 041.8**	**100%**	**2 427 851.0**	**100%**	**Subtotal: functional classification**
							Plus:
	5 000.0		5 000.0		5 000.0		Contingency reserve
	–		35 693.3		44 532.7		Unallocated reserve
	2 242 577.2		**2 359 735.2**		**2 477 383.7**		**Total consolidated expenditure**

2) Mainly general administration, cost of raising loans and unallocable capital expenditure, as well as National Revenue Fund payments previously accounted for separately.

Table 9
Consolidated government revenue, expenditure and financing

R million	2019/20 Outcome	2020/21 Outcome	2021/22 Outcome	2022/23 Revised estimate
Operating account				
Current receipts	**1 499 530.4**	**1 376 561.2**	**1 735 317.8**	**1 883 754.7**
Tax receipts (net of SACU transfers)	*1 390 638.4*	*1 267 724.5*	*1 609 966.4*	*1 745 983.0*
Non-tax receipts (including departmental receipts)	*104 409.2*	*103 934.0*	*120 817.2*	*131 724.0*
Transfers received	*4 482.8*	*4 902.8*	*4 534.3*	*6 047.8*
Current payments	**1 601 792.5**	**1 745 641.3**	**1 821 740.9**	**1 949 898.9**
Compensation of employees	*624 182.2*	*634 925.1*	*666 358.2*	*690 374.2*
Goods and services	*244 598.4*	*243 266.2*	*265 008.2*	*292 955.4*
Interest and rent on land	*214 020.8*	*240 899.0*	*277 127.6*	*316 029.7*
Transfers and subsidies	*518 991.2*	*626 551.0*	*613 247.0*	*650 539.5*
Current balance	**-102 262.1**	**-369 080.1**	**-86 423.1**	**-66 144.1**
Percentage of GDP	*-1.8%*	*-6.6%*	*-1.4%*	*-1.0%*
Capital account				
Capital receipts	*308.9*	*247.1*	*310.9*	*205.2*
Transfers and subsidies	*75 978.6*	*65 387.0*	*71 926.1*	*80 691.0*
Payments for capital assets	*63 197.5*	*62 279.9*	*72 874.6*	*91 896.7*
Capital financing requirement	**-138 867.2**	**-127 419.7**	**-144 489.8**	**-172 382.4**
Percentage of GDP	*-2.4%*	*-2.3%*	*-2.3%*	*-2.6%*
Transactions in financial assets and liabilities	**-46 360.7**	**-58 616.5**	**-61 400.8**	**-37 525.6**
Contingency reserve	**–**	**–**	**–**	**–**
Unallocated reserve	**–**	**–**	**–**	**–**
Budget balance	**-287 490.0**	**-555 116.3**	**-292 313.8**	**-276 052.1**
Percentage of GDP	*-5.0%*	*-9.9%*	*-4.6%*	*-4.2%*
Primary balance	**-73 469.3**	**-314 217.3**	**-15 186.2**	**39 977.6**
Percentage of GDP	*-1.3%*	*-5.6%*	*-0.2%*	*0.6%*
Redemptions	**-70 656.6**	**-67 638.9**	**-65 292.2**	**-87 474.0**
Domestic long-term loans	*-19 427.7*	*-53 222.6*	*-61 373.4*	*-71 712.4*
Foreign loans	*-51 229.0*	*-14 416.3*	*-3 918.8*	*-15 761.6*
Eskom debt-relief arrangement	**–**	**–**	**–**	**–**
Gross borrowing requirement	**-358 146.7**	**-622 755.2**	**-357 606.0**	**-363 526.0**
Financing				
Change in loan liabilities	**433 528.7**	**716 823.1**	**325 530.1**	**355 882.3**
Domestic short- and long-term loans	*357 443.7*	*624 821.8*	*294 125.2*	*291 398.3*
Eskom debt-relief arrangement	*–*	*–*	*–*	*–*
Foreign loans	*76 085.0*	*92 001.3*	*31 404.8*	*64 484.0*
Change in cash and other balances (- increase)	**-75 382.0**	**-94 067.9**	**32 075.9**	**7 643.8**
Total financing	**358 146.7**	**622 755.2**	**357 606.0**	**363 526.0**
GDP	*5 699 236.0*	*5 606 651.0*	*6 287 621.0*	*6 651 265.5*

Source: National Treasury

Table 9
Consolidated government revenue, expenditure and financing

2023/24 Budget estimate	2024/25 Budget estimate	2025/26 Budget estimate	R million
			Operating account
1 942 905.7	**2 066 850.7**	**2 218 629.2**	**Current receipts**
1 807 719.5	*1 924 000.5*	*2 068 779.4*	*Tax receipts (net of SACU transfers)*
129 975.7	*137 996.5*	*145 169.2*	*Non-tax receipts (including departmental receipts)*
5 210.6	*4 853.7*	*4 680.6*	*Transfers received*
2 040 767.4	**2 097 801.4**	**2 191 322.6**	**Current payments**
701 164.8	*728 747.0*	*760 607.5*	*Compensation of employees*
305 184.6	*317 590.6*	*335 792.5*	*Goods and services*
349 456.1	*372 377.4*	*406 979.4*	*Interest and rent on land*
684 961.8	*679 086.4*	*687 943.1*	*Transfers and subsidies*
-97 861.7	**-30 950.7**	**27 306.6**	**Current balance**
-1.4%	*-0.4%*	*0.3%*	*Percentage of GDP*
			Capital account
307.0	*270.4*	*277.8*	*Capital receipts*
82 099.7	*92 448.8*	*95 031.7*	*Transfers and subsidies*
110 670.6	*125 228.0*	*137 615.7*	*Payments for capital assets*
-192 463.3	**-217 406.3**	**-232 369.6**	**Capital financing requirement**
-2.7%	*-2.9%*	*-2.9%*	*Percentage of GDP*
11 643.0	**7 089.5**	**2 523.8**	**Transactions in financial assets and liabilities**
5 000.0	**5 000.0**	**5 000.0**	**Contingency reserve**
–	**35 693.3**	**44 532.7**	**Unallocated reserve**
-283 682.0	**-281 960.9**	**-252 072.0**	**Budget balance**
-4.0%	*-3.8%*	*-3.2%*	*Percentage of GDP*
65 774.1	**90 416.5**	**154 907.4**	**Primary balance**
0.9%	*1.2%*	*2.0%*	*Percentage of GDP*
-162 232.2	**-168 794.4**	**-185 968.5**	**Redemptions**
-117 864.8	*-131 368.6*	*-129 558.3*	*Domestic long-term loans*
-44 367.4	*-37 425.8*	*-56 410.3*	*Foreign loans*
-78 000.0	**-66 154.0**	**-110 223.0**	**Eskom debt-relief arrangement**
-523 914.3	**-516 909.3**	**-548 263.5**	**Gross borrowing requirement**
			Financing
440 170.1	**454 290.9**	**537 151.1**	**Change in loan liabilities**
396 189.6	*419 657.7*	*388 049.4*	*Domestic short- and long-term loans*
–	*–*	*70 000.0*	*Eskom debt-relief arrangement*
43 980.5	*34 633.3*	*79 101.7*	*Foreign loans*
83 744.1	**62 618.4**	**11 112.4**	**Change in cash and other balances (- increase)**
523 914.3	**516 909.3**	**548 263.5**	**Total financing**
7 005 733.5	*7 452 382.3*	*7 938 536.0*	*GDP*

Table 10
Total debt of government *1)*

R million		1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Domestic debt								
Marketable		344 938	354 706	365 231	349 415	350 870	388 300	428 593
Government bonds		*325 938*	*332 706*	*339 731*	*331 505*	*328 820*	*359 700*	*394 143*
Treasury bills		*19 000*	*22 000*	*25 500*	*17 910*	*22 050*	*28 600*	*34 450*
Bridging bonds		–	–	–	–	–	–	–
Non-marketable	3)	2 013	998	2 382	2 030	1 910	1 999	3 498
Gross loan debt		346 951	355 704	367 613	351 445	352 780	390 299	432 091
Cash balances	4)	-5 166	-7 285	-2 650	-6 549	-9 730	-12 669	-30 870
Net loan debt		341 785	348 419	364 963	344 896	343 050	377 630	401 221
Foreign debt								
Gross loan debt	5)	16 276	25 799	31 938	82 009	74 286	64 670	69 405
Cash balances	4)	–	–	–	–	–	–	–
Net loan debt		16 276	25 799	31 938	82 009	74 286	64 670	69 405
Gross loan debt		**363 227**	**381 503**	**399 551**	**433 454**	**427 066**	**454 969**	**501 496**
Net loan debt		**358 061**	**374 218**	**396 901**	**426 905**	**417 336**	**442 300**	**470 626**
Gold and Foreign Exchange Contingency Reserve Account	6)	14 431	9 200	18 170	28 024	36 577	18 036	5 292
Composition of gross debt (excluding deduction of cash balances)								
Marketable domestic debt		95.0%	93.0%	91.4%	80.6%	82.2%	85.3%	85.5%
Government bonds		*89.7%*	*87.2%*	*85.0%*	*76.5%*	*77.0%*	*79.1%*	*78.6%*
Treasury bills		*5.2%*	*5.8%*	*6.4%*	*4.1%*	*5.2%*	*6.3%*	*6.9%*
Bridging bonds		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Non-marketable domestic debt	3)	0.6%	0.3%	0.6%	0.5%	0.4%	0.4%	0.7%
Domestic debt		95.5%	93.2%	92.0%	81.1%	82.6%	85.8%	86.2%
Foreign debt	5)	4.5%	6.8%	8.0%	18.9%	17.4%	14.2%	13.8%
Total as percentage of GDP								
Gross domestic debt		40.2%	37.3%	33.8%	29.2%	25.2%	25.6%	25.5%
Net domestic debt		39.6%	36.6%	33.6%	28.6%	24.5%	24.8%	23.7%
Gross foreign debt		1.9%	2.7%	2.9%	6.8%	5.3%	4.2%	4.1%
Net foreign debt		1.9%	2.7%	2.9%	6.8%	5.3%	4.2%	4.1%
Gross loan debt		42.1%	40.0%	36.7%	36.0%	30.5%	29.8%	29.7%
Net loan debt		41.5%	39.3%	36.5%	35.4%	29.8%	29.0%	27.8%

1) Debt of the national government, excluding extra-budgetary institutions and social security funds.
2) As projected at the end of January 2023.
3) Includes non-marketable Treasury bills, retail bonds, loan levies, former regional authorities and Namibian loans.
4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks). Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.
Source: National Treasury and Reserve Bank

Table 10
Total debt of government *1)*

2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12		R million
								Domestic debt
457 780	467 864	478 265	527 751	700 532	869 588	1 045 415		Marketable
417 380	*422 064*	*426 415*	*462 751*	*585 992*	*733 438*	*890 256*		*Government bonds*
40 400	*45 800*	*51 850*	*65 000*	*114 540*	*136 150*	*155 159*		*Treasury bills*
–	–	–	–	–	–	–		*Bridging bonds*
3 699	3 238	2 555	1 956	4 943	23 133	25 524	*3)*	Non-marketable
461 479	471 102	480 821	529 707	705 475	892 721	1 070 939		Gross loan debt
-58 187	-75 315	-93 809	-101 349	-106 550	-111 413	-130 450	*4)*	Cash balances
403 292	395 787	387 012	428 358	598 925	781 308	940 489		Net loan debt
								Foreign debt
66 846	82 581	96 218	97 268	99 454	97 851	116 851	*5)*	Gross loan debt
–	–	–	–	-25 339	-58 750	-67 609	*4)*	Cash balances
66 846	82 581	96 218	97 268	74 115	39 101	49 242		Net loan debt
528 325	**553 683**	**577 039**	**626 975**	**804 929**	**990 572**	**1 187 790**		**Gross loan debt**
470 138	**478 368**	**483 230**	**525 626**	**673 040**	**820 409**	**989 731**		**Net loan debt**
								Gold and Foreign Exchange
-1 751	-28 514	-72 189	-101 585	-35 618	-28 283	-67 655	*6)*	Contingency Reserve Account
								Composition of gross debt (excluding deduction of cash balances)
86.6%	84.5%	82.9%	84.2%	87.0%	87.8%	88.0%		Marketable domestic debt
79.0%	*76.2%*	*73.9%*	*73.8%*	*72.8%*	*74.0%*	*75.0%*		*Government bonds*
7.6%	*8.3%*	*9.0%*	*10.4%*	*14.2%*	*13.7%*	*13.1%*		*Treasury bills*
0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		*Bridging bonds*
0.7%	0.6%	0.4%	0.3%	0.6%	2.3%	2.1%	*3)*	Non-marketable domestic debt
87.3%	85.1%	83.3%	84.5%	87.6%	90.1%	90.2%		Domestic debt
12.7%	14.9%	16.7%	15.5%	12.4%	9.9%	9.8%	*5)*	Foreign debt
								Total as percentage of GDP
24.5%	22.1%	20.0%	19.9%	24.8%	28.6%	31.6%		Gross domestic debt
21.4%	18.5%	16.1%	16.1%	21.1%	25.0%	27.7%		Net domestic debt
3.5%	3.9%	4.0%	3.7%	3.5%	3.1%	3.4%		Gross foreign debt
3.5%	3.9%	4.0%	3.7%	2.6%	1.3%	1.5%		Net foreign debt
28.0%	25.9%	24.0%	23.6%	28.3%	31.7%	35.0%		Gross loan debt
24.9%	22.4%	20.1%	19.8%	23.7%	26.3%	29.2%		Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2022 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2023, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2023 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a profit and a positive balance a loss.

Table 10
Total debt of government *1)*

R million		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Domestic debt								
Marketable		1 210 834	1 409 718	1 601 499	1 782 042	1 981 627	2 242 894	2 467 758
Government bonds		*1 038 849*	*1 217 512*	*1 399 282*	*1 572 574*	*1 731 657*	*1 949 573*	*2 160 398*
Treasury bills		*171 985*	*192 206*	*202 217*	*209 468*	*249 970*	*293 321*	*307 360*
Bridging bonds		–	–	–	–	–	–	–
Non-marketable	3)	30 300	31 381	30 586	37 322	38 508	29 013	29 228
Gross loan debt		1 241 134	1 441 099	1 632 085	1 819 364	2 020 135	2 271 907	2 496 986
Cash balances	4)	-103 774	-120 807	-120 304	-112 250	-110 262	-123 241	-120 575
Net loan debt		1 137 360	1 320 292	1 511 781	1 707 114	1 909 873	2 148 666	2 376 411
Foreign debt								
Gross loan debt	5)	124 555	143 659	166 830	199 607	212 754	217 811	291 314
Cash balances	4)	-80 308	-84 497	-94 404	-102 083	-114 353	-106 110	-122 542
Net loan debt		44 247	59 162	72 426	97 524	98 401	111 701	168 772
Gross loan debt		**1 365 689**	**1 584 758**	**1 798 915**	**2 018 971**	**2 232 889**	**2 489 718**	**2 788 300**
Net loan debt		**1 181 607**	**1 379 454**	**1 584 207**	**1 804 638**	**2 008 274**	**2 260 367**	**2 545 183**
Gold and Foreign Exchange Contingency Reserve Account	6)	-125 552	-177 913	-203 396	-304 653	-231 158	-193 917	-285 829
Composition of gross debt (excluding deduction of cash balances)								
Marketable domestic debt		88.7%	89.0%	89.0%	88.3%	88.7%	90.1%	88.5%
Government bonds		*76.1%*	*76.8%*	*77.8%*	*77.9%*	*77.6%*	*78.3%*	*77.5%*
Treasury bills		*12.6%*	*12.1%*	*11.2%*	*10.4%*	*11.2%*	*11.8%*	*11.0%*
Bridging bonds		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Non-marketable domestic debt	3)	2.2%	2.0%	1.7%	1.8%	1.7%	1.2%	1.0%
Domestic debt		90.9%	90.9%	90.7%	90.1%	90.5%	91.3%	89.6%
Foreign debt	5)	9.1%	9.1%	9.3%	9.9%	9.5%	8.7%	10.4%
Total as percentage of GDP								
Gross domestic debt		34.2%	36.5%	38.9%	40.4%	41.8%	44.2%	46.1%
Net domestic debt		31.3%	33.5%	36.0%	37.9%	39.5%	41.8%	43.9%
Gross foreign debt		3.4%	3.6%	4.0%	4.4%	4.4%	4.2%	5.4%
Net foreign debt		1.2%	1.5%	1.7%	2.2%	2.0%	2.2%	3.1%
Gross loan debt		37.6%	40.2%	42.8%	44.9%	46.2%	48.5%	51.5%
Net loan debt		32.5%	35.0%	37.7%	40.1%	41.6%	44.0%	47.0%

1) Debt of the national government, excluding extra-budgetary institutions and social security funds.
2) As projected at the end of January 2023.
3) Includes non-marketable Treasury bills, retail bonds, loan levies, former regional authorities and Namibian loans.
4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks). Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.
Source: National Treasury and Reserve Bank

Table 10
Total debt of government 1)

2019/20	2020/21	2021/22	2022/23 2)	2023/24	2024/25	2025/26		R million
								Domestic debt
2 834 638	3 526 897	3 846 429	4 163 457	4 493 326	4 851 610	5 243 400		Marketable
2 501 278	*3 070 926*	*3 398 465*	*3 740 841*	*4 022 710*	*4 338 994*	*4 684 784*		*Government bonds*
333 360	*455 971*	*447 964*	*422 616*	*470 616*	*512 616*	*558 616*		*Treasury bills*
–	–	–	–	–	–	–		*Bridging bonds*
39 479	16 369	18 930	23 655	23 655	23 655	23 655	*3)*	Non-marketable
2 874 117	3 543 266	3 865 359	4 187 112	4 516 981	4 875 265	5 267 055		Gross loan debt
-111 693	-239 711	-169 853	-122 081	-61 000	-50 000	-50 000	*4)*	Cash balances
2 762 424	3 303 555	3 695 506	4 065 031	4 455 981	4 825 265	5 217 055		Net loan debt
								Foreign debt
387 225	392 434	412 104	540 327	543 267	548 401	575 923	*5)*	Gross loan debt
-151 879	-94 218	-96 507	-122 376	-86 490	-50 185	-35 986	*4)*	Cash balances
235 346	298 216	315 597	417 951	456 777	498 216	539 937		Net loan debt
3 261 342	**3 935 700**	**4 277 463**	**4 727 438**	**5 060 247**	**5 423 666**	**5 842 978**		**Gross loan debt**
2 997 770	**3 601 771**	**4 011 103**	**4 482 982**	**4 912 757**	**5 323 481**	**5 756 992**		**Net loan debt**
								Gold and Foreign Exchange
-436 062	-315 584	-314 283	-409 224	-409 224	-409 224	-409 224	*6)*	Contingency Reserve Account
								Composition of gross debt (excluding deduction of cash balances)
86.9%	89.6%	89.9%	88.1%	88.8%	89.5%	89.7%		Marketable domestic debt
76.7%	*78.0%*	*79.5%*	*79.1%*	*79.5%*	*80.0%*	*80.2%*		*Government bonds*
10.2%	*11.6%*	*10.5%*	*8.9%*	*9.3%*	*9.5%*	*9.6%*		*Treasury bills*
0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		*Bridging bonds*
1.2%	0.4%	0.4%	0.5%	0.5%	0.4%	0.4%	*3)*	Non-marketable domestic debt
88.1%	90.0%	90.4%	88.6%	89.3%	89.9%	90.1%		Domestic debt
11.9%	10.0%	9.6%	11.4%	10.7%	10.1%	9.9%	*5)*	Foreign debt
								Total as percentage of GDP
50.4%	63.2%	61.5%	63.0%	64.5%	65.4%	66.3%		Gross domestic debt
48.5%	58.9%	58.8%	61.1%	63.6%	64.7%	65.7%		Net domestic debt
6.8%	7.0%	6.6%	8.1%	7.8%	7.4%	7.3%		Gross foreign debt
4.1%	5.3%	5.0%	6.3%	6.5%	6.7%	6.8%		Net foreign debt
57.2%	70.2%	68.0%	71.1%	72.2%	72.8%	73.6%		Gross loan debt
52.6%	64.2%	63.8%	67.4%	70.1%	71.4%	72.5%		Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2022 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2023, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2023 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a profit and a positive balance a loss.

Table 11
Net loan debt, provisions and contingent liabilities *1)*

R million		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Net loan debt	2)	**1 181 607**	**1 379 454**	**1 584 207**	**1 804 638**	**2 008 274**	**2 260 367**	**2 545 183**
Provisions	3)	**116 231**	**134 045**	**160 383**	**217 960**	**210 974**	**211 480**	**260 682**
African Development Bank		32 725	38 063	43 811	54 766	49 344	44 119	53 855
Development Bank of Southern Africa		4 800	4 800	20 000	20 000	20 000	20 000	20 000
Government employee leave credits		12 316	12 924	13 030	13 454	14 137	13 606	13 474
International Bank for Reconstruction and Development		15 935	19 407	23 579	29 028	26 527	23 993	29 287
International Monetary Fund		50 321	58 697	59 786	91 658	79 535	76 358	85 908
Multilateral Investment Guarantee Agency		134	154	177	215	193	173	211
New Development Bank		–	–	–	8 839	21 238	33 231	57 947
Contingent liabilities		**433 047**	**490 503**	**575 317**	**601 380**	**664 197**	**723 400**	**828 703**
Guarantees	4)	224 768	288 041	327 169	380 136	426 234	459 107	525 568
Agricultural cooperatives		*93*	*93*	*93*	*93*	*93*	*93*	*93*
Central Energy Fund		–	–	–	–	–	–	–
Denel		*1 850*	*1 850*	*1 850*	*1 850*	*1 850*	*2 430*	*3 430*
Development Bank of Southern Africa		*25 497*	*25 635*	*4 030*	*4 258*	*3 993*	*3 975*	*4 256*
Eskom	5)	*103 523*	*125 125*	*149 944*	*174 586*	*202 825*	*250 648*	*285 587*
Former regional authorities		*124*	*112*	*105*	*98*	*93*	*84*	*77*
Guarantee scheme for housing loans to employees		*46*	*26*	*13*	*10*	*8*	*6*	*6*
Guarantee scheme for motor vehicles – senior officials		*1*	*1*	*1*	*1*	–	–	–
Industrial Development Corporation of South Africa		*575*	*504*	*344*	*243*	*138*	*137*	*147*
Independent power producers		*34 356*	*68 345*	*96 159*	*113 971*	*125 766*	*122 188*	*146 892*
Irrigation boards		*46*	*44*	*44*	*39*	*38*	*37*	*36*
Kalahari East Water Board		*6*	–	–	–	–	–	–
Komati Basin Water Authority		*1 190*	*1 148*	*986*	*889*	*785*	*619*	*518*
Land Bank		*800*	*1 004*	*2 005*	*5 211*	*3 712*	*3 813*	*965*
Lesotho Highlands Development Authority		*132*	*113*	*82*	*62*	*30*	*3*	–
Nuclear Energy Corporation of South Africa		*20*	*20*	*20*	*20*	*20*	*20*	*20*
Passenger Rail Agency of South Africa		*133*	*92*	*48*	*2*	–	–	–
Public-private partnerships		*10 172*	*10 127*	*10 107*	*10 337*	*10 049*	*9 580*	*10 464*
South African Airways		*2 238*	*5 010*	*8 419*	*14 394*	*17 819*	*11 059*	*15 269*
South African Broadcasting Corporation		*167*	–	–	–	–	–	–
South African Express		–	*539*	*539*	*539*	*827*	*867*	*163*
South African National Roads Agency Limited		*19 482*	*23 866*	*27 445*	*27 204*	*29 458*	*30 368*	*39 462*
South African Post Office		–	–	*270*	*1 270*	*3 979*	*400*	–
Reserve Bank		–	–	–	–	–	–	–
Telkom South Africa		*90*	*111*	*100*	*128*	*108*	*111*	*124*
Trans-Caledon Tunnel Authority		*20 460*	*20 516*	*20 807*	*21 173*	*20 886*	*18 912*	*14 302*
Transnet		*3 757*	*3 757*	*3 757*	*3 757*	*3 757*	*3 757*	*3 757*
Universities and technikons		*10*	*3*	*1*	*1*	–	–	–
Other contingent liabilities	6)	208 279	202 462	248 148	221 244	237 963	264 293	303 135
Claims against government departments		*43 628*	*45 131*	*48 726*	*30 601*	*29 481*	*31 807*	*32 945*
Export Credit Insurance Corporation of SA Limited		*12 482*	*13 780*	*15 308*	*16 395*	*14 015*	*18 192*	*20 454*
Government Employees Pension Fund		–	–	–	–	–	–	–
Post-retirement medical assistance		*65 348*	*69 938*	*69 938*	*69 938*	*69 938*	*69 938*	*69 938*
Road Accident Fund		*82 838*	*69 435*	*109 298*	*99 152*	*119 830*	*139 204*	*173 559*
Other		*3 983*	*4 178*	*4 878*	*5 158*	*4 699*	*5 152*	*6 239*

1) Medium-term forecasts of some figures are not available and are kept constant.
2) Debt of the national government, excluding extra-budgetary institutions and socal security funds.
3) Provisions are liabilities for which the payment date or amount is uncertain. The provisions for multilateral institutions are the unpaid portion of government's subscription to these institutions, payable on request.
Source: National Treasury

Table 11
Net loan debt, provisions and contingent liabilities *1)*

2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	R million
2 997 770	**3 601 771**	**4 011 103**	**4 482 982**	**4 912 757**	**5 323 481**	**5 756 992**	*2)* **Net loan debt**
341 883	**371 037**	**508 720**	**592 233**	**606 155**	**613 449**	**618 753**	*3)* **Provisions**
66 509	55 009	122 745	141 778	145 314	147 166	148 513	African Development Bank
20 000	20 000	20 000	20 000	20 000	20 000	20 000	Development Bank of Southern Africa
14 137	16 092	13 974	13 974	13 974	13 974	13 974	Government employee leave credits
36 169	30 317	30 382	35 094	35 969	36 427	36 761	International Bank for Reconstruction and Development
111 774	151 740	204 772	246 422	252 567	255 787	258 128	International Monetary Fund
261	216	212	245	251	255	257	Multilateral Investment Guarantee Agency
93 033	97 663	116 635	134 720	138 080	139 840	141 120	New Development Bank
1 056 174	**1 067 418**	**1 058 249**	**1 073 655**	**1 020 690**	**978 587**	**904 109**	**Contingent liabilities**
583 808	569 452	568 928	590 307	541 094	516 044	410 228	*4)* Guarantees
93	*93*	–	–	–	–	–	*Agricultural cooperatives*
–	–	–	–	–	–	–	*Central Energy Fund*
4 430	*3 430*	*3 538*	*290*	*100*	–	–	*Denel*
4 653	*4 854*	*5 156*	*5 464*	*5 352*	*5 204*	*5 122*	*Development Bank of Southern Africa*
326 868	*298 289*	*313 020*	*337 787*	*313 384*	*302 872*	*218 888*	*5)* *Eskom*
75	*74*	*74*	*74*	*74*	*74*	*74*	*Former regional authorities*
6	*5*	*3*	*2*	*2*	*2*	*2*	*Guarantee scheme for housing loans to employees*
–	–	–	–	–	–	–	*Guarantee scheme for motor vehicles – senior officials*
170	*145*	*130*	*138*	*144*	*142*	*135*	*Industrial Development Corporation of South Africa*
161 427	*176 684*	*165 695*	*187 064*	*170 081*	*152 384*	*133 985*	*Independent power producers*
36	*35*	*35*	*33*	*30*	*28*	*25*	*Irrigation boards*
–	–	–	–	–	–	–	*Kalahari East Water Board*
400	*367*	*368*	*370*	*372*	*374*	*376*	*Komati Basin Water Authority*
2 484	*2 446*	*1 899*	*432*	–	–	–	*Land Bank*
–	–	–	–	–	–	–	*Lesotho Highlands Development Authority*
20	*20*	*20*	*20*	*20*	*20*	*20*	*Nuclear Energy Corporation of South Africa*
–	–	–	–	–	–	–	*Passenger Rail Agency of South Africa*
8 654	*8 001*	*7 900*	*7 105*	*6 153*	*4 319*	*2 905*	*Public-private partnerships*
17 867	*6 749*	*2 761*	*345*	–	–	–	*South African Airways*
–	–	–	–	–	–	–	*South African Broadcasting Corporation*
163	*20*	*20*	*20*	–	–	–	*South African Express*
38 998	*37 378*	*42 023*	*28 590*	*24 424*	*22 843*	*18 745*	*South African National Roads Agency Limited*
–	–	–	–	–	–	–	*South African Post Office*
–	*13 726*	*12 821*	*9 975*	*9 208*	*8 441*	*7 674*	*Reserve Bank*
149	*132*	*123*	*111*	*117*	*52*	*5*	*Telkom South Africa*
13 558	*13 247*	*9 585*	*8 683*	*7 829*	*15 485*	*18 468*	*Trans-Caledon Tunnel Authority*
3 757	*3 757*	*3 757*	*3 804*	*3 804*	*3 804*	*3 804*	*Transnet*
–	–	–	–	–	–	–	*Universities and technikons*
472 366	497 966	489 321	483 348	479 596	462 543	493 881	*6)* Other contingent liabilities
41 374	*44 764*	*45 576*	*45 576*	*45 576*	*45 576*	*45 576*	*Claims against government departments*
20 451	*16 337*	*10 623*	*6 169*	*4 602*	*603*	–	*Export Credit Insurance Corporation of SA Limited*
–	–	–	–	–	–	–	*Government Employees Pension Fund*
69 938	*69 938*	*69 938*	*69 938*	*69 938*	*69 938*	*69 938*	*Post-retirement medical assistance*
332 242	*361 750*	*356 550*	*355 031*	*352 846*	*339 792*	*371 733*	*Road Accident Fund*
8 361	*5 177*	*6 634*	*6 634*	*6 634*	*6 634*	*6 634*	*Other*

4) Amounts drawn against financial guarantees, inclusive of revaluation adjustments on inflation-linked bonds and accrued interest. Numbers prior to 2018/19 exclude revaluation adjustment on inflation-linked bonds.

5) The estimates for Eskom take into account the Eskom debt relief arrangement.

6) Other contingent liabilities as disclosed in the consolidated financial statements of departments published annually by the National Treasury.

BUDGET 2023

Budget Review

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