Box 3 The *2022 Medium Term Budget Policy Statement*[1]

The recently presented *2022 Medium Term Budget Policy Statement (2022 MTBPS)* sets out the government's strategy to improve the state of public finances and rebuild fiscal space by narrowing the budget deficit and stabilising debt, while mitigating the risks posed by state-owned enterprises (SOEs) and introducing structural reforms to support economic growth. The main expected outcomes of the *2022 MTBPS* are to achieve a primary budget surplus[2] of 0.7% of gross domestic product (GDP) by fiscal 2023/24 and to stabilise national government's gross loan debt at 71.4% of GDP in fiscal 2022/23, which is sooner than previously anticipated.

In the wake of the coronavirus disease 2019 (COVID-19) pandemic, South Africa's public finances and economic growth prospects are also being influenced by the effects of the continuing war in Ukraine on food and energy prices, slower global economic growth and higher inflation as well as weaker emerging market currencies. In addition, electricity constraints, flooding and industrial action further hampered domestic economic growth prospects. Amid these factors, the *2022 MTBPS* revised annual growth in real GDP lower from 2.1% to 1.9% for 2022, with a projected average of 1.6% from 2023 to 2025. Consumer price inflation is expected to reach an annual average high of 6.7% in 2022 due to elevated energy and food prices in particular. However, inflation is expected to slow to within the inflation target range of between 3–6% over the medium term. In addition to these global and domestic developments, the decline in commodity prices could reduce revenue collection, while the public sector wage bill could present an expenditure risk.

1 The *2022 Medium Term Budget Policy Statement* was presented to Parliament by the Minister of Finance on 26 October 2022.

2 A primary budget surplus is attained when revenue exceeds non-interest expenditure.

Macroeconomic projections*

Percentage

	2021**	2022		2023		2024		2025
		Medium-term estimates***						
	Actual outcome	Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Real GDP growth	4.9	2.1	1.9	1.6	1.4	1.7	1.7	1.8
CPI	4.5	4.8	6.7	4.4	5.1	4.5	4.6	4.6
Current account balance (as a percentage of GDP)	3.7	0.3	0.2	-1.2	-0.9	-1.5	-1.1	-1.2
GDP at current prices (R billions)	6 192	6 395	6 572	6 712	6 956	7 127	7 406	7 884

* Calendar years
** *2022 MTBPS*
*** *2022 Budget Review, 2022 MTBPS*

Source: National Treasury

The *2022 MTBPS* revised consolidated government revenue higher by 6.3% to R1 882 billion for fiscal 2022/23 compared with the *2022 Budget Review* estimate of R1 771 billion. The higher-than-expected revenue collection in the current fiscal year will be used to reduce the gross borrowing requirement. In the first half of fiscal 2022/23, higher-than-anticipated revenue collections have occurred in most tax categories. Consolidated government revenue is expected to average 27.6% of GDP over the medium term. The estimated gross tax revenue for fiscal 2022/23 of R1 682 billion is R83.5 billion more than that estimated in the *2022 Budget Review*.

Fiscal framework*

R billions/percentage of GDP

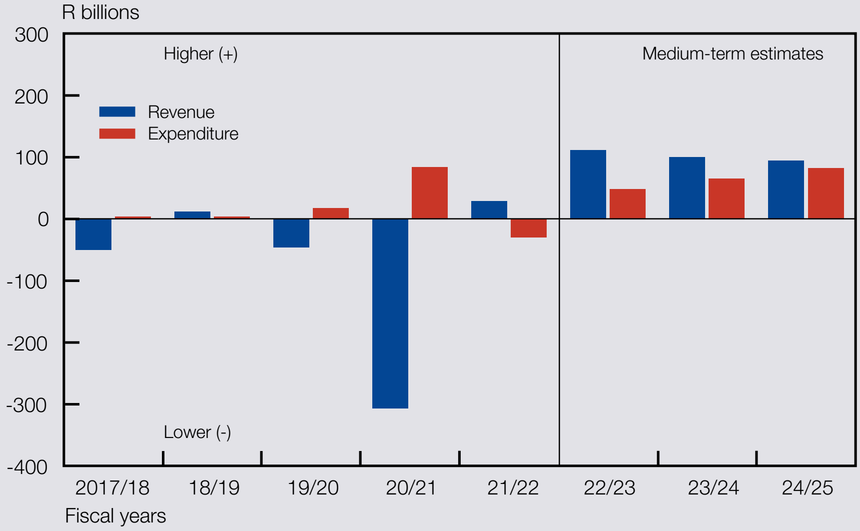
	2021/22**	2022/23		2023/24		2024/25		2025/26
	Outcome	Medium-term estimates***						
		Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Total consolidated revenue	1 750	1 771	1 882	1 853	1 953	1 978	2 072	2 219
Total consolidated expenditure	2 047	2 157	2 205	2 177	2 242	2 282	2 364	2 478
Of which: debt-service cost	*268.1*	*301.8*	*307.7*	*335.0*	*332.3*	*363.5*	*352.9*	*380.7*
Primary budget balance	*-55.1*	*-85.4*	*-16*	*3.2*	*46.1*	*41.1*	*75.2*	*119.9*
*Percentage of GDP*****\	*-0.9*	*-1.3*	*-0.2*	*0.0*	*0.7*	*0.6*	*1.0*	*1.5*
Consolidated budget deficit	-296.7	-387	-323.1	-324	-288.9	-304	-291.9	-259
Percentage of GDP	*-4.7*	*-6.0*	*-4.9*	*-4.8*	*-4.1*	*-4.2*	*-3.9*	*-3.2*
Gross loan debt of national government	4 278	4 692	4 752	5 065	5 002	5 429	5 296	5 608
*Percentage of GDP*****	*68.0*	*72.8*	*71.4*	*74.4*	*70.8*	*75.1*	*70.4*	*70.0*

* Fiscal years
** *2022 MTBPS*
*** *2022 Budget Review* and *2021 MTBPS*
**** Main Budget

Source: National Treasury

The fiscal framework provides room for additional allocations to SOEs to ensure their financial viability, with R23.7 billion allocated to the South African National Roads Agency Limited (SANRAL) to repay government-guaranteed debt; R5.8 billion to Transnet to repair flood-damaged infrastructure and to increase locomotive capacity; and R204.7 million to Denel to reduce contingent liabilities and a further R3.4 billion to complete its turnaround plan.

Revisions to consolidated government revenue and expenditure*

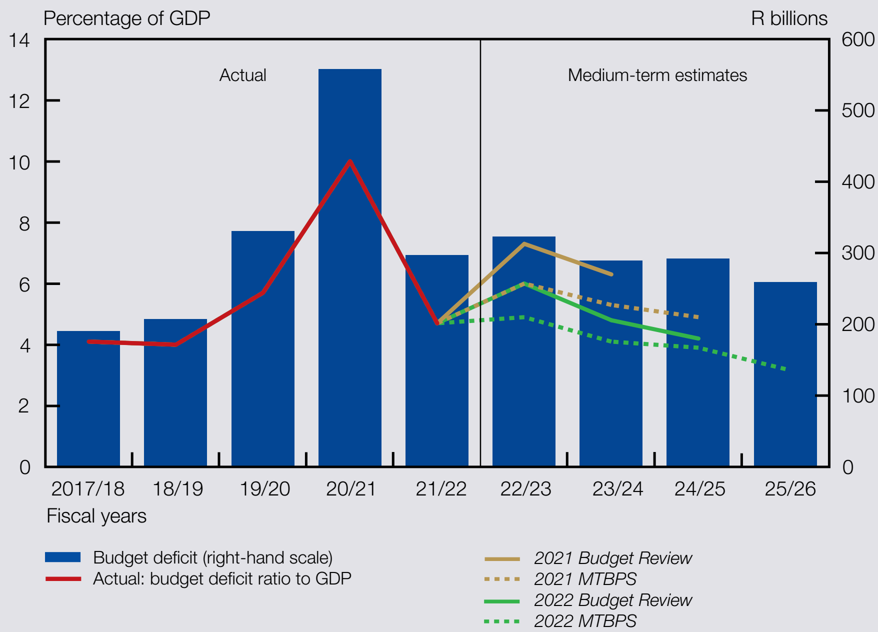


* Budget Review to MTBPS
Source: National Treasury

The *2022 MTBPS* revised consolidated government expenditure higher over the medium term. For fiscal 2022/23, it was revised marginally higher to R2 205 billion from R2 157 billion estimated in the *2022 Budget Review*. These revisions, with an expected peak of R2 478 billion in fiscal 2025/26, reflect wage bill adjustments, the extension of the R350 *special COVID-19 social relief of distress grant* until 31 March 2024, the increase in the contingency reserve to mitigate possible fiscal risks, and an increase in infrastructure spending, among other things. Total consolidated government expenditure by function (non-interest spending) is expected to increase at an annual average rate of 2.5%, while debt-service costs are expected to increase at an average rate of 7.3% over the medium term. Debt-service costs – the fastest growing component of spending given the increase in national government debt – are expected to increase from R308 billion (4.6% of GDP) in the current fiscal year to R381 billion, or 4.8% of GDP, in fiscal 2025/26.

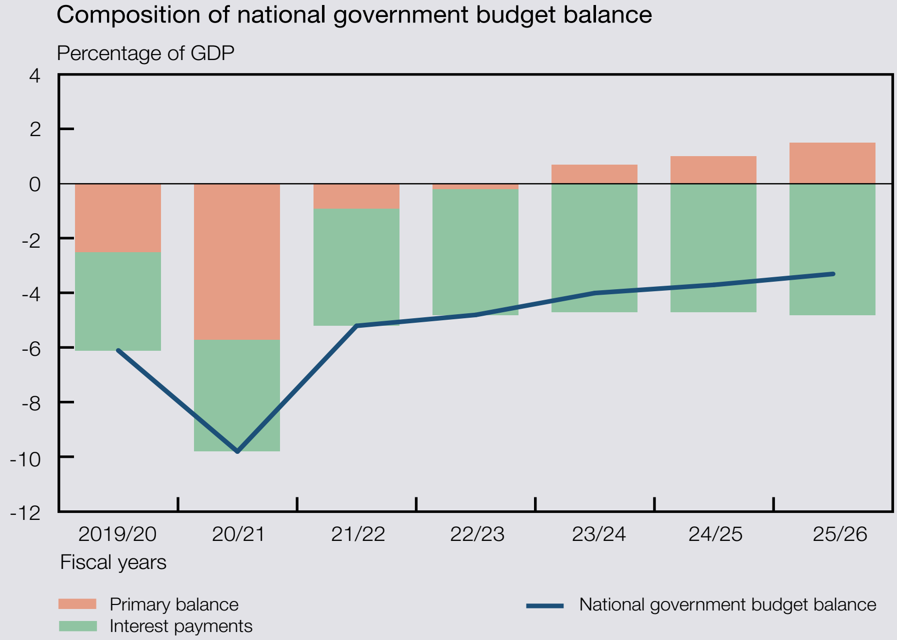
The consolidated government budget deficit was revised lower to 4.9% of GDP for fiscal 2022/23, compared with the originally projected 6.0% in the *2022 Budget Review*, and is expected to decline even further to an average of 3.7% over the medium term.

Consolidated government budget deficit



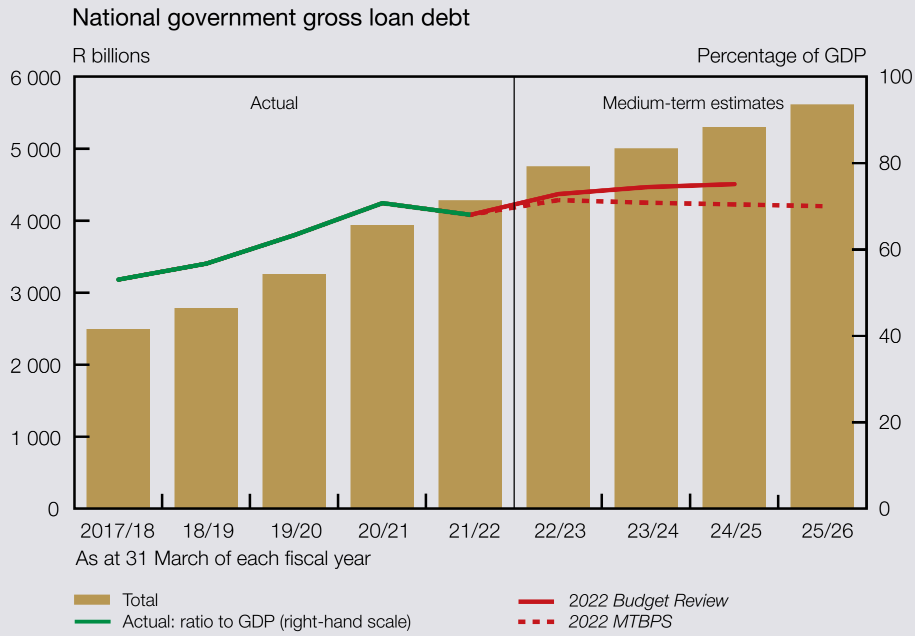
Source: National Treasury

The primary balance is expected to revert from a deficit of 0.2% of GDP in fiscal 2022/23 to a surplus of 0.7% of GDP in fiscal 2023/24, with the surplus expected to increase further over the medium term.



Sources: National Treasury and SARB

Government's gross borrowing requirement (both the budget deficit and maturing loans) was revised lower to R411 billion for fiscal 2022/23 compared with R484 billion projected in the *2022 Budget Review*. Over the medium term, the gross borrowing requirement is expected to be back at pre-COVID-19 levels and to average R446 billion. Government's financing strategy does not include any new short-term borrowing for the current fiscal year, while long-term borrowing in the domestic bond market is expected to decline from R330 billion estimated in the *2022 Budget Review* to R299 billion. In fiscal 2022/23, the government also raised US$3 billion in the foreign financial markets and an additional US$1.7 billion through concessional funding from international financial institutions to meet its foreign currency commitments.



Source: National Treasury

The gross loan debt of national government is expected to increase from R4 752 billion in fiscal 2022/23 to R5 608 billion in fiscal 2025/26 and is mainly driven by the budget balance, fluctuations in interest rates, and the exchange value of the rand. The government intends to take over a portion of Eskom's R400 billion debt liability to ensure its long-term financial viability, the details of which will be published in the *2023 Budget Review*.