Box 2 The *2023 Budget Review*[1]

The 2023 Budget proposals still intend to stabilise the public finances through a strategy to restore the fiscal balance and address fiscal risks while promoting economic growth. Economic growth is supported through policies that provide a stable macroeconomic framework together with growth-enhancing reforms in especially energy and transport while also strengthening the capacity of government.

Better-than-expected revenue collections, especially from the mining sector due to high commodity prices but also because of increased economic activity in the manufacturing and financial services sectors after the coronavirus disease 2019 (COVID-19) pandemic, contributed to the narrowing of the consolidated budget deficit. The fiscal balance is expected to improve further over the medium term, with a primary surplus projected for fiscal 2022/23 – the first since fiscal 2008/09. The *2023 Budget Review* proposes debt relief of R254 billion over the next three years for Eskom to improve its balance sheet and to enable the availability of funding for maintenance. The scale of the debt relief is such that it increases government borrowing to the extent that gross loan debt now stabilises later than originally projected, at 73.6% of gross domestic product (GDP) in fiscal 2025/26.

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1 The *2023 Budget Review* was presented to Parliament by the Minister of Finance on 22 February 2023.

Better-than-expected growth in real GDP of 2.5% is projected for 2022. However, growth is expected to be weaker over the medium term, averaging 1.4%, due to persistent electricity load-shedding, a deterioration in the rail and port infrastructure, and a weaker global economic growth outlook. Headline consumer price inflation is expected to ease to 5.3% in 2023. A current account deficit-to-GDP ratio of 0.4% is expected in 2022, which thereafter is projected to increase to 2.1% in 2025.

Macroeconomic projections*

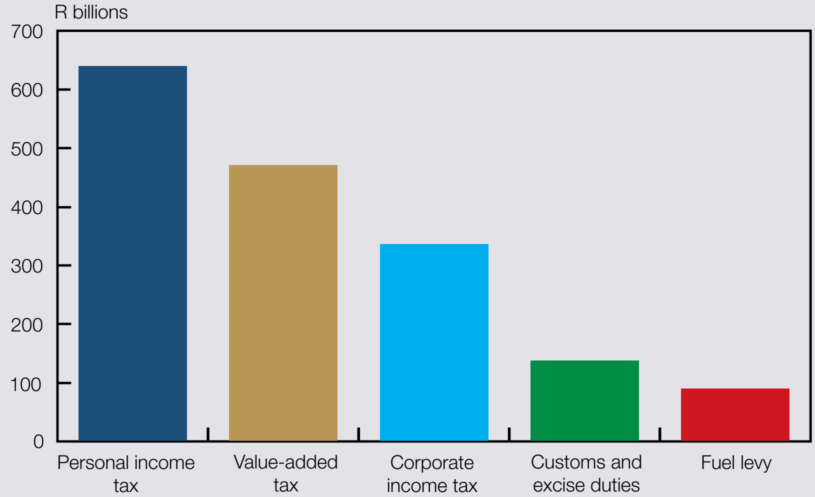
Percentage	2020	2021	2022			2023	2024	2025
	Outcome		2022 Budget	*2022 MTBPS*	2023 Budget	Medium-term estimates**		
Real GDP growth	-6.3	4.9	2.1	1.9	2.5	0.9	1.5	1.8
Consumer price inflation............	3.3	4.5	4.8	6.7	6.9	5.3	4.9	4.7
Current account balance***	2.0	3.7	0.3	0.2	-0.4	-1.8	-2.0	-2.1

* Calendar years
** *2023 Budget Review*
*** As a percentage of GDP

Source: National Treasury

Revenue collections in fiscal 2022/23 outperformed the originally budgeted consolidated government revenue and are now expected to be R10.5 billion more than in the *2022 Medium Term Budget Policy Statement (2022 MTBPS).* A revenue-to-GDP ratio of 28.5% is expected in fiscal 2022/23.

Main sources of consolidated government revenue in fiscal 2023/24



Sources: National Treasury and SARS

In fiscal 2023/24, personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT) are expected to remain the main sources of government revenue, contributing 73.9% to total revenue of consolidated government. Moreover, government provided tax relief to households by fully adjusting the PIT brackets and rebates for inflation. Additional tax relief of R13.0 billion was provided to support the clean-energy transition, increase electricity supply and limit the impact of high fuel prices.

The main tax proposals for fiscal 2023/24 include:

- PIT: brackets adjusted in line with the expected inflation rate of 4.9%.
- General fuel levy and Road Accident Fund (RAF) levy: no increase.
- Diesel fuel levy refund: extended to manufacturers of foodstuffs for a period of two years, from 1 April 2023 until 31 March 2025.
- Solar panel installation incentive: R4.0 billion to households.
- Expansion of the renewable energy incentive: R5.0 billion for companies.
- Excise duties: an increase in line with the expected inflation rate of 4.9% on alcohol and tobacco.
- Retirement and withdrawal lump sum tax: adjusted upwards by 10%, and at retirement or retrenchment the one-off tax-free amount increases to R550 000.
- Transfer duty: increased by 10%, with properties valued at less than R1.1 million exempted.

Consolidated fiscal framework indicators*

R billions	2020/21	2021/22	2022/23			2023/24	2024/25	2025/26
	Outcome		2022 Budget	*2022 MTBPS*	2023 Budget	Medium-term estimates**		
Consolidated revenue	1 409	1 751	1 771	1 882	1 893	1 959	2 078	2 225
Percentage of GDP	*25.1*	*27.8*	*27.5*	*28.3*	*28.5*	*28.0*	*27.9*	*28.0*
Consolidated expenditure	1 964	2 043	2 157	2 205	2 169	2 243	2 360	2 477
Percentage of GDP	*35.0*	*32.5*	*33.5*	*33.2*	*32.6*	*32.0*	*31.7*	*31.2*
Consolidated budget balance	-555	-292	-387	-323	-276	-284	-282	-252
Percentage of GDP	*-9.9*	*-4.6*	*-6.0*	*-4.9*	*-4.2*	*-4.0*	*-3.8*	*-3.2*
Primary balance	-314	-15	-76	-15	40	66	90	155
Percentage of GDP	*-5.6*	*-0.2*	*-1.2*	*0.2*	*0.6*	*0.9*	*1.2*	*2.0*
Gross loan debt***	3 936	4 277	4 692	4 752	4 727	5 060	5 424	5 843
Percentage of GDP	*70.2*	*68.0*	*72.8*	*71.4*	*71.1*	*72.2*	*72.8*	*73.6*
Net loan debt***	3 602	4 011	4 503	4 508	4 483	4 913	5 323	5 757
Percentage of GDP	*64.2*	*63.8*	*69.9*	*67.8*	*67.4*	*70.1*	*71.4*	*72.5*

* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.

** *2023 Budget Review*

*** Refers to national government, or the main budget

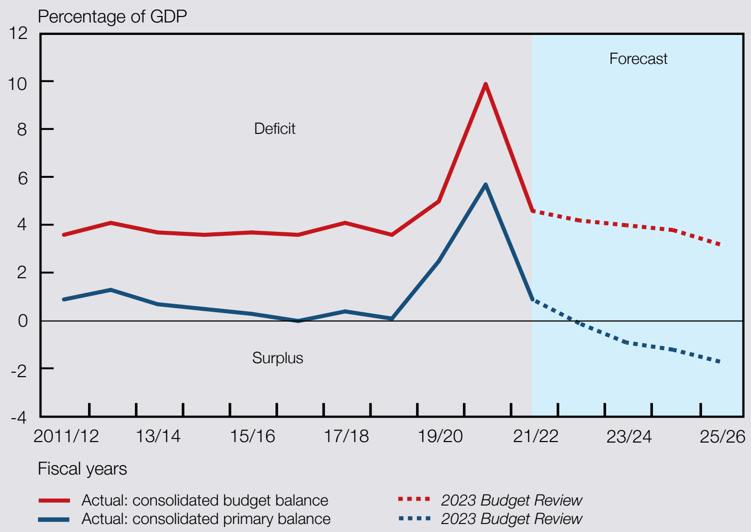
Source: National Treasury

Consolidated government expenditure is expected to reach 32.6% of GDP in fiscal 2022/23 before reducing to 31.2% in fiscal 2025/26. The 2023 Budget proposed total consolidated government expenditure of R2 243 billion for fiscal 2023/24, most of which was for socio-economic programmes with a focus on learning and culture (R457 billion), social development (R378 billion) (including the funding of the COVID-19 social relief of distress grant until 31 March 2024) and health (R259 billion). Debt-service cost remains one of the highest spending categories at R340 billion for fiscal 2023/24. Consolidated government spending is expected to increase to R2 477 billion in fiscal 2025/26.

The public sector wage bill, which increased at an annual average rate of 7.3% between fiscal 2014/15 and fiscal 2019/20, is now expected to increase by 3.3%, on average, over the medium term. The 2023/24 public sector wage agreement has not been finalised yet.

The proposed reductions in government spending are partially offset by additional allocations to state-owned companies (SOCs) over and above the proposed Eskom debt relief. An amount of R695 *million* has been allocated this fiscal year for immediate relief following the recent floods and the national disaster declared in various provinces, and R1.0 billion has been allocated for fiscal 2024/25.

Fiscal balances



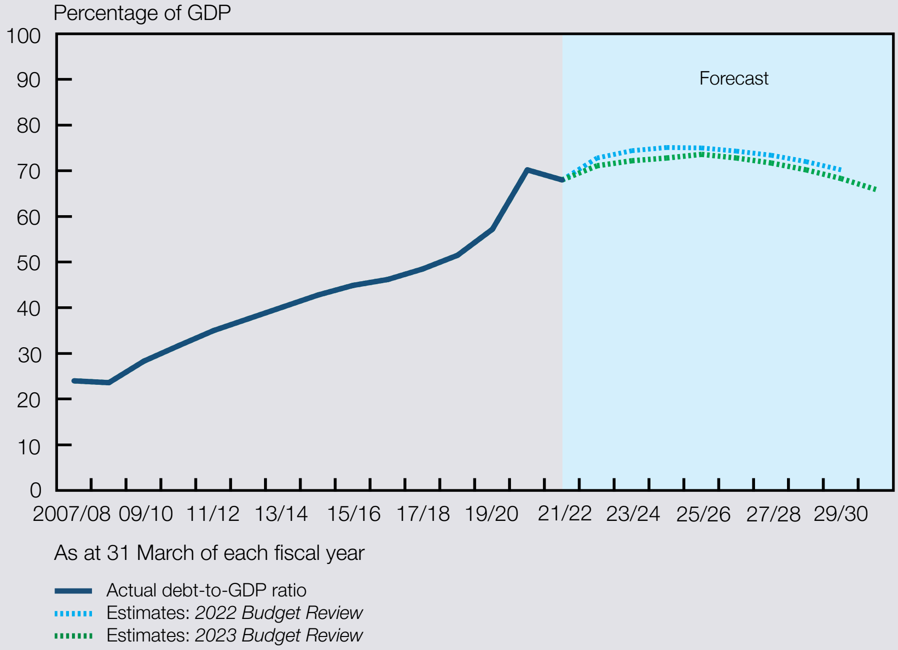
Source: National Treasury

Debt-service cost is expected to increase from R307 billion (4.6% of GDP) in fiscal 2022/23 to R397 billion (5.0% of GDP) in fiscal 2025/26.

The revised revenue and expenditure projections are expected to decrease the consolidated budget deficit from 4.2% of GDP in fiscal 2022/23 to 3.2% of GDP in fiscal 2025/26. The primary balance of consolidated government is expected to revert from a deficit of 5.6% of GDP in fiscal 2020/21 to a surplus of 0.6% of GDP in fiscal 2022/23 and 2.0% of GDP in fiscal 2025/26. The lower budget deficit mainly led to a decrease of R113.6 billion in the public sector's borrowing requirement expected in the *2022 Budget Review*, down to R326 billion (4.9% of GDP) in fiscal 2022/23.

The borrowing requirement will be financed through a combination of domestic short- and long-term loans, foreign currency loans and cash balances. The gross loan debt of national government is projected to increase from R4.7 *trillion* (71.1% of GDP) in fiscal 2022/23 to R5.8 *trillion* (73.6% of GDP) in fiscal 2025/26, driven by the projected budget deficits and the Eskom debt relief.

National government's gross loan debt



Source: National Treasury

Government's total contingent liabilities – including guarantees to SOCs, independent power producers (IPPs) and public-private partnerships (PPPs) – are projected to decline from R1.07 *trillion* in fiscal 2022/23 to R904.1 billion in fiscal 2025/26. The RAF remains government's largest contingent liability, followed by Eskom.

Weaker-than-expected global economic growth and inflationary pressures pose a risk to South Africa's fiscal outlook. In addition, major domestic risks include persistent electricity load-shedding, weak economic growth, higher borrowing costs, the introduction of unfunded spending programmes, unaffordable public-service wage settlements and the materialisation of contingent liabilities.