Box 5 The *2021 Budget Review*[1]

The 2021 Budget occurred within a constrained fiscal environment, characterised by both a record-high fiscal deficit and rapidly rising national government debt. Fiscal policy prioritised the rollout of a free COVID-19 vaccination programme, spending restraint, without unduly increasing the tax burden. The recovery in economic activity will be aided by short-term economic support and structural reforms through the advancement of Operation Vulindlela, focusing on the alleviation of electricity-supply constraints, accelerating the release of digital spectrum and improving the effectiveness of ports. These measures aim to attain a primary surplus in fiscal 2024/25 and to stabilise debt by fiscal 2025/26.

The projected contraction in real gross domestic product (GDP) for 2020 was revised slightly lower to 7.2%, from 7.8% in the *2020 Medium-Term Budget Policy Statement (MTBPS)*. These projections contrast an expansion of 0.9% initially expected in the February 2020 Budget. Growth in real GDP was now expected to improve to 3.3% in 2021, before slowing to 2.2% in 2022 and 1.6% in 2023. Consumer price inflation was expected to decelerate to 3.3% in 2020, due to a decline in both goods and services prices following weak demand and lower oil prices. Average inflation of 4.2% over the medium term reflects an improved outlook compared with an average of 4.4% estimated in the *2020 MTBPS*. The current account surplus in 2020 is expected to again change to a slight deficit over the medium term.

1 The *2021 Budget Review* was presented to Parliament by the Minister of Finance on 24 February 2021.

Macroeconomic projections*

Percentage	2018	2019	2020			2021	2022	2023
	Outcome		2020 Budget	*2020 MTBPS*	2021 Budget	Medium-term estimates**		
Real GDP growth	0.8	0.2	0.9	-7.8	-7.2	3.3	2.2	1.6
Consumer price inflation.......	4.6	4.1	4.5	3.2	3.3	3.9	4.2	4.4
Current account balance*** ..	-3.5	-3.0	-3.4	-0.8	1.7	-0.1	-1.0	-1.4

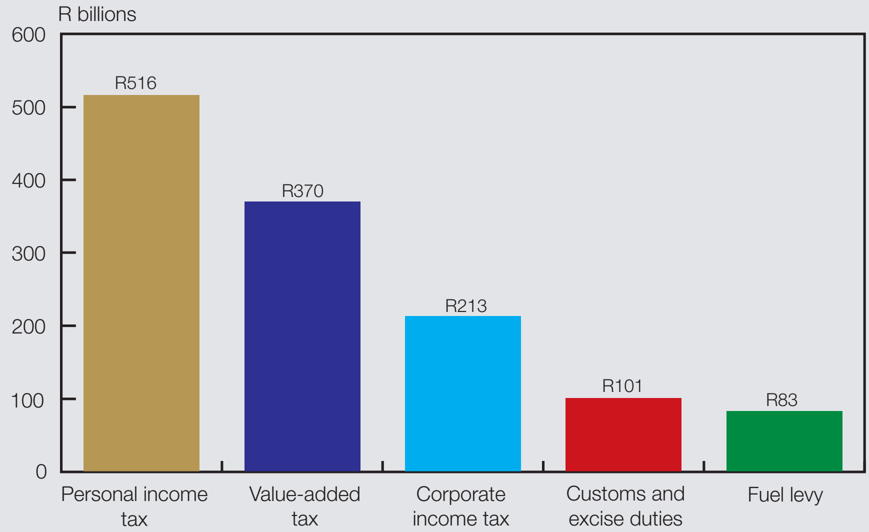
* Calendar years
** *2021 Budget Review*
*** As a percentage of GDP

Source: National Treasury

Revenue underperformed, relative to expectations along with the much weaker than expected economic growth, due to the impact of the COVID-19 pandemic, as reflected by business closures and job losses. Consolidated government revenue for fiscal 2020/21 was revised lower by R221 billion, primarily due to an expected year-on-year decline of 10.6% in gross tax revenue compared with the original estimate in the February 2020 Budget. However, with better-than-expected revenue collections in the second half of fiscal 2020/21, revenue is now expected to be R86 billion more than the *2020 MTBPS* estimate. A revenue-to-GDP ratio of 27.7% is expected for 2020/21, while a return to the pre-COVID-19 level of almost 30% will require strong and sustained economic growth.

In fiscal 2021/22, personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT) are expected to remain the main sources of government revenue, contributing 72.3% to total revenue of consolidated government. No measures were introduced to increase taxes in an effort to assist households and businesses, and given the smaller revenue shortfall, R40 billion in previously proposed taxes was withdrawn.

Major sources of government revenue: fiscal 2021/22



Sources: National Treasury, SARS and SARB

However, some tax changes were proposed, such as PIT relief through above-inflation adjustments of tax brackets and an increase in the fuel and Road Accident Fund (RAF) levies, along with changes to excise duties on alcohol and tobacco products as well as to environmental taxes, as summarised below:

- PIT: an above-inflation adjustment of 5% in personal income tax brackets.
- Fuel levy: an increase of 27 cents per litre, of which 15 cents per litre are allocated for the general fuel levy, 11 cents per litre for the RAF levy and 1 cent per litre for the carbon fuel levy, with effect from 7 April 2021.
- Excise duties: an increase of 8% on alcohol and tobacco products, effective from 25 February 2021.
- Plastic bag levy: a reduction from 25 cents per bag to 12.5 cents per bag.
- Carbon tax: the levy will increase by 1 cent to 8 cents per litre for petrol and 9 cents per litre for diesel, effective from 7 April 2021.

Consolidated fiscal framework indicators*

R billions	2018/19	2019/20	2020/21			2021/22	2022/23	2023/24
	Outcome		2020 Budget	*2020 MTBPS*	2021 Budget	Medium-term estimates**		
Consolidated revenue	1 448	1 531	1 584	1 277	1 363	1 520	1 635	1 717
Percentage of GDP	*29.4*	*29.7*	*29.2*	*26.3*	*27.7*	*28.4*	*28.9*	*28.6*
Consolidated expenditure	1 644	1 822	1 954	2 038	2 052	2 020	2 050	2 095
Percentage of GDP	*33.4*	*35.4*	*36.0*	*41.9*	*41.7*	*37.7*	*36.2*	*34.9*
Consolidated budget deficit	-195.7	-291.8	-370.5	-761.1	-689.8	-500.0	-414.1	-377.9
Percentage of GDP	*-4.0*	*-5.7*	*-6.8*	*-15.7*	*-14.0*	*-9.3*	*-7.3*	*-6.3*
Primary balance	-3.7	-78.0	-138.7	-474.8	-448.1	-222.6	-97.6	-30.6
Percentage of GDP	*-0.1*	*-1.5*	*-2.6*	*-9.8*	*-9.1*	*-4.1*	*-1.7*	*-0.5*
Gross loan debt***	2 788	3 261	3 562	3 974	3 950	4 383	4 820	5 234
Percentage of GDP	*56.6*	*63.3*	*65.6*	*81.8*	*80.3*	*81.9*	*85.1*	*87.3*
Net loan debt***	2 545	2 998	3 340	3 770	3 658	4 202	4 658	5 092
Percentage of GDP	*51.7*	*58.2*	*61.5*	*77.6*	*74.3*	*78.5*	*82.2*	*84.9*

* Fiscal years. This is the consolidated budget framework of national and provincial 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*.

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*** Refers to national government or main budget

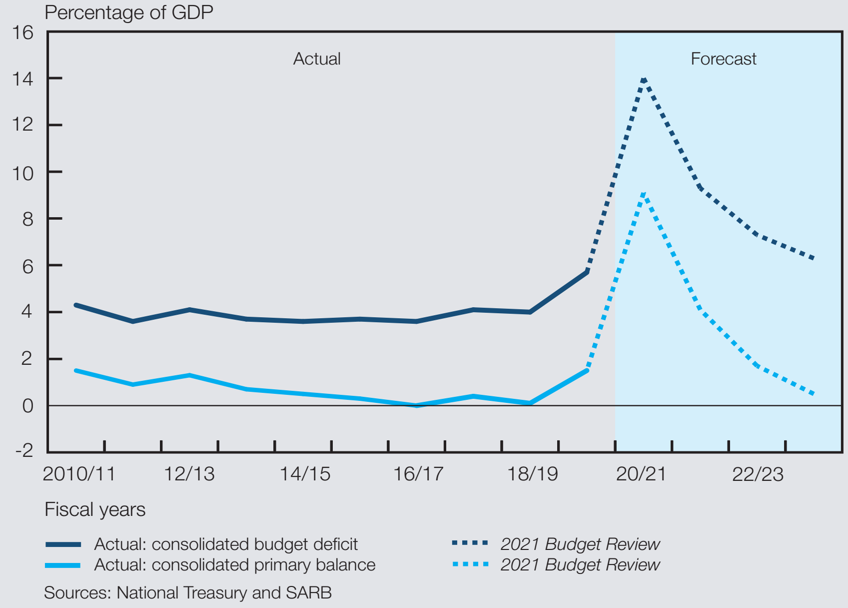
Source: National Treasury

Consolidated government expenditure is expected to reach a historic high of 41.7% of GDP in fiscal 2020/21. The 2021 Budget proposed total consolidated expenditure of R2 020 billion for fiscal 2021/22, with the largest portion directed towards socio-economic programmes focused on learning and culture (R403 billion), health (R249 billion) and social development (R335 billion). In the interest of fiscal consolidation and sustainability, a further reduction in expenditure relative to GDP was proposed over the medium term. The public-sector wage bill, which absorbed 40.8% of government revenue in fiscal 2019/20, is expected to grow only marginally by, on average, 1.2% over the medium term.

The proposed reduction in government spending was partially offset by reallocations and additional financial support of R183 billion to state-owned companies (SOCs), of which R42.8 billion was earmarked for Eskom over the next three years. Over the medium term, R6.5 billion was reprioritised to the Department of Health to procure and distribute COVID-19 vaccines for the national vaccine rollout.

Fiscal balances

Percentage of GDP



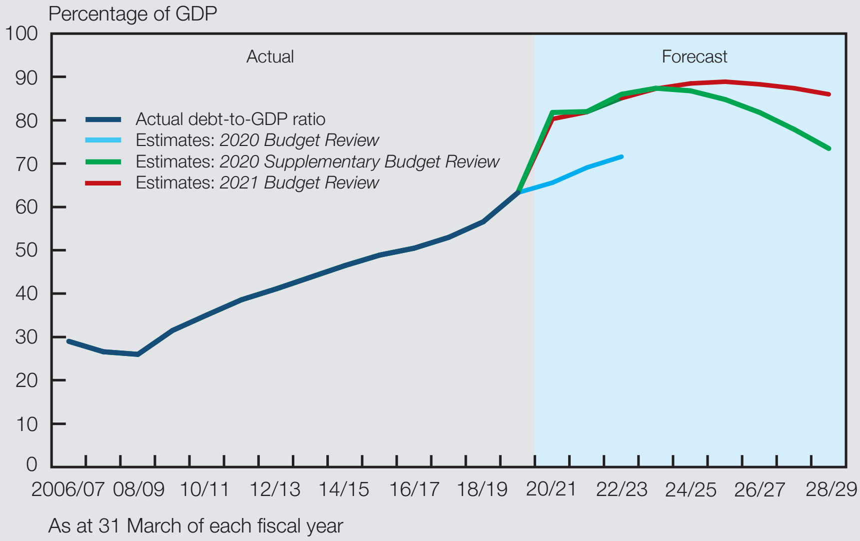
Sources: National Treasury and SARB

Debt-service cost was expected to increase from R233 billion in fiscal 2020/21 to R270 billion (13.4% of total expenditure) in fiscal 2021/22, and further to R339 billion in fiscal 2023/24.

The revised revenue and expenditure projections significantly increased the consolidated budget deficit, from 5.7% of GDP in fiscal 2019/20 to 14.0% in fiscal 2020/21, before narrowing to 6.3% in fiscal 2023/24. The primary balance[2] of consolidated government is expected to revert from a deficit of 9.1% of GDP in fiscal 2020/21 to a primary surplus in fiscal 2024/25. The larger budget deficit contributed to a significant increase in the borrowing requirement, from R353 billion in fiscal 2019/20 to R749 billion in 2020/21, or from 6.9% to 15.2% of GDP. The borrowing requirement will be funded by short- and long-term borrowing in the domestic market and foreign-currency loans, while government will continue its bond-switch programme over the medium term.

The gross loan debt of national government was estimated at R3.95 trillion (80.3% of GDP) for fiscal 2020/21, which was a notable upward revision from the original estimate of 65.6% of GDP in the 2020 Budget. The debt-to-GDP ratio is now projected to stabilise at 88.9% in 2025/26, as opposed to 95.3% as projected in the *2020 MTBPS*.

National government gross loan debt



Sources: National Treasury and SARB

Government's total contingent liabilities (including guarantees to SOCs, independent power producers (IPPs) and public-private partnerships) were projected to increase from R1.11 *trillion* in fiscal 2020/21 to R1.23 *trillion* in fiscal 2023/24. The RAF is the largest contingent liability, followed by Eskom.

Major risks to the fiscal outlook include uncertainty about the pace of the post-pandemic economic recovery, increasing contingent liabilities and the financial position of SOCs and municipalities. The public sector wage negotiations that will commence later in 2021, together with high debt levels, could affect the country's sovereign credit rating.

2 The primary balance is the cash book balance excluding interest payments.