Box 3 The *2021 Medium Term Budget Policy Statement*[1]

The *2021 Medium Term Budget Policy Statement (MTBPS)* sets out priorities for the next three years to support the economic recovery through short-term spending measures and structural reforms, following the destructive effects of the coronavirus disease 2019 (COVID-19) pandemic. This reaffirms the strategy in the *2021 Budget Review* of fiscal sustainability through narrowing the budget deficit and stabilising debt, while supporting the economic recovery and low-income households. This fiscal path will bring about a primary budget surplus[2] and end the fiscal consolidation programme by fiscal 2024/25.

Annual growth in real gross domestic product (GDP) was revised significantly higher by 1.8 percentage points to 5.1% for 2021 compared with the *2021 Budget Review*, and is expected to slow to an average of 1.7% over the next three years. The stronger domestic economic recovery in 2021, following the easing of COVID-19 lockdown restrictions, is supported by the surge in commodity prices along with a temporary increase in tax revenue. Consumer price inflation (CPI) is expected to accelerate to 4.5% in 2021, along with increases in energy and food prices. However, inflation is expected to remain contained within the inflation target range of 3 to 6% up to 2024.

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1 The *2021 Medium Term Budget Policy Statement* was presented to Parliament by the Minister of Finance on 11 November 2021.

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

Macroeconomic projections*

Percentage

	2020**	2021		2022		2023		2024
		Medium-term estimates***						
	Actual outcome	Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Real GDP growth	-6.4	3.3	5.1	2.2	1.8	1.6	1.6	1.7
CPI	3.3	3.9	4.5	4.2	4.2	4.4	4.3	4.5
Current account balance (as a percentage of GDP)......................	2.0	-0.1	3.8	-1.0	0.4	-1.4	-1.5	-1.7
GDP at current prices (R billions)....................................	5 521	5 273	6 112	5 590	6 304	5 915	6 607	7 018

* Calendar years
** *2021 MTBPS*
*** *2021 Budget Review, 2021 MTBPS*

Source: National Treasury

Perceived fiscal risks have increased, with the outlook for government finances being affected by uncertainty regarding global economic growth and inflation outcomes. In addition, the domestic economic growth performance and factors such as the prevalence of electricity supply disruptions, the financial state of state-owned companies (SOCs) and spending on compensation of employees will be paramount to the outcome of government finances over the medium term. The pandemic-induced job losses, which raised the level of unemployment, together with the slow pace of implementation of structural reforms weigh on the economic recovery.

Fiscal framework*

R billions/percentage of GDP

	2020/21**	2021/22		2022/23		2023/24		2024/25
	Outcome	Medium-term estimates***						
		Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Total consolidated revenue	1 414	1 520	1 649	1 635	1 696	1 717	1 773	1 891
Total consolidated expenditure .	1 972	2 020	2 129	2 050	2 075	2 095	2 126	2 240
Of which: debt-service cost......	*232.6*	*269.7*	*269.2*	*308.0*	*303.1*	*338.6*	*334.6*	*365.8*
Primary budget balance	*-318.0*	*-212.8*	*-140.7*	*-109.2*	*-77.2*	*-50.4*	*-20.8*	*16.1*
*Percentage of GDP**** ....*	*-5.7*	*…*	*-2.3*	*…*	*-1.2*	*…*	*-0.3*	*0.2*
Consolidated budget deficit	-557.7	-500.0	-479.7	-414.1	-379.3	-377.9	-353.6	-348.9
Percentage of GDP	*-10.0*	*…*	*-7.8*	*…*	*-6.0*	*…*	*-5.3*	*-4.9*
Gross loan debt of national government.............................	3 936	4 383	4 314	4 820	4 745	5 234	5 144	5 538
*Percentage of GDP**** ....*	*70.7*	*…*	*69.9*	*…*	*74.7*	*…*	*76.8*	*77.8*

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

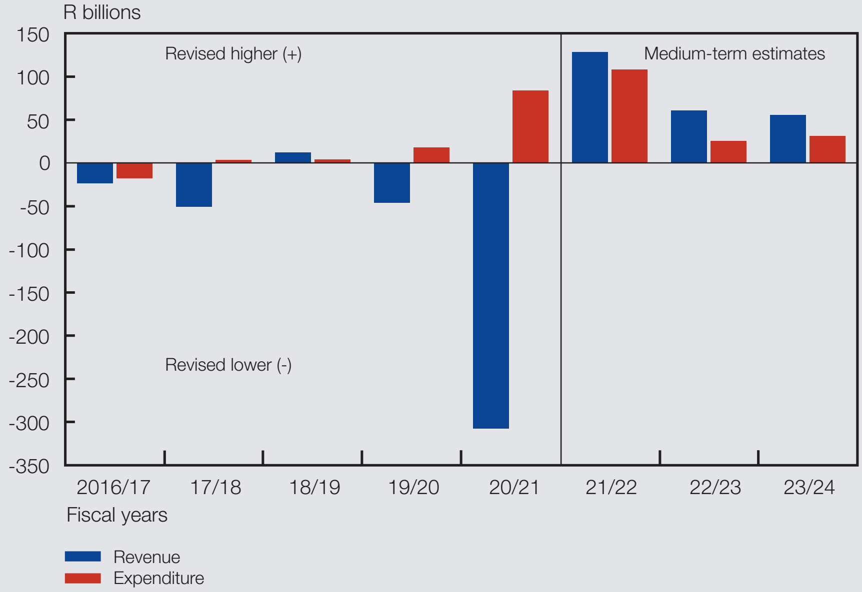
… The initial budgeted amounts as a percentage of GDP were based on the pre-rebased GDP and are therefore not comparable over time.

Source: National Treasury

With the stronger-than-expected economic recovery, the *2021 MTBPS* revised consolidated government revenue higher by 8.5% to R1 649 billion for fiscal 2021/22, compared with the *2021 Budget Review* estimate of R1 520 billion. Higher-than-expected revenue collections in the current fiscal year enabled the establishment of a fiscal relief package of R37.9 billion. Consolidated government revenue is expected to average 26.6% of GDP over the medium term.

The estimated gross tax revenue of R1 485 billion for fiscal 2021/22 is R120 billion more than projected in the *2021 Budget Review*, with corresponding increases of R69.8 billion and R59.5 billion expected in fiscal 2022/23 and fiscal 2023/24 respectively. The fiscal framework provides for R3.9 billion to the South African Special Risks Insurance Association (SASRIA) in the wake of the civil unrest in July 2021, but not for any additional support to SOCs.

Revisions to consolidated government revenue and expenditure*



* Budget Review to MTBPS
Source: National Treasury

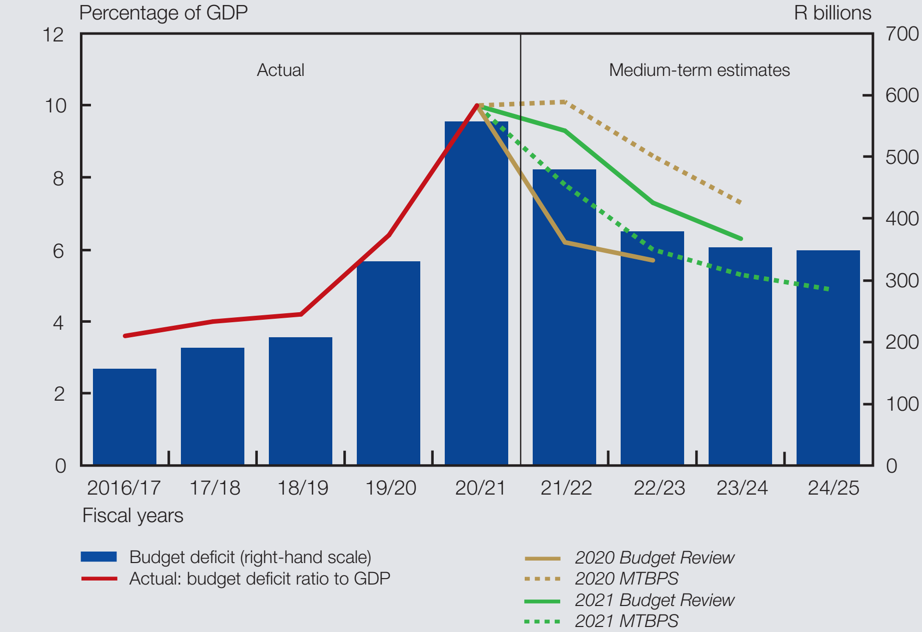
Consolidated government expenditure for fiscal 2021/22 was revised marginally higher to R2 129 billion in the *2021 MTBPS*, from R2 020 billion estimated in the *2021 Budget Review*. Expenditure is expected to decline slightly to R2 075 billion in fiscal 2022/23 before increasing to R2 240 billion in fiscal 2024/25. These revisions reflected, among other factors, wage bill adjustments, the reintroduction of the R350 *special COVID-19 social relief of distress grant* until the end of fiscal 2021/22 as well as additional support for small businesses affected by COVID-19 restrictions and the destruction to infrastructure caused by the civil unrest in July 2021. Total consolidated government expenditure by function (non-interest spending) is expected to decline at an annual average rate of 0.4% over the medium term, while debt-service costs is expected to increase by an average of 10.8% per annum.

The consolidated government budget deficit of 7.8% of GDP for fiscal 2021/22 in the *2021 MTBPS* is significantly lower than the originally estimated 9.3% in the *2021 Budget Review*. The deficit is expected to decline further, and to average 5.4% over the medium term.

Fiscal sustainability necessitates a primary budget *surplus* to bring the fiscal consolidation process to an end by fiscal 2024/25 and to stabilise the debt-to-GDP ratio at 78.1% by fiscal 2025/26. This requires stronger economic growth, supported by structural reforms to unlock private-sector investment and job creation. The payment for capital assets is expected to increase by more than the consumer price inflation rate, at an annual average of 8.0% over the medium term, along with the stated aim to shift spending from consumption to investment.

Debt-service costs – the fastest growing component of spending given the increase in national government debt – are expected to increase from R269 billion (4.4% of GDP) in the current fiscal year to R366 billion or 5.1% of GDP in fiscal 2024/25.

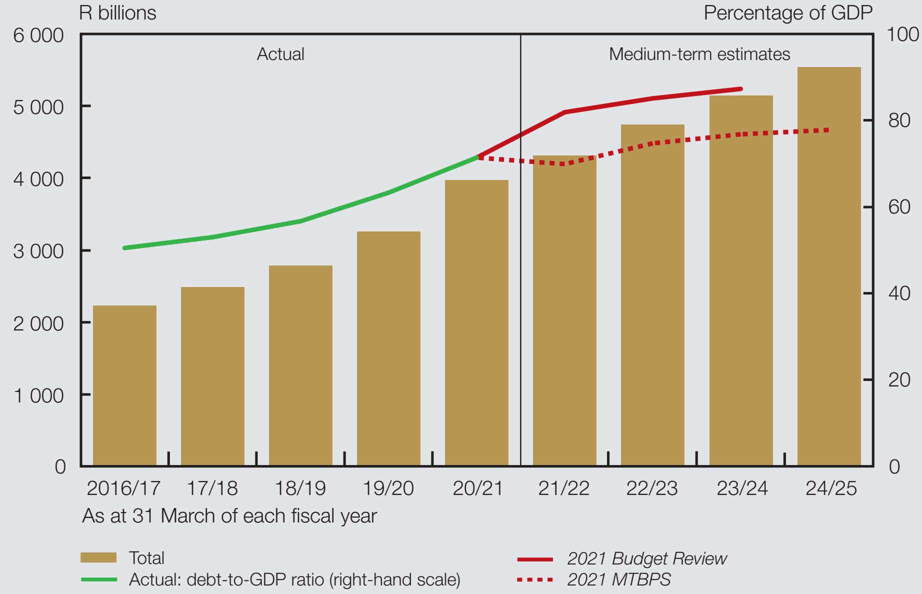
Consolidated government budget deficit



Source: National Treasury

Government's gross borrowing requirement (both the budget deficit and maturing loans) was revised lower to R475 billion for fiscal 2021/22, from R548 billion at the time of the February 2021 Budget. Over the medium term, the gross borrowing requirement is expected to average R503 billion, compared with R551 billion estimated in the *2021 Budget Review.* Government's financing strategy does not include any new short-term borrowing during the current fiscal year, while long-term borrowing in the domestic bond market is expected to decline meaningfully from R380 billion to R285 billion in fiscal 2021/22, with additional foreign funding during the current fiscal year.

National government gross loan debt



Source: National Treasury

The gross loan debt of national government of R4 383 billion at the end of fiscal 2021/22 in the *2021 Budget Review* was revised marginally lower to R4 314 billion (69.9% of GDP) in the *2021 MTBPS*. Nonetheless, gross loan debt is expected to increase further to R5 538 billion (77.8% of GDP) in fiscal 2024/25 and to stabilise at 78.1% of GDP in fiscal 2025/26.