Box 4 The *2022 Budget Review*[1]

The 2022 Budget proposals continue to be aligned with the path of fiscal consolidation amid striking a balance between support to the most vulnerable in society and inclusive growth, at the same time addressing service delivery imperatives, providing tax relief and implementing much-needed structural reforms. Better-than-expected revenue collections from especially the mining sector, underpinned by high commodity prices, contributed to the narrowing of the consolidated budget deficit. The budget framework makes provision for a primary surplus in fiscal 2023/24 followed by a narrowing of the consolidated budget deficit to 4.2% of gross domestic product (GDP) in fiscal 2024/25, while gross loan debt is projected to stabilise at 75.1% of GDP in fiscal 2024/25.

1 The *2022 Budget Review* was presented to Parliament by the Minister of Finance on 23 February 2022.

Amid an uneven recovery in economic activity, the projected growth in real GDP for 2021 was revised lower to 4.8% from 5.1% in the *2021 Medium Term Budget Policy Statement (2021 MTBPS)*. This is still much higher than the 3.3% that was estimated in the February 2021 Budget. In addition, growth in real GDP is now expected to slow to 2.1% in 2022 and to 1.6% in 2023 before accelerating marginally to 1.7% in 2024. Consumer price inflation is expected to accelerate to 4.8% in 2022 due to the prevailing higher international crude oil prices and increased domestic food and energy (electricity and fuel) prices. However, inflationary pressures are expected to dissipate from 2023 onwards. A marginal current account surplus is still expected for 2022 before it reverts to deficits from 2023.

Macroeconomic projections*

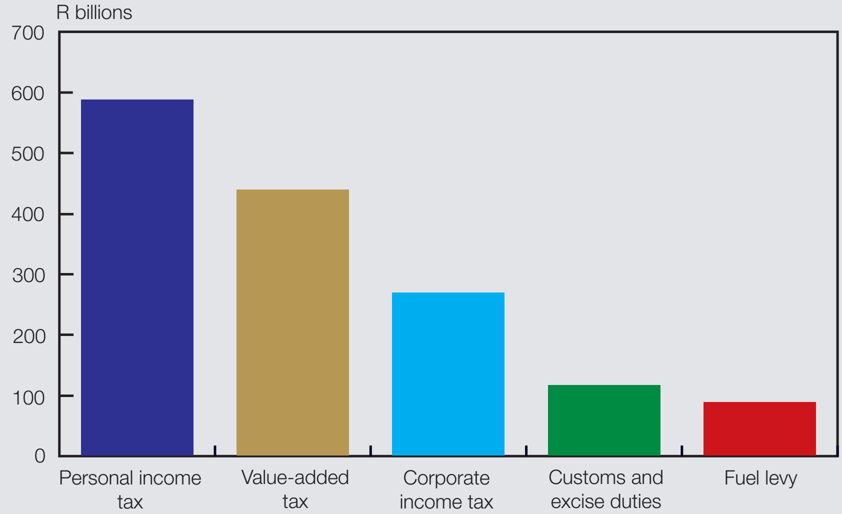
Percentage	2019	2020	2021			2022	2023	2024
	Outcome		2021 Budget	*2021 MTBPS*	2022 Budget	Medium-term estimates**		
Real GDP growth	0.1	-6.4	3.3	5.1	4.8	2.1	1.6	1.7
Consumer price inflation	4.1	3.3	3.9	4.5	4.5	4.8	4.4	4.5
Current account balance***	-2.6	2.0	-0.1	3.8	3.8	0.3	-1.2	-1.5

* Calendar years
** *2022 Budget Review*
*** As a percentage of GDP

Source: National Treasury

Revenue to date has outperformed the *2021 MTBPS* estimates, with consolidated government revenue for fiscal 2021/22 now expected to be R72 billion more than projected in the *2021 MTBPS*. A revenue-to-GDP ratio of 27.5% is expected for fiscal 2022/23.

Main sources of consolidated government revenue in fiscal 2022/23



Sources: National Treasury, SARS and SARB

In fiscal 2022/23, personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT) are expected to remain the main sources of government revenue, contributing 73.3% to total consolidated government revenue. Moreover, government provided additional tax relief of R5.2 billion to support the economic recovery and help alleviate youth unemployment. Most of the tax relief was provided by adjusting PIT brackets and rebates in line with inflation, and by not increasing the general fuel and Road Accident Fund (RAF) levies.

The main tax proposals for fiscal 2022/23 include:

- PIT: inflation relief of 4.5% in tax brackets and rebates.
- CIT: a reduction from 28% to 27% effective for years of assessment ending on or after 31 March 2023.

- Employment tax incentive: an increase of 50% in the value of the employment tax incentive, up to R1 500 per month in the first 12 months of eligibility and up to R750 per month in the second 12 months of eligibility.
- Excise duties: an increase of between 4.5% and 6.5% on alcohol and tobacco products.
- The plastic bag levy: an increase of 3 cents to 28 cents per bag from 1 April 2022.
- Carbon emissions tax: an increase in the levy by 1 cent to 9 cents per litre for petrol and to 10 cents per litre for diesel, effective from 6 April 2022.
- Health promotion levy: an increase from 2.21c/g to 2.31c/g for beverages with more than 4g of sugar content per 100ml, effective from 1 April 2022.

Consolidated fiscal framework indicators*

R billions	2019/20	2020/21	2021/22			2022/23	2023/24	2024/25
	Outcome		2021 Budget	*2021 MTBPS*	2022 Budget	Medium-term estimates**		
Consolidated revenue	1 519	1 406	1 520	1 649	1 721	1 771	1 853	1 978
Percentage of GDP	*26.7*	*25.3*	*28.4*	*26.7*	*27.5*	*27.5*	*27.2*	*27.3*
Consolidated expenditure	1 807	1 964	2 020	2 129	2 077	2 157	2 177	2 282
Percentage of GDP	*31.8*	*35.3*	*37.7*	*34.5*	*33.2*	*33.5*	*32.0*	*31.5*
Consolidated budget balance	-288	-558	-500	-480	-356	-387	-324	-304
Percentage of GDP	*-5.1*	*-10.0*	*-9.3*	*-7.8*	*-5.7*	*-6.0*	*-4.8*	*-4.2*
Primary balance	-140	-318	-213	-141	-79	-85	3	41
Percentage of GDP	*-2.5*	*-5.7*	*-4.0*	*-2.3*	*-1.3*	*-1.3*	*0.0*	*0.6*
Gross loan debt***	3 261	3 936	4 383	4 314	4 346	4 692	5 066	5 429
Percentage of GDP	*57.4*	*70.7*	*81.9*	*69.9*	*69.5*	*72.8*	*74.4*	*75.1*
Net loan debt***	2 998	3 602	4 203	4 089	4 057	4 503	4 894	5 272
Percentage of GDP	*52.7*	*64.7*	*78.5*	*66.2*	*64.9*	*69.9*	*71.9*	*72.9*

* 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 the main budget

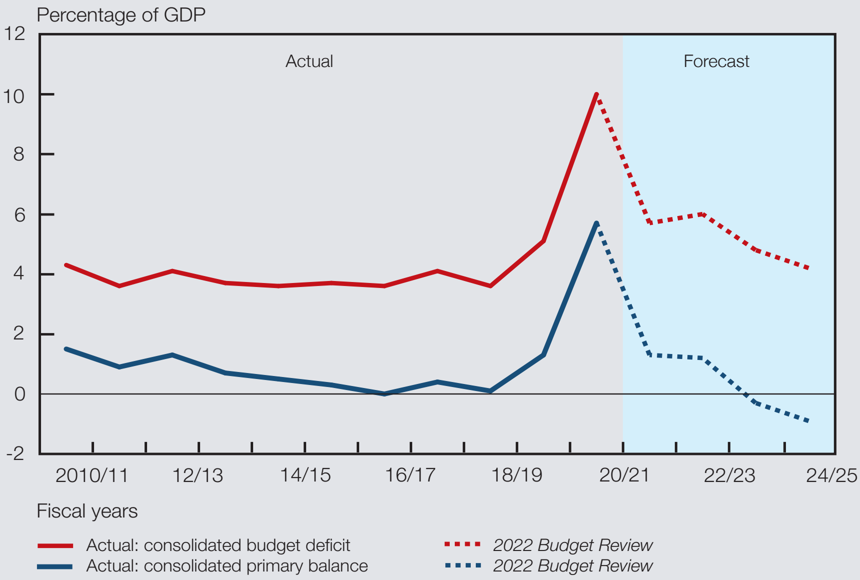
Source: National Treasury

Consolidated government expenditure is expected to reach 33.2% of GDP in fiscal 2021/22 before peaking at 33.5% in 2022/23. The 2022 Budget proposed total consolidated expenditure of R2 157 billion for fiscal 2022/23, with the largest portion directed towards socio-economic programmes such as learning and culture (R441 billion), social development (R364 billion), debt-service costs (R302 billion or 4.7% of GDP) and health (R259 billion). The social development allocation includes R44 billion to support the continuation of the special coronavirus disease 2019 (COVID-19) social relief of distress grant (R350 per beneficiary per month) for another 12 months. Consolidated government spending is expected to increase to R2 282 billion in fiscal 2024/25.

To further give effect to government's intention to contain the public sector wage bill, it is now expected to only increase by 2.1% over the medium term compared with an average annual increase of 7.3% between fiscal 2014/15 and fiscal 2019/20. In fiscal 2021/22, public-service compensation spending increased by R20.5 billion as public servants were awarded a non-pensionable cash gratuity which was higher than the budgeted amount in the *2021 Budget Review*.

The state-owned companies (SOCs) required further assistance, with South African Airways to receive R1.8 billion in fiscal 2022/23 to settle state-guaranteed debt and interest costs. The South African Special Risks Insurance Association (SASRIA) was also allocated a further R22 billion in the current financial year to settle claims and to ensure that sufficient capital is available to meet regulatory requirements.

Fiscal balances

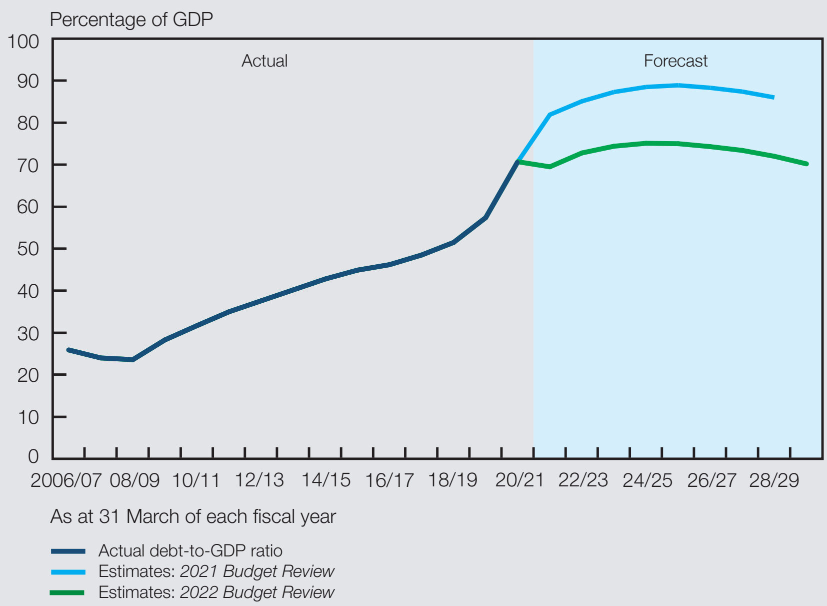


Sources: National Treasury and SARB

The higher-than-expected revenue collections contributed to the decrease in the consolidated budget deficit, from 10.0% of GDP in fiscal 2020/21 to 6.0% of GDP in fiscal 2022/23 and further to 4.2% in fiscal 2024/25. The primary balance[2] of consolidated government is expected to revert from a *deficit* of 5.7% of GDP in fiscal 2020/21 to a *surplus* of 0.6% of GDP in fiscal 2024/25. The much lower budget deficit contributed to the decrease in the expected net borrowing requirement, from R558 billion (10.0% of GDP) in fiscal 2020/21 to R387 billion (6.0% of GDP) in 2022/23. The net borrowing requirement will be funded by short- and long-term borrowing in both the domestic and the foreign financial markets, while government continues with the bond-switch programme over the medium term.

The gross loan debt of national government is estimated at R4.69 trillion (72.8% of GDP) at the end of fiscal 2022/23 and is expected to stabilise at R5.43 trillion (75.1% of GDP) at the end of fiscal 2024/25.

National government's gross loan debt



Sources: National Treasury and SARB

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

Government’s total contingent liabilities – including guarantees to SOCs, independent power producers (IPPs) and public-private partnerships (PPPs) – are projected to increase from R1.15 *trillion* in fiscal 2021/22 to R1.17 *trillion* in fiscal 2022/23, and further to R1.23 *trillion* in fiscal 2024/25. The RAF is government’s largest contingent liability, followed by Eskom.

Major risks to the fiscal outlook include unfunded spending programmes, uncertainty about the pace of the post-pandemic recovery in economic activity, mounting contingent liabilities and the financial position of SOCs.