STABILISING THE PUBLIC FINANCES TO WEATHER THE GLOBAL STORM

October 2022

2022
MTBPS

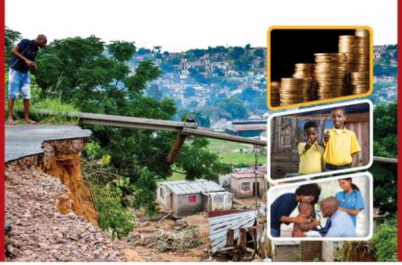
MEDIUM TERM BUDGET POLICY STATEMENT

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

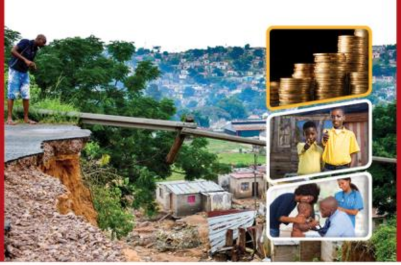
2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

OVERVIEW



- South Africa is restoring the health of its public finances during a global slowdown marked by high levels of economic risk and fiscal distress, particularly for developing countries.
- Since the 2022 Budget Review, global and domestic risks to the economic outlook have materialised, including slower global growth, higher levels of inflation, accelerating interest rate increases and intensified power supply interruptions.
- In a volatile global environment, the fiscal strategy reduces risks to the economy and the public finances over the medium term. The higher-than-anticipated revenues will be used to reduce the gross borrowing requirement, support spending priorities and reduce risks to the fiscal outlook.
- The adjusted fiscal framework makes provision for recovery and rebuilding following massive flood damage
- Over the medium-term, fiscal consolidation is achieving the objectives of the strategy originally outlined in the 2020 MTBPS. Lifted by better-than-expected revenues and expenditure discipline, the fiscal position is stronger. At the same time, increased funding for safety and security, fighting corruption and delivering infrastructure will support longer-term growth prospects.
- In 2023/24, a primary budget surplus – revenue exceeding non-interest spending – of 0.7 per cent of GDP is expected. Gross debt is now projected to stabilise at 71.4 per cent of GDP in 2022/23 – more quickly than previously expected.
- Urgent action is required to mitigate risks and accelerate growth-enhancing reforms, especially to boost electricity supply.



GLOBAL ECONOMIC OUTLOOK

Table 2.1 Economic growth in selected countries

Region/country	2020	2021	2022	2023	2024
Percentage	Actual			Forecast	
World	**-3.0**	**6.0**	**3.2**	**2.7**	**3.2**
Advanced economies	**-4.4**	**5.2**	**2.4**	**1.1**	**1.6**
United States	-3.4	5.7	1.6	1.0	1.2
Euro area	-6.1	5.2	3.1	0.5	1.8
United Kingdom	-9.3	7.4	3.6	0.3	0.6
Japan	-4.6	1.7	1.7	1.6	1.3
Emerging and developing countries	**-1.9**	**6.6**	**3.7**	**3.7**	**4.3**
China	2.2	8.1	3.2	4.4	4.5
India	-6.6	8.7	6.8	6.1	6.8
Brazil	-3.9	4.6	2.8	1.0	1.9
Russia	-2.7	4.7	-3.4	-2.3	1.5
Sub-Saharan Africa	**-1.6**	**4.7**	**3.6**	**3.7**	**4.1**
Nigeria	-1.8	3.6	3.2	3.0	2.9
South Africa[1]	-6.3	4.9	1.9	1.4	1.7
World trade volumes	**-7.8**	**10.1**	**4.3**	**2.5**	**3.7**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2022

- The IMF has revised global growth estimates downwards for both 2022 and 2023.
- The Russia-Ukraine war (and subsequent sanctions) and energy disruptions to Europe have renewed the surge in global inflation. At the same time, the slowdown in China's economy is weighing on global demand and worsening pre-existing inflationary effects of dislocated supply chains from COVID-19 disruptions.
- Higher inflation is eroding purchasing power, leading to higher interest rates and discouraging and delaying investment and hiring.
- More aggressive interest rate hikes by major central banks have prompted capital outflows from emerging markets, raising fears of economic contractions in the near term.
- Global risks are assessed to the downside and lower global growth means lower external demand threatening the pace of economic growth in South Africa.

DOMESTIC ECONOMIC OUTLOOK

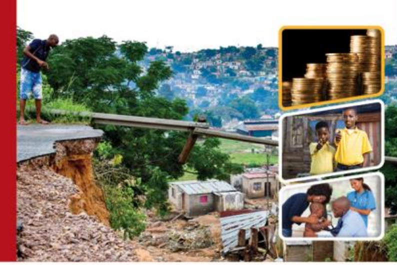


Table 2.2 Macroeconomic performance and projections

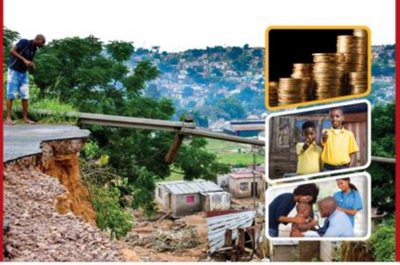
Calendar year	2019	2020	2021	2022	2023	2024	2025
Percentage change		**Actual**		**Estimate**		**Forecast**	
Final household consumption	1.2	-5.9	5.6	2.9	1.6	1.7	1.8
Final government consumption	2.1	0.8	0.6	0.8	-1.8	-1.0	0.2
Gross fixed-capital formation	-2.1	-14.6	0.2	4.0	1.9	3.6	3.8
Gross domestic expenditure	1.4	-8.0	4.8	3.6	1.2	1.6	1.8
Exports	-3.4	-11.9	10.0	7.4	1.9	2.8	2.9
Imports	0.4	-17.4	9.5	13.8	1.0	2.3	2.9
Real GDP growth	**0.3**	**-6.3**	**4.9**	**1.9**	**1.4**	**1.7**	**1.8**
GDP inflation	4.6	5.7	6.2	4.1	4.3	4.7	4.6
GDP at current prices (R billion)	**5 614**	**5 557**	**6 192**	**6 572**	**6 956**	**7 406**	**7 884**
CPI inflation	4.1	3.3	4.5	6.7	5.1	4.6	4.6
Current account balance (% of GDP)	-2.6	2.0	3.7	0.2	-0.9	-1.1	-1.2

Source: National Treasury, Reserve Bank and Statistics South Africa

What has changed since *2022 Budget Review*:

- National Treasury forecasts real GDP growth of 1.9 per cent in 2022 (downwardly revised from 2.1 per cent in the *2022 Budget Review*), mainly driven by weaker net exports with the volume of imports outpacing that of exports.
- The economy expanded 1.4 per cent in the first half of 2022, compared with the first half of 2021.
- Persistent global supply chain frictions, elevated input costs, flooding in KwaZulu-Natal and the Eastern Cape, and industrial action in certain sectors of the economy contributed to a second-quarter contraction which offset stronger than anticipated growth in the first quarter.
- Economic activity has been further disrupted by a significant increase in both the frequency and intensity of load shedding during the year.
- Investment and employment remain well below pre-pandemic levels. The scarring impact of the pandemic on employment and investment decisions will likely weigh on the recovery over the medium term.

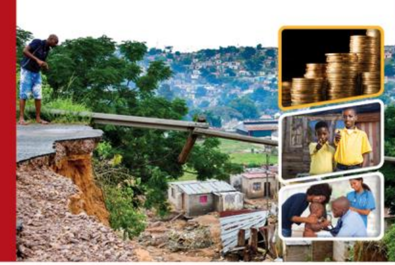
RISKS TO THE OUTLOOK REMAIN ELEVATED



Risks to the global and domestic outlook remain elevated. Unresolved structural constraints and scarring from COVID-19 leave the economy vulnerable to new shocks:

- Global growth could slow further if the Russia-Ukraine war escalates, with associated effects on global supply chains and inflationary consequences for food and energy prices. More severe disruptions of gas supplies from Russia to Europe could trigger energy rationing, with implications for global energy prices and energy-intensive industries.
- The pace and scale of monetary policy tightening could negatively affect economic output, while a further decline in Chinese economic growth could slow global demand and add pressure to global supply chains.
- Domestically, increased power cuts will compromise an already fragile and recovering economy. Conversely, accelerating the implementation of energy reforms could mitigate the adverse effects of load-shedding and support higher business confidence and investment. The impact of industrial action in the ports and rail sector could constrain economic activity and reduce South Africa’s competitiveness.
- A deterioration of the fiscal outlook due to unfunded spending pressures or the materialisation of contingent liabilities could increase borrowing costs, and crowd out both private and public investment.

RAPID AND DECISIVE IMPLEMENTATION OF STRUCTURAL REFORMS REMAIN CRUCIAL



A clear and stable macroeconomic framework lays a foundation for a growing economy:

- This includes a flexible exchange rate, low and stable inflation, and sustainable fiscal policy.

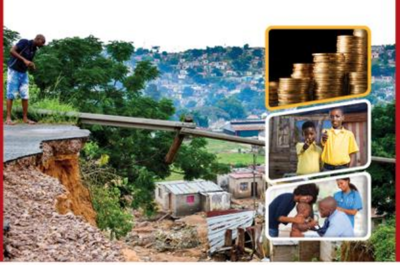
Rapid implementation of economic reforms is required to boost economic growth. Since the *2022 Budget Review*, progress has been made on important reforms that are expected to support investment and job creation:

- **Electricity:** The National Energy Crisis Committee will focus on urgently improving the performance of existing power stations and adding new generation capacity to the grid. Successfully enacted, these efforts could add about 14 gigawatts of electricity capacity over the next two years.
- **Transport:** the Transnet National Ports Authority has been corporatised, an important first step in raising the competitiveness of South Africa's ports. Third-party access to the freight rail network is being pursued. Private-sector partnerships are being developed for the Durban Pier 2 and Ngqura container terminals. The White Paper on the National Rail Policy was gazetted in May 2022, with a focus on measures to raise competitiveness, lower logistics costs and encourage investment.
- **Telecommunications:** the auction of broadband high-value spectrum has been completed and draft by-laws for the deployment of telecommunications infrastructure have been published for public comment – a key step towards facilitating the provision of electronic communications infrastructure at the local level.
- **Visas:** Several visa reforms have been completed. These include reviewing the policy framework and processes for work visas.

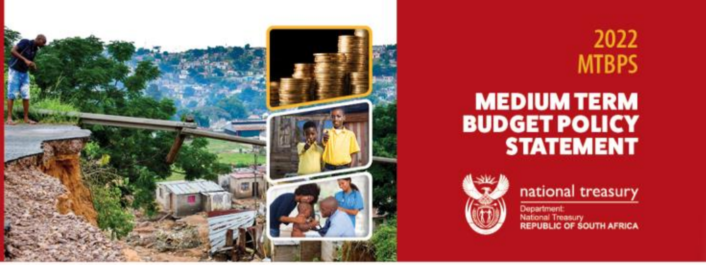
Government plays an important role in ensuring that the overarching regulatory environment and the provision of critical public goods and services are supportive of inclusive and sustainable growth:

- The state must boost its capacity to prioritise, sequence and coordinate interventions through adaptable policymaking and institutions that are accountable and capable, with the ability to make choices where trade-offs arise.

MEDIUM-TERM FISCAL STRATEGY

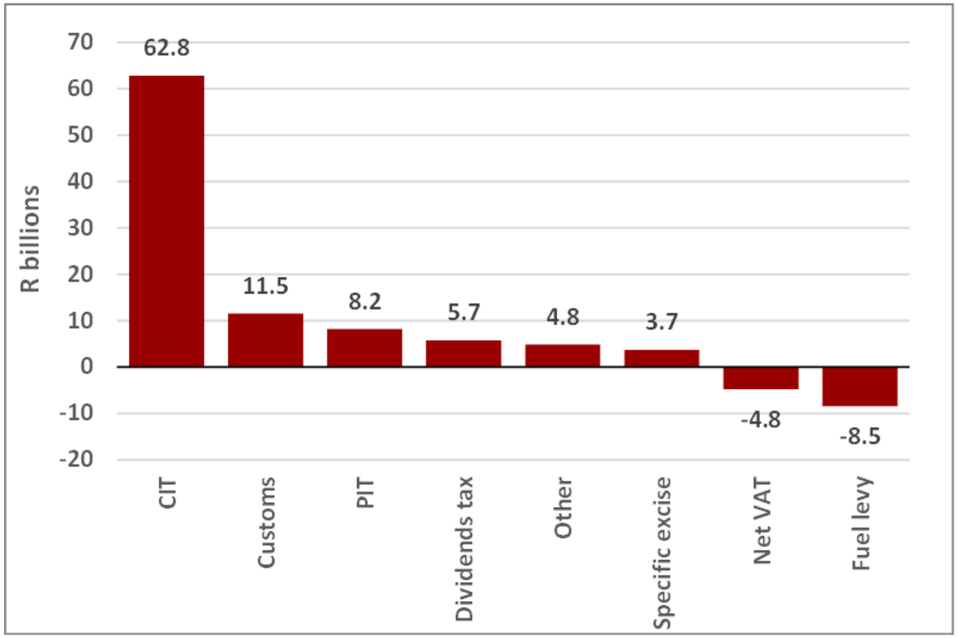


- The medium-term fiscal strategy prioritises:
  - Achieving fiscal sustainability by narrowing the budget deficit and stabilising debt.
  - Increasing spending on policy priorities such as security and infrastructure, thereby promoting economic growth.
  - Reducing fiscal and economic risks, including through targeted support to key public entities and building fiscal buffers for future shocks.
- Over the next three years, spending increases will support economic growth and the delivery of health, education and local government free basic services.
- Over the medium term, 59.2 per cent of consolidated non-interest spending goes to the social wage – combined public spending on health, education, housing, social protection, transport, employment and local amenities.
- Infrastructure spending is also expected to increase over the 2023 MTEF period.
- Proposed conditional in-year allocations to Denel, SANRAL and Transnet will reduce contingent liabilities and enable these entities to continue supporting economic growth and national security.
- Government is considering various policy approaches to safeguard fiscal sustainability.



IN-YEAR REVENUE OUTLOOK

Gross tax revenue estimates compared to the 2022 Budget



- Revenue collections over the first half of 2022/23 were 9 per cent higher than the same period last year.
- The positive impact of high commodity prices continued, and while dissipating, a more broad-based corporate tax recovery improves the near-term revenue outlook.
- Compared to the 2022 Budget, the gross tax revenue estimate for 2022/23 is projected to be R83.5 billion higher.
- VAT refund payments by SARS are expected to exceed pre-COVID levels significantly, while import and domestic VAT collections are projected to perform better than the 2022 Budget.
- Fuel levy collections are expected below 2022 Budget estimates due to the tax relief provided between April and July 2022.
- Downside economic risks to the revenue projections are significant and could lead to lower-than-projected outcomes should they materialise.

IN-YEAR EXPENDITURE OUTLOOK

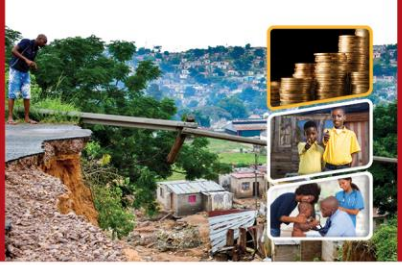


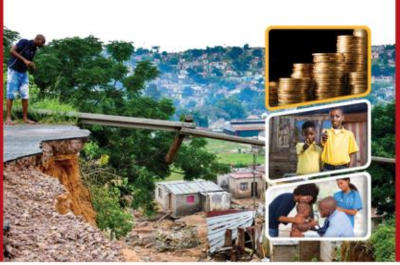
Table 3.2 Revisions to non-interest expenditure for 2022/23

R million	2022/23
Non-interest expenditure (2022 Budget Review)	**1 673 450**
Upward expenditure adjustments	**54 117**
Expenditure earmarked in the 2022 Budget speech for future allocation	500
Self-financing expenditure[1]	1 580
Special appropriation[2]	30 014
Other allocations in the AENE[3]	22 022
Downward expenditure adjustments	**-17 078**
Declared unspent funds	-1 963
Infrastructure Fund not assigned to votes	-4 197
Contingency reserve	-5 000
National government projected underspending	-3 917
Local government repayment to the National Revenue Fund	-2 000
Revised non-interest expenditure (2022 MTBPS)	**1 710 489**
Change in non-interest expenditure from 2022 Budget	37 039

1. Spending financed from revenue derived from departments' specific activities
2. The entities receiving the allocations are Transnet, SANRAL and Denel
3. 2022 Adjusted Estimates of National Expenditure
Source: National Treasury

- Compared with the 2022 Budget estimates, government proposes a net addition of R37 billion to main budget non-interest spending in 2022/23.
- This consists of R54.1 billion in spending increases, partially offset by declared unspent funds, projected underspending and contingency reserve drawdowns.
- The following in-year allocations will address balance sheet weaknesses in public entities that are central to economic recovery:
- R23.7 billion for SANRAL to pay off government-guaranteed debt, conditional on a solution to phase 1 of the Gauteng Freeway Improvement Project.
- R5.8 billion for Transnet – half of which is shifted funds to repair infrastructure damaged by the recent floods, and half to increase locomotive capacity.
- R204.7 million for Denel to reduce contingent liabilities arising from its weak financial position and R3.4 billion – if set conditions are met – to complete its turnaround plan.

MEDIUM-TERM REVENUE OUTLOOK



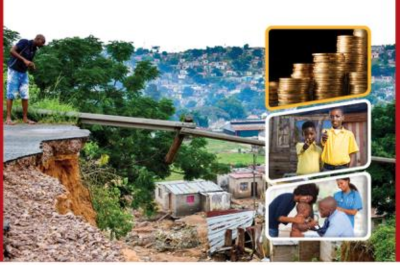
Revised revenue projections

R billion	2022/23	2023/24	2024/25	2025/26
2022 Budget	**1 598.4**	**1 694.3**	**1 807.6**	
Buoyancy	*1.09*	*1.06*	*1.06*	
Revised estimates	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Buoyancy	*1.30*	*1.03*	*1.00*	*1.06*
Change since 2022 Budget	**83.5**	**94.6**	**99.7**	

Source: National Treasury

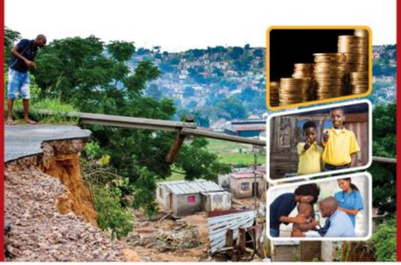
- Growth in major tax bases performed better than previously anticipated, which together with continued efficiency improvements at SARS supports stronger medium-term revenue prospects.
- Windfall tax benefits from high commodity prices are projected to fall away over the next two years; however, revenue collections are still expected to exceed pre-COVID estimates.
- Despite relatively lower medium-term tax buoyancies, tax-to-GDP is expected to reach 25.4 per cent by 2025/26.
- Further improvement in the tax-to-GDP ratio over the medium term depends on sustained economic growth and greater efficiency in revenue collection.

MEDIUM-TERM EXPENDITURE OUTLOOK

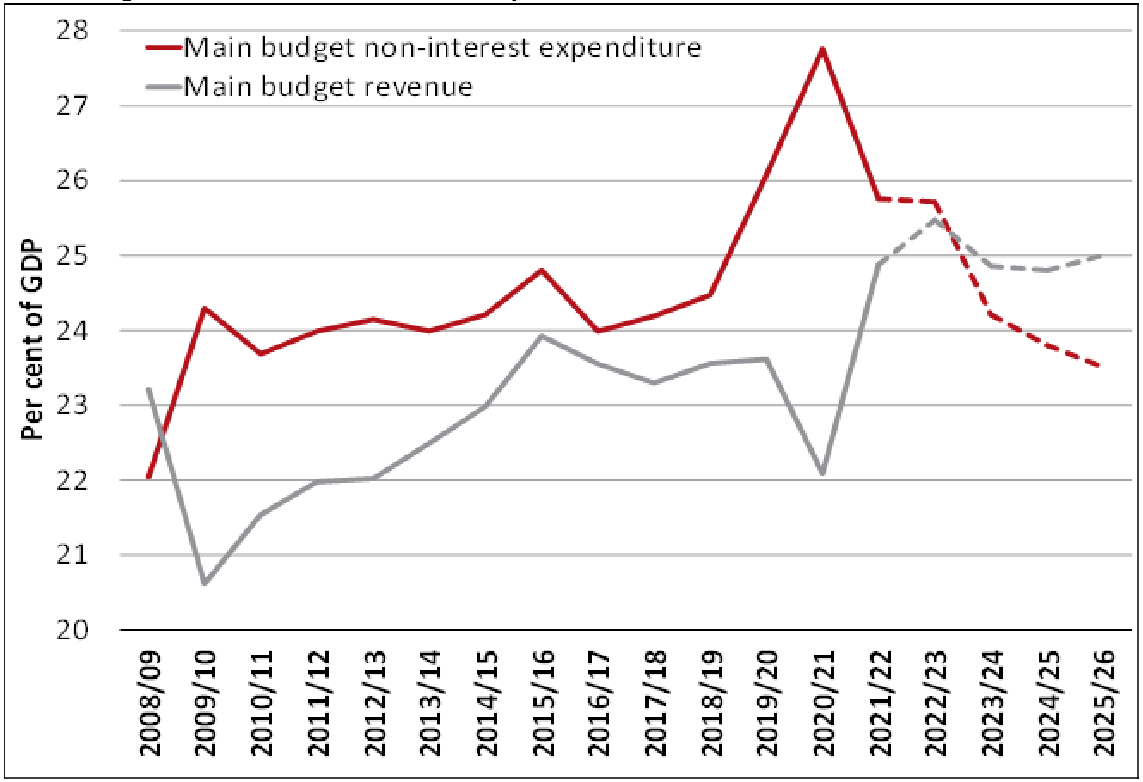


- Main budget non-interest expenditure will increase by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25 compared with the 2022 Budget. This includes the following proposed additions over the next two years:
  - R66.9 billion for health, education and provision of free basic services by local government, and a one-year extension of the COVID-19 social relief of distress grant.
  - R8.9 billion for safety and security.
  - R11.3 billion for infrastructure investment, including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.
- The spending increases are funded by the improved revenue estimates and an expected drawdown of the 2022 Budget unallocated reserve in 2023/24.
- The unallocated and contingency reserves cushion the framework from fiscal risks that may materialise over the medium term. The unallocated reserve is increased by R11.3 billion to R41.3 billion in 2024/25. The contingency reserve has also been increased by R2 billion over the next two years.
- Compared with the 2022 Budget, the expenditure ceiling has increased by R51.7 billion in 2023/24 and R57.8 billion in 2024/25.
  - The national and provincial government compensation ceilings increase by R43.6 billion over the 2023 MTEF period mainly to address spending and demand pressures in health, education, police and defence. In 2023/24, additional allocations amount to R11.7 billion.

GOVERNMENT EXPECTS TO ACHIEVE A PRIMARY BUDGET SURPLUS FROM 2023/24



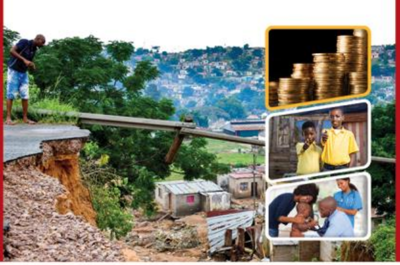
Main budget revenue and non-interest expenditure*



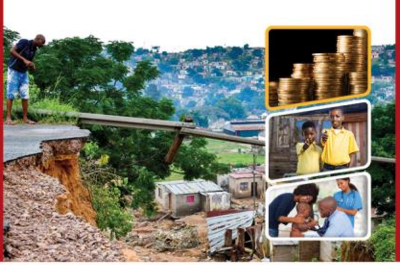
**Includes Eskom financial support and transactions in financial assets and liabilities*

- As a result of determined and disciplined budgeting, supported by favourable revenue dynamics, government expects to achieve a primary budget surplus in 2023/24

FINANCING AND DEBT MANAGEMENT STRATEGY

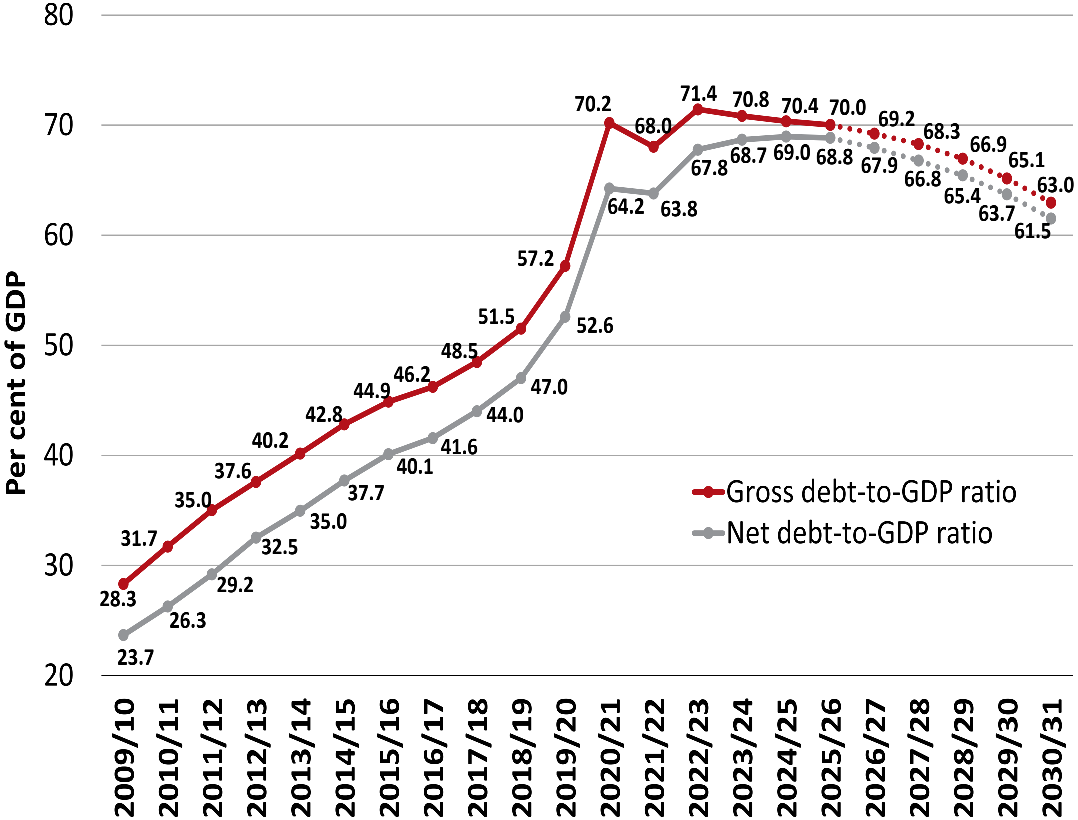


- During 2022, the global funding environment has been characterised by elevated risk aversion and sharp increases in risk premia
- Over the medium term, government will need to manage large redemptions, reflected in the gross borrowing requirement, which has been revised down from R484.5 billion at the time of the 2022 Budget to R411.2 billion in 2022/23.
- Over the medium term, the gross borrowing requirement will average R445.7 billion, which puts the gross borrowing requirement medium term path at pre-COVID levels.
- Long-term borrowing in the domestic bond market will decline from R330.4 billion estimated in the 2022 Budget to R299.4 billion in 2022/23, averaging R312.4 billion over the medium term.
- In 2022/23, government has raised US$3 billion in the foreign capital market and an additional US$1.7 billion through concessional funding from international financial institutions to meet its foreign-currency commitments.
- A portion of the higher revenue collections will be used to increase the closing cash balances in 2022/23 and will be carried over to 2023/24 to finance a portion of the gross borrowing requirement.
- Gross loan debt is expected to increase from R4.75 trillion in 2022/23 to R5.61 trillion in 2025/26, driven mainly by the budget balance and fluctuations in the interest, inflation and exchange rates.



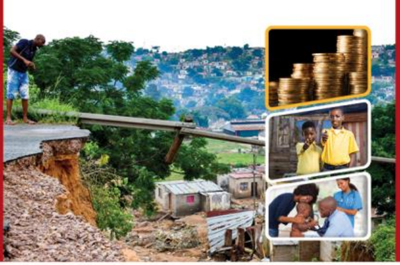
DEBT OUTLOOK

Gross and net loan debt



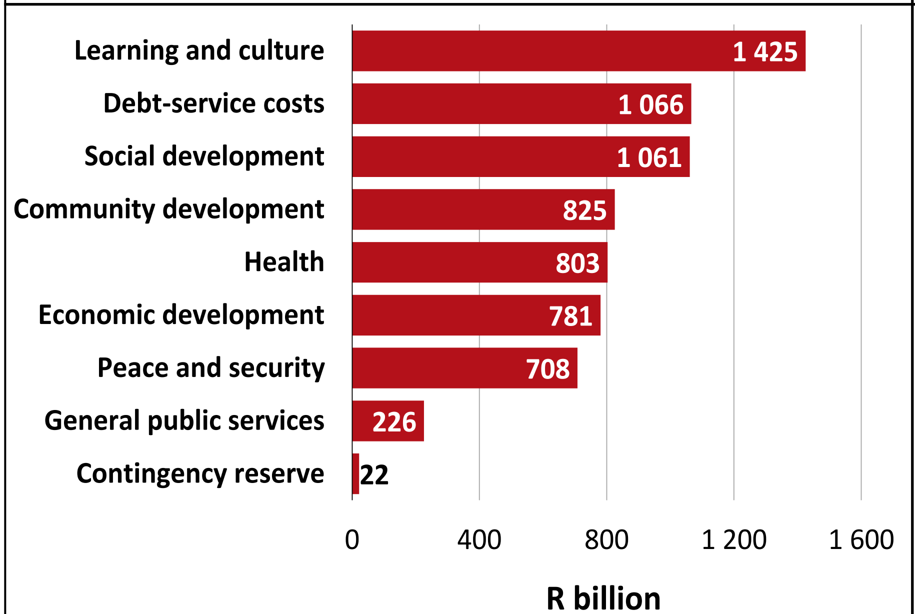
- Gross loan debt is now expected to stabilise at 71.4 per cent of GDP in 2022/23.
- This is mainly driven by higher nominal GDP projections, resulting from higher inflation, and an improved primary balance given better-than-expected revenue estimates.
- These factors outweigh the adverse impact of higher interest rates and a weaker exchange rate.
- Net loan debt – which is gross loan debt less cash balances – will stabilise at 69 per cent of GDP in 2024/25.

EXPENDITURE PRIORITIES

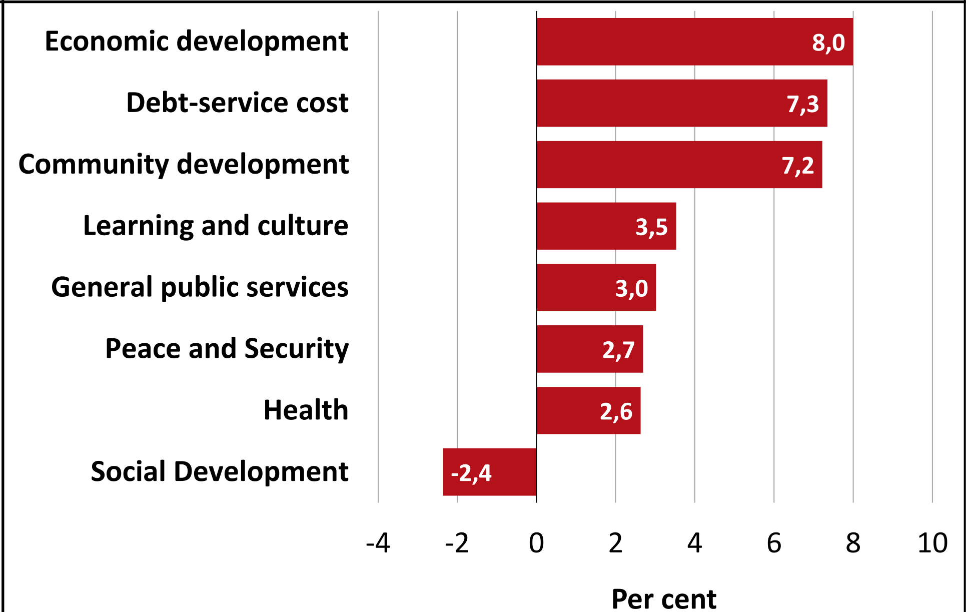


2022 MTBPS
MEDIUM TERM BUDGET POLICY STATEMENT
national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

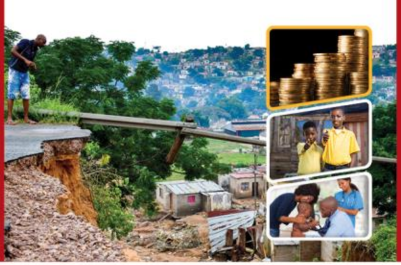
Consolidated government expenditure, 2023/24 - 2025/26



Consolidated government expenditure average annual growth, 2023/24 – 2025/26



- Consolidated government spending is projected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, growing at an annual rate of 4 per cent.
- Learning and culture, which is allocated R1.43 trillion over the period, accounts for the largest share of the total consolidated government MTEF expenditure.
- Spending in the economic development function grows at the fastest rate, averaging 8 per cent per year, followed closely by debt-service costs (7.3 per cent).
- Spending in the social development function will contract by an average of 2.4 per cent as the *COVID-19 social relief of distress grant* will end on 31 March 2024.



SOCIAL WAGE SPENDING

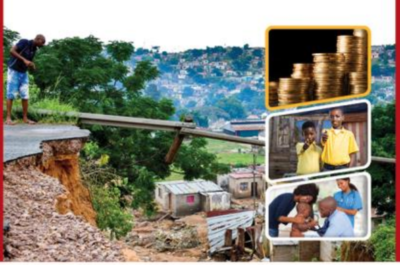
Table 4.1 Social wage

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised	Medium-term estimates		
Community development	**152.5**	**161.6**	**165.1**	**182.8**	**207.3**	**223.4**	**238.1**
Housing development	28.8	23.7	27.0	25.9	27.2	29.1	30.6
Transport	25.3	25.3	29.3	34.4	40.9	45.5	49.3
Water services	4.4	4.0	4.2	4.6	7.8	8.3	11.5
Local government[1]	93.9	108.6	104.5	117.9	131.4	140.5	146.7
Employment programmes	**21.6**	**19.1**	**20.6**	**24.9**	**24.5**	**25.6**	**26.7**
Health	**205.5**	**222.7**	**228.5**	**232.0**	**231.9**	**242.1**	**253.1**
Basic education	**239.3**	**247.6**	**262.5**	**276.6**	**283.5**	**288.2**	**302.2**
Fee-free higher education and training	**44.4**	**44.3**	**55.2**	**61.6**	**63.9**	**68.6**	**73.6**
Social protection	**217.0**	**247.1**	**253.3**	**270.0**	**276.0**	**252.3**	**263.7**
of which: Social grants	*190.3*	*218.9*	*222.7*	*242.8*	*248.4*	*223.8*	*233.8*
Social security funds	**51.9**	**105.7**	**77.5**	**79.8**	**77.8**	**80.5**	**57.2**
Social wage	**932.2**	**1 048.1**	**1 062.7**	**1 127.7**	**1 164.9**	**1 180.6**	**1 214.5**
Percentage of non-interest spending	*58.2%*	*60.5%*	*59.7%*	*59.4%*	*61.0%*	*58.7%*	*57.9%*

1. Includes local equitable share

Source: National Treasury

- The social wage refers to the combined public spending on health, education, housing, social protection, transport, employment and local amenities.
- The social wage, totalling R3.56 trillion over the next three years, will continue to take up the biggest share of the budget in support of poor households. The largest allocations are directed to the education, health and social development sectors.



2022 MTBPS

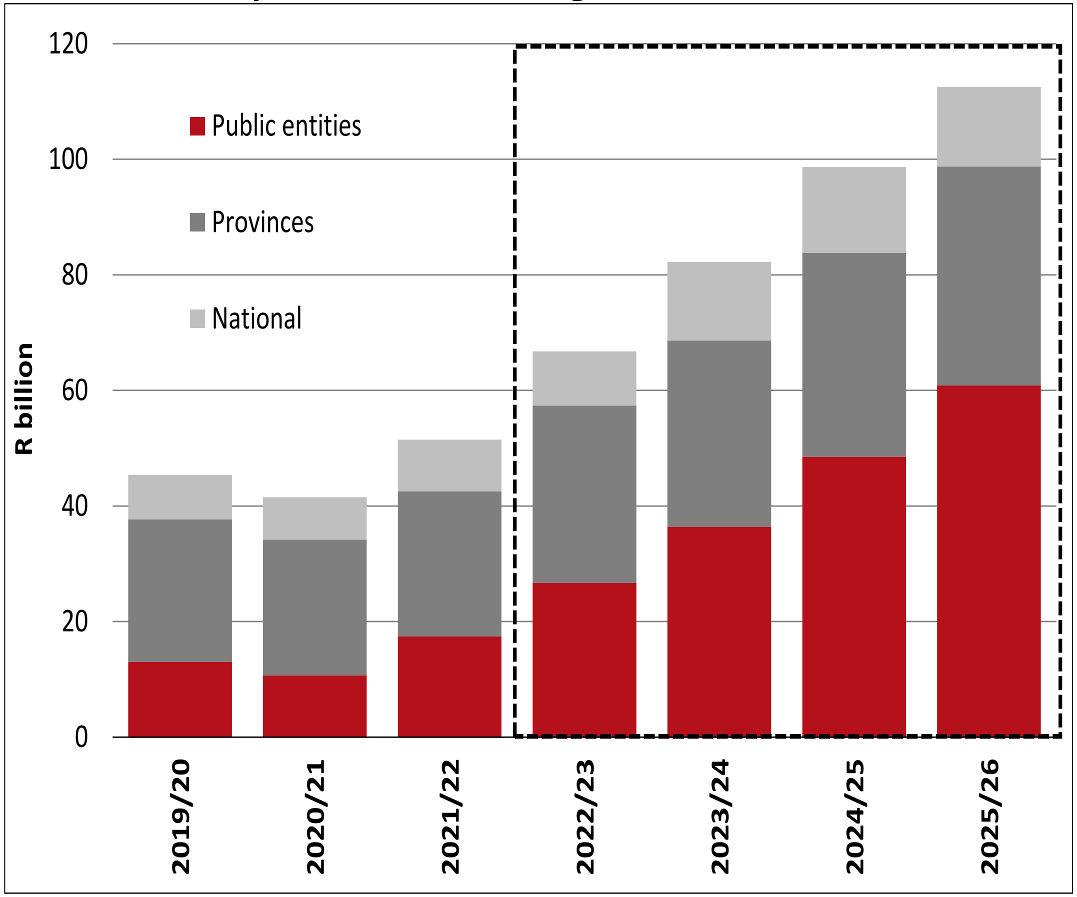
MEDIUM TERM BUDGET POLICY STATEMENT

national treasury

Department: National Treasury REPUBLIC OF SOUTH AFRICA

INFRASTRUCTURE SPENDING TO SUPPORT ECONOMIC GROWTH

Consolidated expenditure on buildings and fixed structures



- Government will increase infrastructure budgets over the MTEF period to support economic growth and development.
- Spending on building and other fixed structures is projected to increase from R66.7 billion in 2022/23 to R112.5 billion by 2025/26, at an annual average of 19 per cent over the medium term.
- The projects recommended through the Budget Facility for Infrastructure at the national and provincial level amount to R4.8 billion in 2023/24, R5.8 billion in 2024/25 and R6.4 billion in 2025/26.
- Public entities plan to invest R145.8 billion in infrastructure over the MTEF period, including R85.3 billion in the transport sector and R33.3 billion in the water sector.
- The Development Bank of Southern Africa, Infrastructure South Africa and the Government Technical Advisory Centre are scaling up efforts to build a viable project pipeline. These efforts are being strengthened by providing resources for project preparation.

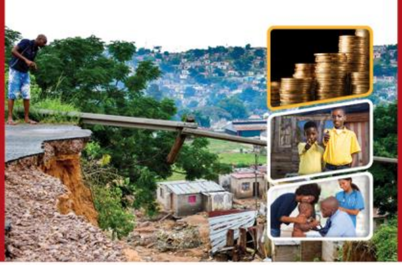


Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2021/22 Outcome	2022/23 Revised	2023/24	2024/25 Medium-term estimates	2025/26
Revenue	**1 750.4**	**1 882.2**	**1 952.8**	**2 072.2**	**2 218.7**
	27.8%	*28.3%*	*27.7%*	*27.5%*	*27.7%*
Expenditure	**2 047.0**	**2 205.3**	**2 241.7**	**2 364.1**	**2 477.7**
	32.6%	*33.2%*	*31.7%*	*31.4%*	*30.9%*
Budget balance	**-296.7**	**-323.1**	**-288.9**	**-291.9**	**-259.0**
	-4.7%	*-4.9%*	*-4.1%*	*-3.9%*	*-3.2%*
Total gross loan debt	**4 277.5**	**4 752.0**	**5 002.2**	**5 296.1**	**5 607.8**
	68.0%	*71.4%*	*70.8%*	*70.4%*	*70.0%*

Source: National Treasury

- The consolidated budget deficit is projected to narrow from 4.9 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26.
- Public entities, social security funds and provinces are expected to have a combined cash deficit over the next two years, driven by planned spending on capital projects by SANRAL, the Passenger Rail Agency of South Africa and the water boards.

THE DIVISION OF REVENUE

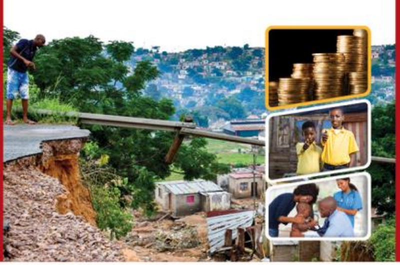


Table 4.5 Division of revenue framework

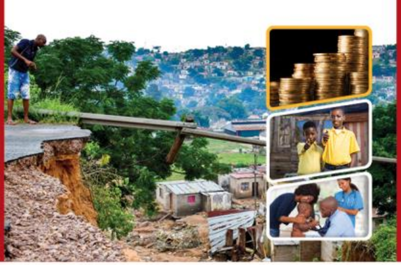
R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised		Medium-term estimates	
Division of available funds							
National departments	**749.8**	**790.5**	**823.0**	**857.9**	**817.7**	**822.2**	**859.1**
of which:							
Provincial indirect grants	*2.9*	*2.9*	*3.7*	*4.6*	*4.2*	*4.4*	*4.8*
Local indirect grants	*5.6*	*4.1*	*5.7*	*8.2*	*9.9*	*10.7*	*14.0*
Provinces	**613.4**	**628.8**	**660.8**	**684.5**	**684.3**	**709.5**	**743.3**
Equitable share	505.6	520.7	544.8	560.8	556.4	576.5	602.9
Conditional grants	107.9	108.1	116.0	123.7	128.0	133.0	140.4
Local government	**123.0**	**137.1**	**135.6**	**154.2**	**164.9**	**174.6**	**183.5**
Equitable share	65.6	83.1	76.2	87.3	95.1	102.4	109.4
General fuel levy sharing with metropolitan municipalities	13.2	14.0	14.6	15.3	15.4	16.1	16.8
Conditional grants	44.2	40.0	44.8	51.5	54.4	56.1	57.3
Provisional allocations not assigned to votes[1]	–	–	–	14.8	36.5	38.0	39.3
Unallocated reserve	–	–	–	–	–	41.3	47.3
Projected underspending	–	–	–	-5.9	–	–	–
Non-interest allocations	**1 486.2**	**1 556.4**	**1 619.4**	**1 705.5**	**1 703.4**	**1 785.6**	**1 872.5**
Debt-service costs	204.8	232.6	268.1	307.7	332.2	352.9	380.7
Contingency reserve	–	–	–	5.0	6.0	6.0	10.0
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 018.2**	**2 041.6**	**2 144.5**	**2 263.2**
Percentage shares							
National departments	50.4%	50.8%	50.8%	50.6%	49.1%	48.2%	48.1%
Provinces	41.3%	40.4%	40.8%	40.3%	41.1%	41.6%	41.6%
Local government	8.3%	8.8%	8.4%	9.1%	9.9%	10.2%	10.3%

1. Includes support to Eskom, amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations

Source: National Treasury

Over the next three years, government proposes allocating:

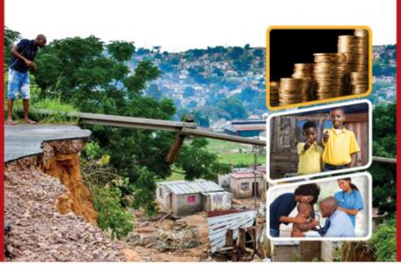
- 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government.
- Additional funds to support service delivery, stabilising municipalities in immediate distress, and developing longer-run plans to improve capability.
- The National Treasury is reviewing the conditional grants system to determine if it supports efficient service delivery, rollout of infrastructure, building of capacity and provision of operational support.
- The findings will be used to reform the grant system for greater impact.



RISKS TO THE FISCAL OUTLOOK

- Some previously anticipated fiscal risks have started to materialise and are worse than anticipated at the time of the 2022 Budget Review, although the fiscal position is expected to improve over the medium term.
- Major short- to medium-term risks to the outlook include:
  - A slowdown in global economic growth, which would negatively affect domestic growth and revenue collection, worsening the fiscal position.
  - Continuous electricity supply constraints, which would decelerate economic growth.
  - Higher-than-budgeted public-service wage costs would strain fiscal resources. Additional fiscal measures or reductions in headcounts would be required to contain overall compensation spending.
  - The materialisation of contingent liabilities and the weak financial position of several state-owned companies that rely on government support to operate might require additional fiscal resources.
  - New, unfunded spending pressures could result in a faster accumulation of debt and negatively affect the public finances. Any large permanent increases in spending must be matched by permanent increases in revenue or reductions in spending elsewhere, including suspending or terminating programmes.

CONCLUSION



- A broad slowdown in global growth and high inflation are forecast.
- Rapid and decisive implementation of structural reforms, especially in the energy sector, supported by a clear and stable macroeconomic framework and improved state capability, remain crucial to improve the economy's productive capacity and international competitiveness.
- The fiscal position has improved since the 2022 Budget as a result of better-than-expected revenue collection. Government will use this revenue to increase spending in health, education and local government free basic services, infrastructure, and security and safety. At the same time, it will narrow the budget deficit, and address fiscal and economic risks posed by Denel, SANRAL and Transnet.
- Municipalities will receive support to cover cost increases in free basic services.
- Government faces a range of fiscal risks over the medium to longer term. Significant efforts will be required across the entire public sector to prevent these risks from materialising – and to mitigate those that do.
- Government is working to improve the efficiency of spending and remains committed to returning the public finances to a sustainable position.