2022 MTBPS

Parliamentary Budget Office

Outline

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Introduction

- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009
- The purpose of this presentation is to provide an analysis of the 2022 Medium Term Budget Policy Statement (MTBPS), particularly to examine, analyse and comment on the proposed fiscal framework
- The presentation focuses on:
  - The extent to which the proposed fiscal framework can help achieve the government's stated goals of reducing unemployment, poverty and inequality(UPI)
  - Whether the proposed approach to fiscal stability will help secure future stability and prosperity in the context of severe levels of UPI
  - It examines the policy framework as well and the global and domestic economic outlooks that will impact on SA's economy
  - Government revenue and expanding revenue sources
  - Government spending priorities and the impact of SOEs on public finances

Background

Background

- The Minister's speech states that: "the strategic goal of this government is to reduce poverty, inequality and unemployment, in pursuit of a better life for all"
- It further asserts: "The 2022 Medium Term Budget Policy Statement aims to address the needs of South Africans and secure our future stability and prosperity"
- Given the experience with the chosen fiscal policy stance over the past few years, we question whether the approach taken in the 2022 MTBPS, and the solutions offered, support achievement of these goals
- We are concerned that the approach suggested may further constrain economic activity, erode the social fabric and escalate risks to societal and economic stability
- Progress on structural reforms has been slow and the advertised economic benefits of these reforms will most likely not be seen or felt during the MTEF
- The growth rates forecast in the 2022 MTBPS mean that real GDP per capita and real investment is expected to remain below 2019 (pre-Covid-19) levels in 2025
- UCT's Children's Institute estimates that in 2021 the overall food poverty rate among children in South Africa was 37 per cent (i.e., nearly eight million children were living in households where the cost of basic food could not be met). The food poverty rates in the rural former homelands was 54 per cent
- Structural unemployment plus the cumulative effect of the HIV/AIDS epidemic, the global financial crisis, a decade of fiscal consolidation, corruption and state capture and Covid-19 has weakened household and community resilience
- The Covid-19 pandemic has adversely affected learning outcomes globally and in South Africa; for example, according to Stats SA, fewer children now have access to early childhood development opportunities

Background

- The PBO has raised concerns over the past few years that the credibility of the fiscal framework is at question because:
  - The approach in the MTBPS continues to narrowly view risks to the fiscal framework as focused on fiscal targets such as the deficit & debt to GDP
  - It could go much further to alleviate the suffering of millions of households and build their resilience to potentially serious risks while at the same time boosting aggregate demand and economic growth
  - Fiscal consolidation has contributed to increased anger and heightened risk of social and economic instability as inadequate spending on social support and infrastructure has exacerbated hunger
    - The majority of South African households have been living through a cost of living crisis since before the 1994 democratic elections
  - It also ignores potentially huge costs to the economy and the government associated with serious risks, such as the Covid-19 pandemic
  - Other serious risks include geopolitical conflict, domestic protests, climate change events, the possibility of new pandemics, global recession and the heightened likelihood of a financial and economic crisis

Background

- The poor performance of the SA economy, which predates the Covid-19 crisis, is due to the interrelated structural weaknesses of the economy and extreme levels of unemployment poverty and inequality (UPI)
- A path towards fiscal sustainability should take into account these underlying dynamics of the economy
- It should ensure resources for measures to transform the structure of the economy and to alleviate suffering associated with UPI
- SA's extreme inequality is a great constraint on economic growth and development
- Fiscal policy can be a more effective tool for redistribution in an unequal society and increased social security can provide automatic stabilisers to risks and shocks
- Fiscal policy can also support economic development and transformation, including diversified, value-adding industrialisation and productive services
- In short, fiscal policy can be an essential policy in South Africa's policy toolbox to move it onto a new, inclusive, more stable and sustainable economic growth path
- The social and economic returns of reducing inequality are high and will support fiscal sustainability, for example:
  - Healthier and happier households that are resilient to serious risks facing the globe
  - Improved economic structure supported by higher labour productivity
  - Better education outcomes and skills development
  - More opportunity, lower UPI and reduced crime and corruption

Background

- Performance with regard to investment, employment creation and increasing economic activity across the least developed provinces and regions has been poor
- Performance indicators to measure performance on the 2019-2024 MTSF are not presented in departmental APPs
- Performance measures on the implementation of interventions, such as the Jobs Summit, the Mass Employment Stimulus Programme and Operation Phakisa, have not been included in the relevant departmental APPs
- Economic interventions, e.g., to support investment and exports, are reported but often without showing progress on the targets set for the planned outputs
- It is unclear from reporting whether support for district development initiatives, township and rural enterprises and small, medium & micro enterprises is showing results
- It is unclear when they are expected to start making noticeable contributions to key macroeconomic variables such as investment, employment, inequality and GDP
- The extent to which lack of structural transformation of the economy and the level of concentration and market dominance impede success of government economic plans and interventions should be examined
- The extent to which structural reforms will benefit the dominant business corporations and whether this will crowd out other businesses should also be examined

Policy Priorities

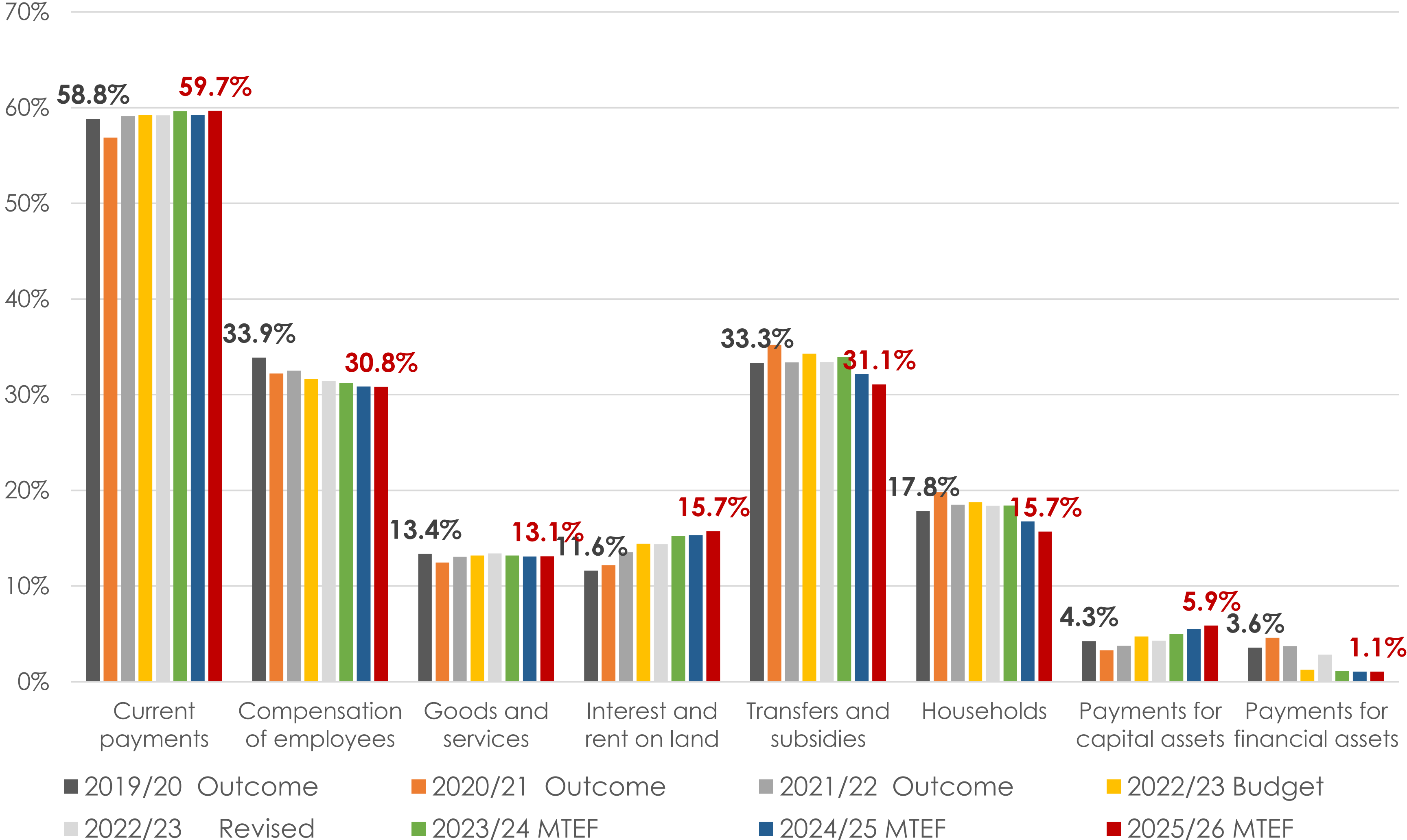
Budget priorities over the MTEF

Changes of spending priorities over the MTSF

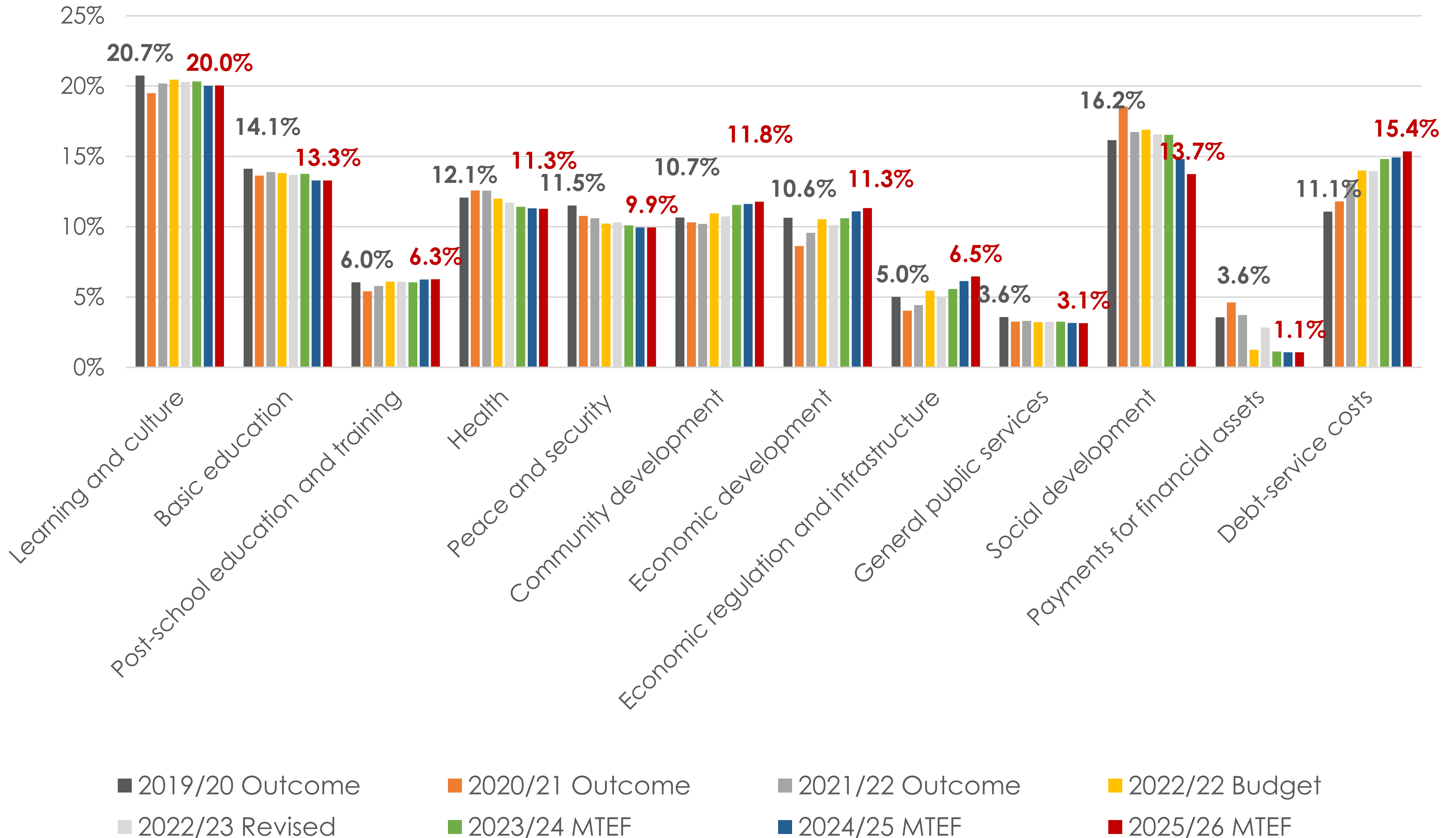
Policy priorities

- According to the MTBPS, the proposed medium-term spending priorities reflect the government's attempt to reduce debt while trying to support economic recovery
- Medium-term changes to spending are in part driven by government's decision to extend the COVID-19 social relief of distress grant until March 2024 and to increase infrastructure spending
- Additional funding has been allocated for safety and security:
  - To increase the number of police
  - Boost the investigation and prosecution of serious crimes
  - Safeguard south Africa's boarders and seas
  - Support the implementation of the State Capture Commission recommendations
- Further allocations have been provided to:
  - Address shortfalls in compensation budgets in provincial education
  - Retain additional health workers appointed during the pandemic
  - Support the provision of free municipal basic services
  - Rehabilitate damaged municipal infrastructure and address the backlog in the refurbishment of provincial roads
- Function groups reprioritised and reallocated their budgets to fund cost pressures and urgent policy priorities within departments and entities over the MTEF period

Change in spending priorities per economic classification over the MTEF



Change in spending priorities per function group over the MTEF



Macroeconomic overview and risks to growth and development

Global outlook

South African growth outlook

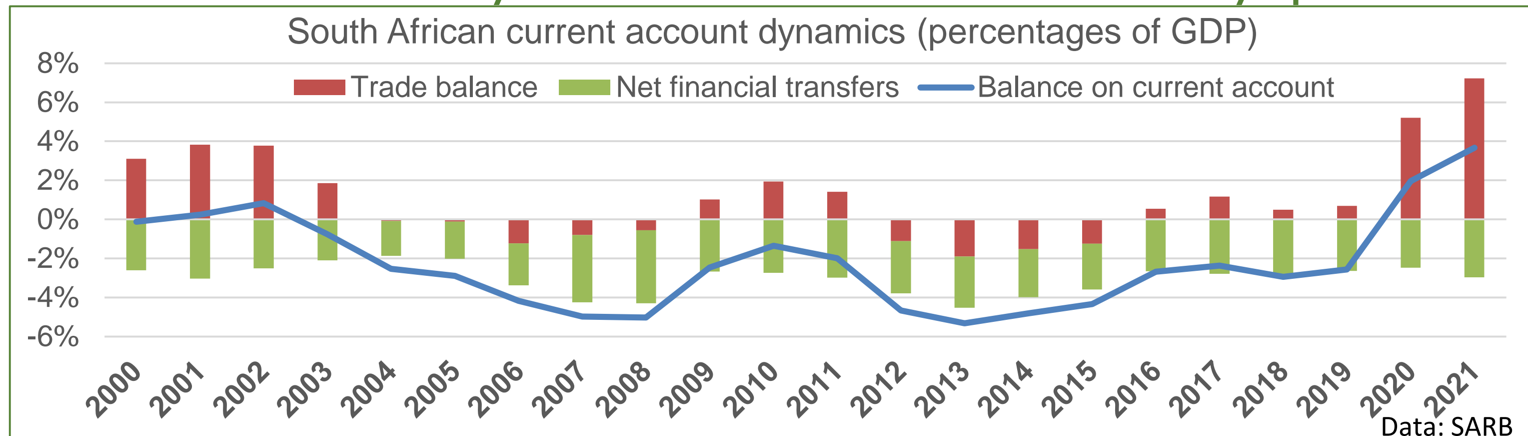
Investment landscape

Structural transformation vs structural reform

Global outlook: A poorer outlook due to a contractionary fiscal and monetary policies

- The United Nations Conference on Trade and Development warns in its Trade and Development Report 2022 that tighter monetary and fiscal policy choices in advanced economies increases the risk of a global recession and prolonged stagnation
- They warn that these actions may inflict worse damage than the financial crisis in 2008 and the COVID-19 shock in 2020
- These constraints on growth are in addition to the ongoing problems caused by the continued Covid-19 pandemic, the ongoing war in Ukraine, global supply chain problems and high energy, freight and fertilizer costs
- There has been widespread implementation of higher interest rates to fight inflation by curbing demand, decreasing investment levels and increasing unemployment
- At the same time there has also been a widespread return to fiscal austerity across the globe
- The increased interest rates have caused massive outflows of capital from developing countries, including South Africa
- According to SARB Monthly Reports, SA has had cumulative negative non-resident total net purchases of shares and bonds up to Aug. 2022

Global outlook: A poorer outlook due to a contractionary fiscal and monetary policies



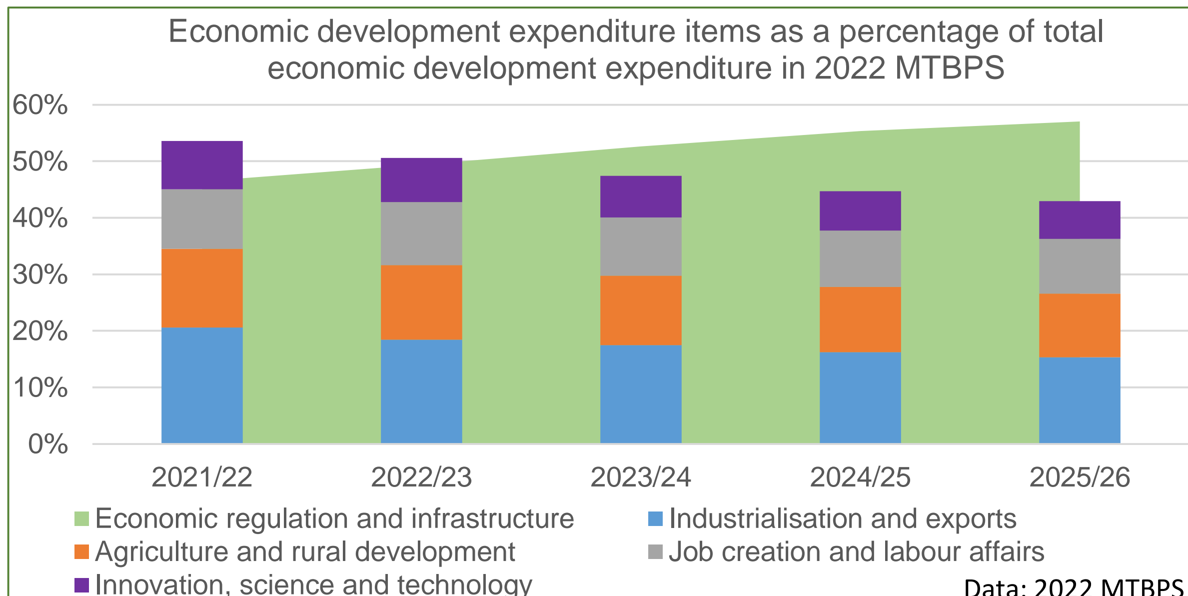
- The impact of capital outflows on developing countries induce them to increase interest rates not only out of fear of inflation but also to attract foreign capital inflows
- South Africa has generally attracted short-term capital inflows rather than FDI
- The combination of higher interest rates and volatile cross-border capital flows poses serious risks to macroeconomic stability in developing countries
- South Africa is at risk because it has had annual current account deficits since 2003, except for 2020 and 2021
- This current account deficit has predominantly been due to net financial transfers on the current account and not the trade balance
- Maintaining a primary fiscal surplus and reducing government debt will not improve South Africa's current account situation and prospects for growth because of the overwhelming impact and vulnerability to destabilizing, volatile short-term foreign capital flows and the high interest rate regime it requires

South African growth outlook

GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2,1%	1,6%	1,7%
National Treasury - MTBPS 2022	1,9%	1,4%	1,7%
South African Reserve Bank - January 2022	1,7%	1,8%	2,0%
South African Reserve Bank - September 2022	1,9%	1,4%	1,7%
IMF - World Economic Outlook - January 2022	1,9%	1,4%	-
IMF - World Economic Outlook - October 2022	2,1%	1,1%	
Reuters Consensus Forecast - January 2022	2,0%	1,8%	2,0%
Reuters Consensus Forecast - September 2022	1,9%	1,5%	1,8%

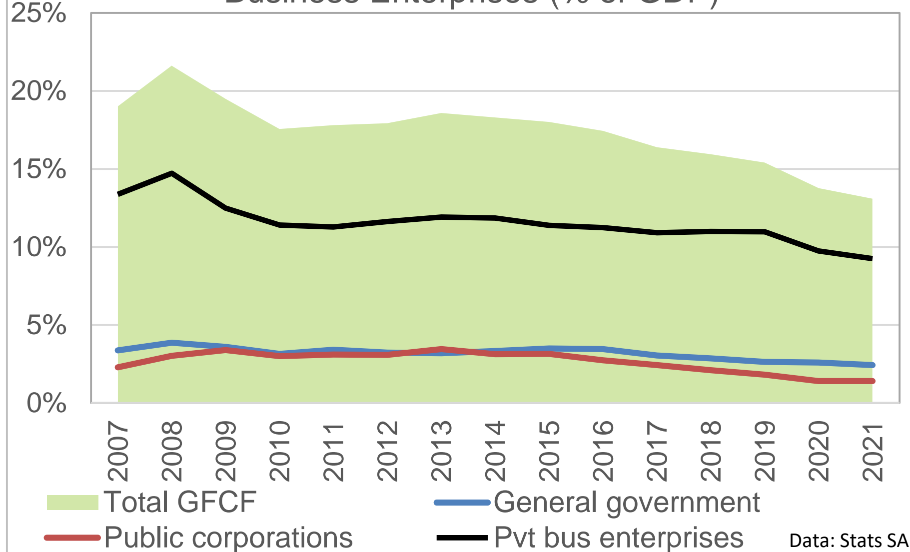
*Growth projections correspond to publication date and not forecast date

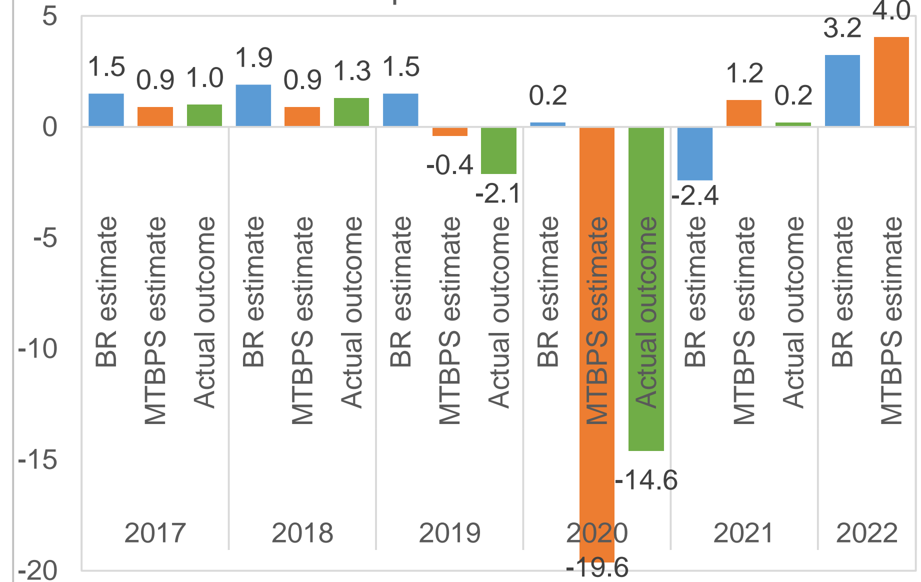
Data: National Treasury, South African Reserve Bank, International Monetary Fund



- South Africa's economic outlook over the medium term is relatively poor
- There is limited support for economic development in the 2022 MTBPS
- The increase in infrastructure expenditure is offset by declining shares for the rest
- Aggregate demand and investment will in all likelihood remain low
- Econ. structure will remain highly concentrated and inadequately diversified
- Therefore, efforts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help

Investment landscape in South Africa





- The NT bases much of its GDP growth forecast over the MTEF on higher investment
- Infrastructure spend is expected to increase from R66.7bn in 2022/23 to R112.5bn in 2025/26
- However, NT's track record on forecasting investment growth has been poor (e.g., in each of the 3 years before Covid-19, investment growth was overestimated in the Budget Reviews)
- Private investment has been below 12 per cent of GDP since 2015 and, despite the infrastructure fund launched in Aug. 2020, not a single mega infrastructure project has occurred
- Public investment remains weak at below 5 per cent of GDP each for general government and public enterprises, while private investment declined to below 10 per cent of GDP in 2021 (well below the NDP target of 10 per cent and 20 per cent of GDP, respectively)
- A lack of state capacity to deliver infrastructure projects as well as the insufficient progress in addressing structural constraints do not bode well for the fixed investment outlook

Structural transformation vs structural reform

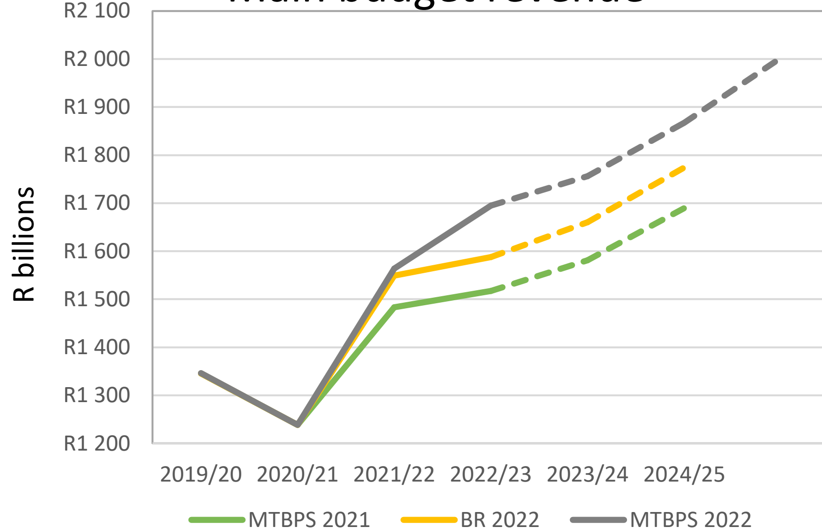
- Improved market sentiment related to lower government debt levels and work on structural reforms is insufficient for economic recovery and growth
- The South African economy has much deeper structural problems than those outlined in the 2022 MTBPS: electricity, inefficient network industries, high cost of doing business and concentration, crime and corruption
- In fact, most of what the 2022 MTBPS identifies as structural weaknesses are actually the symptoms of deeper, long-standing structural problems
- These structural problems arose in large part because of inadequate investment, technological upgrading and employment in an economy with large extractive, outwardly focused dominant corporations
- The economic sectoral structure is weak with an inadequately diversified industrial base that is too capital, energy and carbon intensive with low-levels of value-added
- The financial sector may be sophisticated but it has not been associated with productive investment and capital formation and it is associated with misallocation of capital and de-industrialization
- The sectoral reforms will not reduce the high levels of economic concentration across most sectors of the economy, including financial services
- The structural reforms may further entrench structural weaknesses, including market dominance of corporations that have been dominating the economy

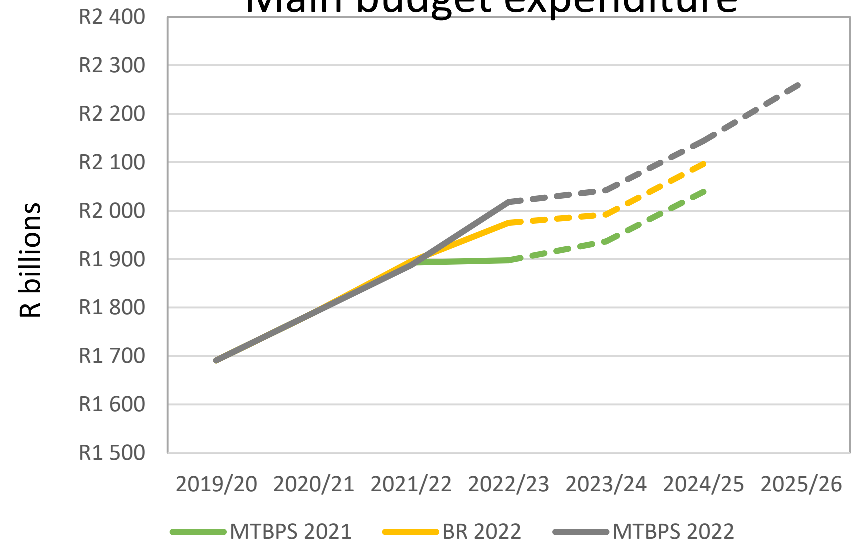
Fiscal framework

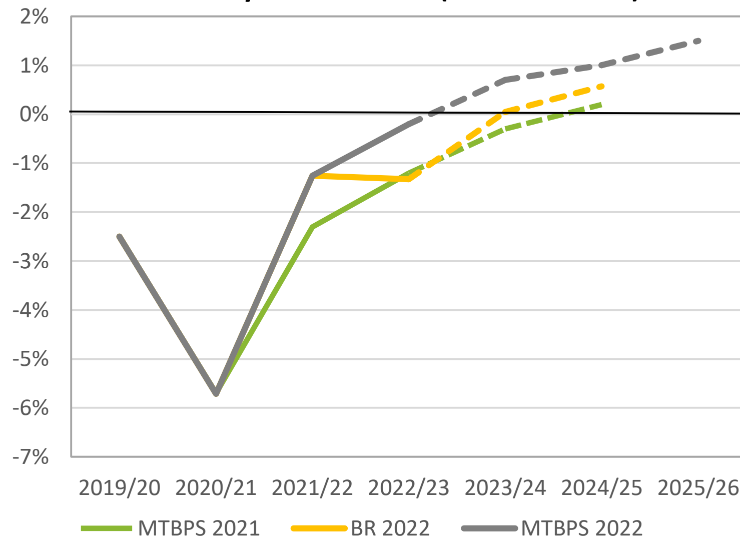
Fiscal outlook

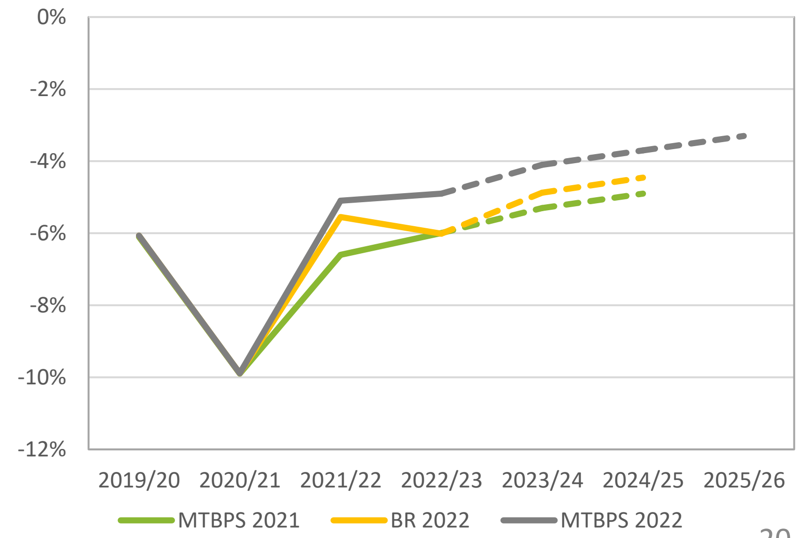
Government debt declines but risks increase

Higher-than-expected revenue improves fiscal outlook



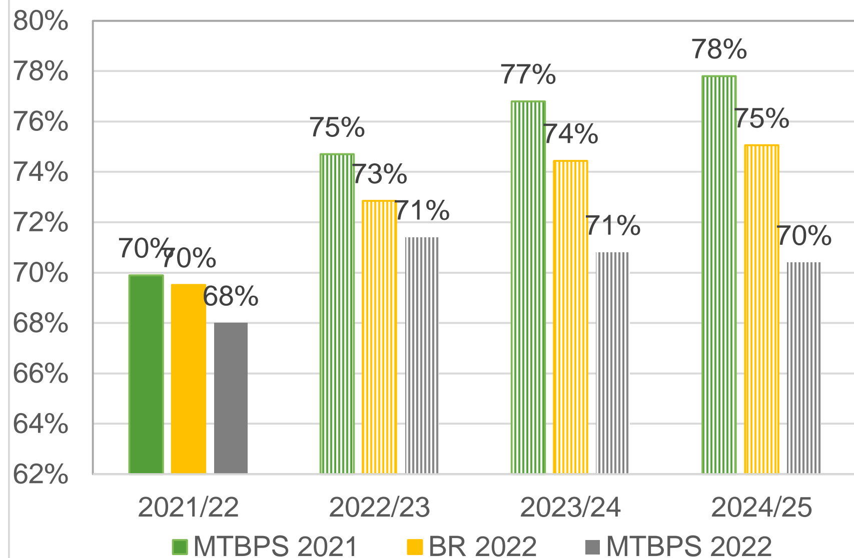


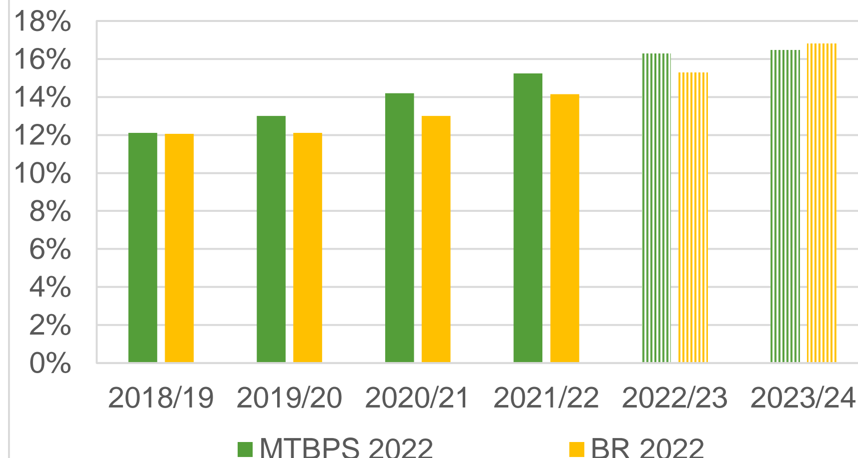




Data: National Treasury, Stats SA

Debt is expected to decline but risks remain elevated





Data: National Treasury, Stats SA

- Better revenue projections have led to increases in the primary balance and higher nominal GDP amidst higher inflation
- Gross debt as a share of GDP is expected to remain around 71 per cent over the MTEF
- The National Treasury indicated that it will allocate some of the revenue above what they estimated in the 2022 Budget towards reducing the gross borrowing requirement
- However, elevated long-term government bond yields and low GDP growth pose risks to the government's current medium-term plans to maintain these debt to GDP levels
- Given this strategy, important questions are:
  - Should expenditure not increase to give more help to starving children & struggling communities during this cost of living crisis
  - Will more expenditure and debt not earn large future returns if spent on increasing resilience and reducing risks while boosting aggregate demand and GDP

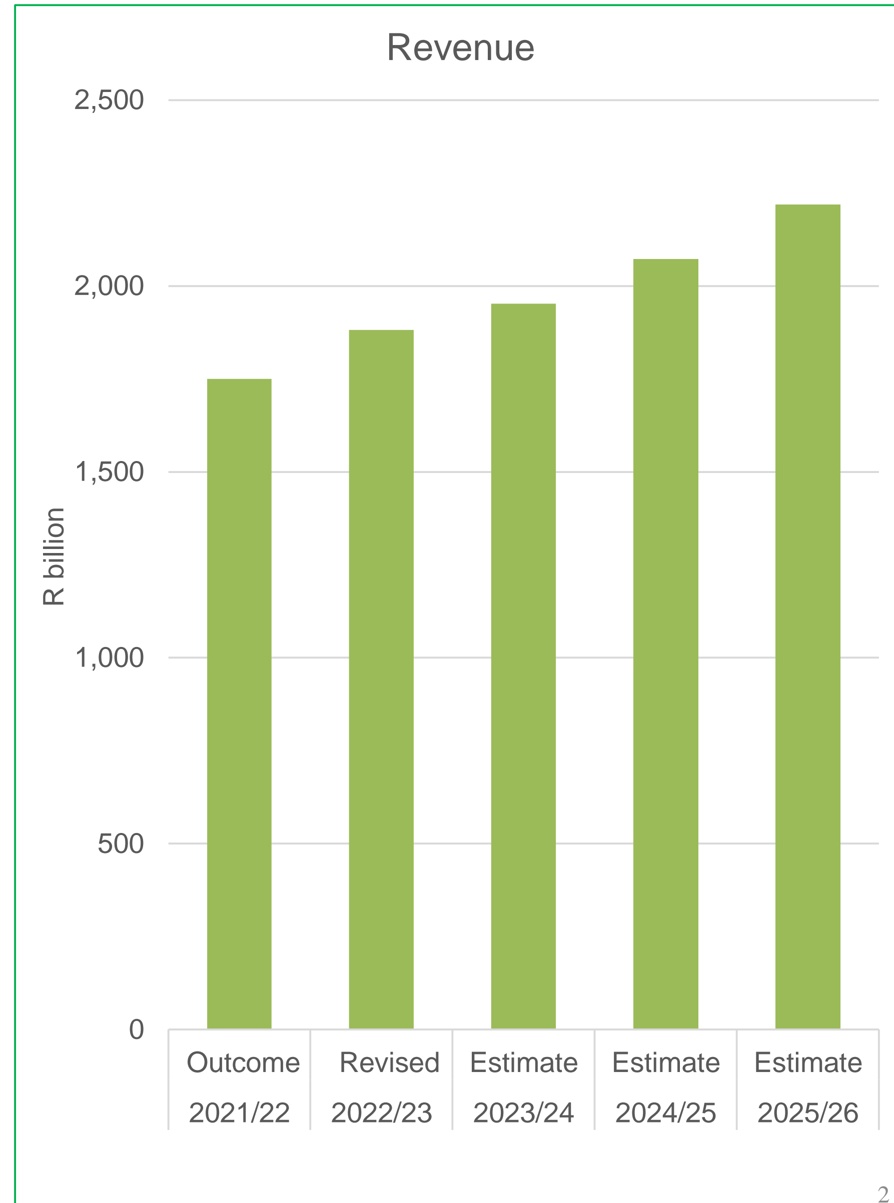
Revenue and taxes

Domestic resource mobilisation

Revenue collection has increased

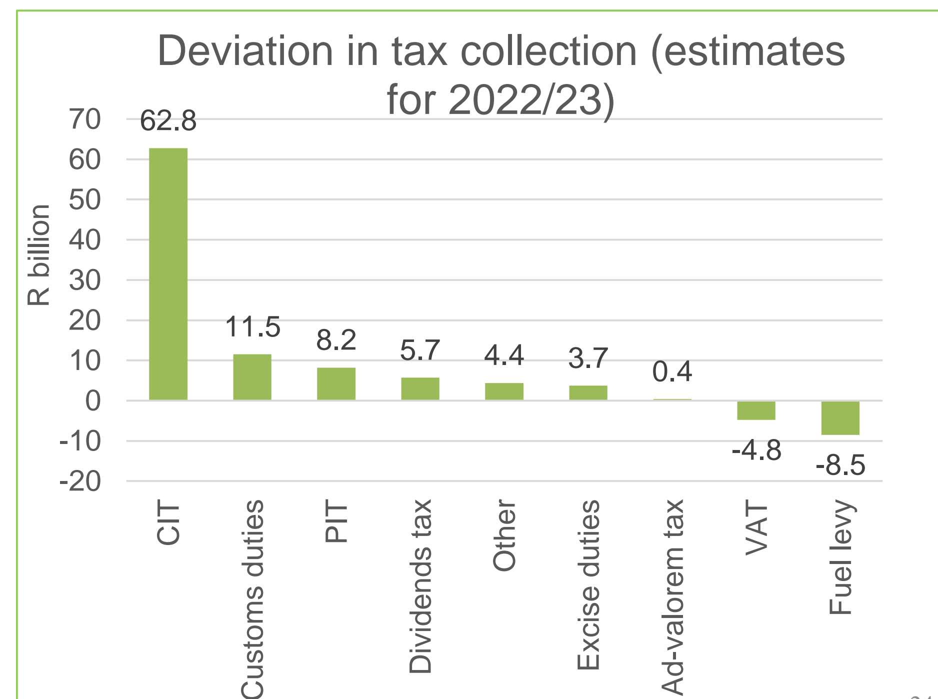
Maximising domestic resource mobilization and redistribution

- Few revenue-raising mechanisms are proposed for the medium term, despite strong emphasis is placed on "trade-offs"
- Revenue is expected to exceed non-interest expenditure. However, at the same time there will be declines in per capita spending
- Realising the developmental objectives of South Africa requires maximising domestic resource mobilisation
- Tax is an important tool that can be used for the redistribution of income and wealth, more so when there is extreme structural inequality like South Africa
- The South African tax base reflects extreme levels of UPI and failure to structurally transform the economy, which fiscal policy should be used to address



Revenue collection is higher than pre-COVID projections

- Both the tax-to-GDP ratio and nominal revenue collections are now expected to be higher than pre-COVID projections
- All other tax instruments have been revised upward relative to Budget 2022, except for VAT and General Fuel levy
- Government projects an average growth rate of 6.6 per cent on gross tax revenue over the medium term and that recent higher tax revenues due to higher commodity prices will decline over the next two years



Are there additional sources to increase revenue?

- SA has a relatively broad tax base compared to most middle income countries (See additional slides)
- Greater domestic resource mobilisation can be achieved through further progressive tax reforms, leveraging development finance, and non-traditional monetary policy tools (beyond interest rates), amongst others
- Significant reforms are being implemented in SARS to maximise tax revenue collection

Potential tax interventions that could maximise domestic revenue

- Taxing excess profits of companies that have used the inflation upsurge to boost profit and makeup for COVID-19 losses should be considered
- Windfall taxes for sectors benefiting from the commodity price boom
- Failure to reach a global consensus on international tax reform for digital tax leads to a situation where South Africa should unilaterally introduce domestic taxes on revenues from digital economy activity
- Systematic review of tax incentives and removal of ineffective incentives
- Progressive measures to tax wealth

Government spending

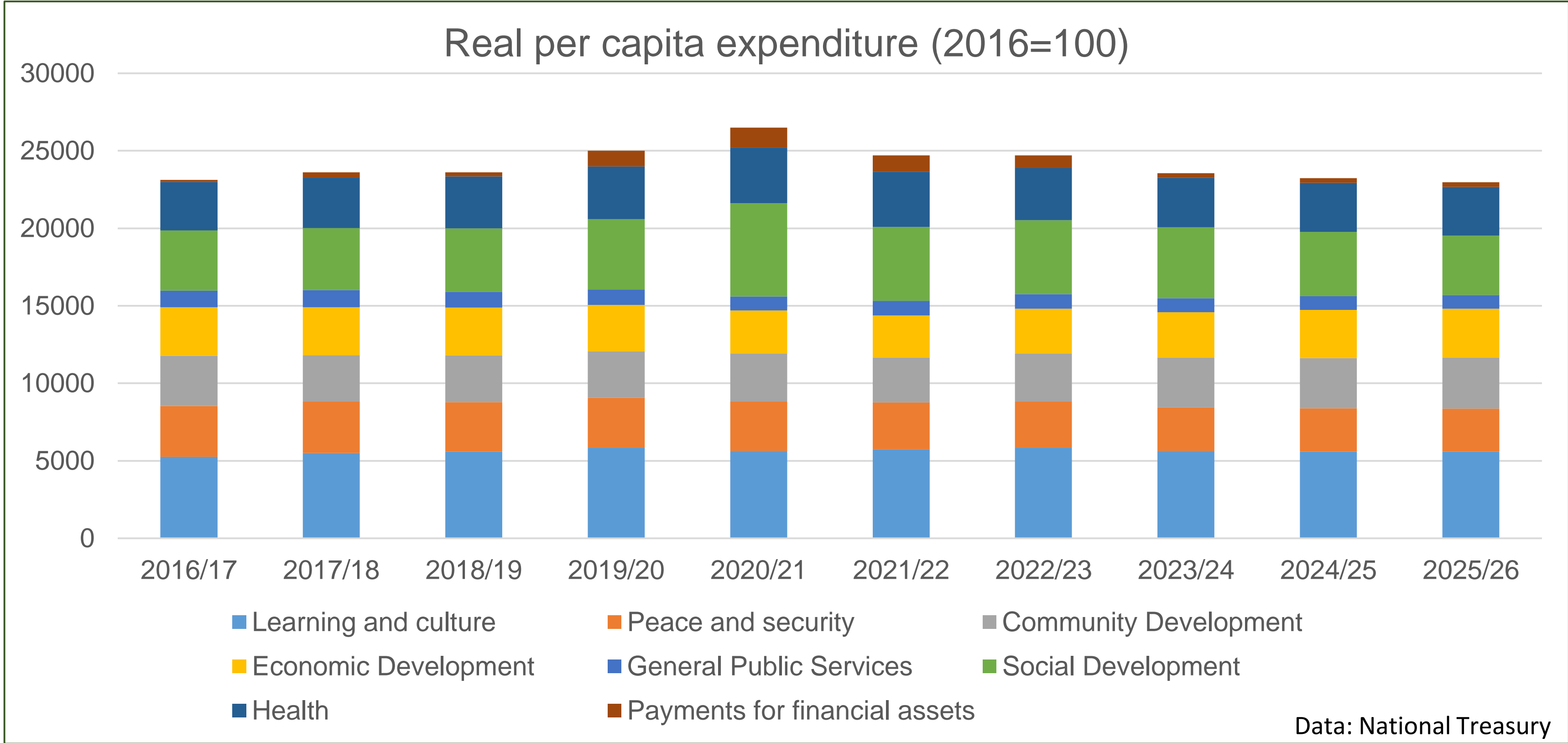
In-year adjustment

Changes to consolidated expenditure

Consolidated wage bill and headcounts

Real per capita spending per function group

- Total real expenditure per capita expenditure declines in the medium term
- In 2016/17 total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 964
- In the MTBPS speech, it is stated that government is prioritising education and health, however, proposed real spending declines over the medium term for both areas



In-year adjustments per function group

R billion	2021/22 Outcome	2022/22 Budget	2022/23 Revised	2022/23 In-year adjustments
Learning and culture	**413.3**	**441.5**	**447.4**	**5.9**
Basic education	284.3	298.1	301.8	3.7
Post-school education and training	118.4	131.6	134.2	2.7
Health	**257.4**	**259.0**	**258.4**	**-0.6**
Peace and security	**217.1**	**220.7**	**227.6**	**6.9**
Defence and state security	49.0	50.0	52.5	2.5
Police services	108.4	110.2	112.3	2.1
Home affairs	10.6	9.7	11.1	1.4
Community development	**208.9**	**236.3**	**236.7**	**0.3**
Economic development	**195.8**	**227.1**	**222.9**	**-4.2**
Industrialisation and exports	40.3	39.2	41.0	1.9
Agriculture and rural development	27.2	27.5	29.4	1.9
Job creation and labour affairs	20.6	24.8	24.9	0.1
Economic regulation and infrastructure	90.9	117.5	110.2	-7.4
Innovation, science and technology	16.7	18.1	17.4	-0.7
General public services	**67.6**	**69.2**	**71.4**	**2.1**
Social development	**342.8**	**364.4**	**365.6**	**1.2**
Payments for financial assets	**76.1**	**27.2**	**62.6**	**35.4**
Allocated by function	**1 779.0**	**1 845.5**	**1 892.6**	**47.1**
Debt-service costs	268.1	301.8	307.7	5.9
Consolidated expenditure	**2 047.0**	**2 157.3**	**2 205.3**	**48.0**

Source: National Treasury

Changes to consolidated expenditure per economic classification

R billion	2021/22 Outcome	2022/23 Budget	2022/23 Revised	2022/23 In-year changes	2023/24 MTEF	2023/24 Growth from 2022 Budget	Average annual growth 2022/23 – 2025/26
Current payments	**1 210.3**	**1 278.1**	**1 305.5**	**27.4**	**1 337.1**	**4.6%**	**4.2%**
Compensation of employees	665.7	682.5	693.1	**10.6**	699.8	**2.5%**	3.3%
Goods and services	267.2	284.8	295.6	**10.8**	295.8	**3.9%**	3.2%
Interest and rent on land	277.3	310.8	316.8	**6.0**	341.6	**9.9%**	7.1%
of which: debt-service costs	*268.1*	*301.8*	*307.7*	**5.9**	*332.2*	**10.1%**	*7.3%*
Transfers and subsidies	**683.7**	**739.6**	**737.1**	**-2.5**	**761.5**	**3.0%**	**1.5%**
Provinces and municipalities	149.2	164.2	168.1	**3.9**	182.0	**10.8%**	6.9%
Departmental agencies and accounts	24.5	25.4	26.0	**0.5**	27.4	**7.8%**	-0.3%
Higher education institutions	50.4	54.7	53.7	**-0.9**	51.8	**-5.3%**	3.3%
Public corporations and private enterprises	36.0	42.8	38.6	**-4.1**	41.5	**-3.0%**	4.5%
Non-profit institutions	41.5	44.3	41.4	**-2.9**	42.8	**-3.4%**	1.3%
Households	378.9	405.2	405.8	**0.6**	413.0	**1.9%**	-1.4%
Payments for capital assets	**77.0**	**102.4**	**95.1**	-7.3	**111.9**	**9.2%**	**15.2%**
Buildings and other capital assets	55.6	77.4	70.9	**-6.5**	85.8	**10.8%**	17.7%
Machinery and equipment	21.4	25.0	24.2	**-0.8**	26.1	**4.5%**	7.3%
Payments for financial assets	**76.1**	**27.2**	**62.6**	**35.4**	**25.2**	**-7.4%**	
Total	**2 047.0**	**2 147.3**	**2 200.3**	**53.0**	**2 235.7**	**4.1%**	**3.2%**
Consolidated expenditure	**2 047.0**	**2 157.3**	**2 205.3**	**48.0**	**2 241.7**	**3.9%**	**4.0%**

Consolidated wage bill and headcounts

National Public Entities:

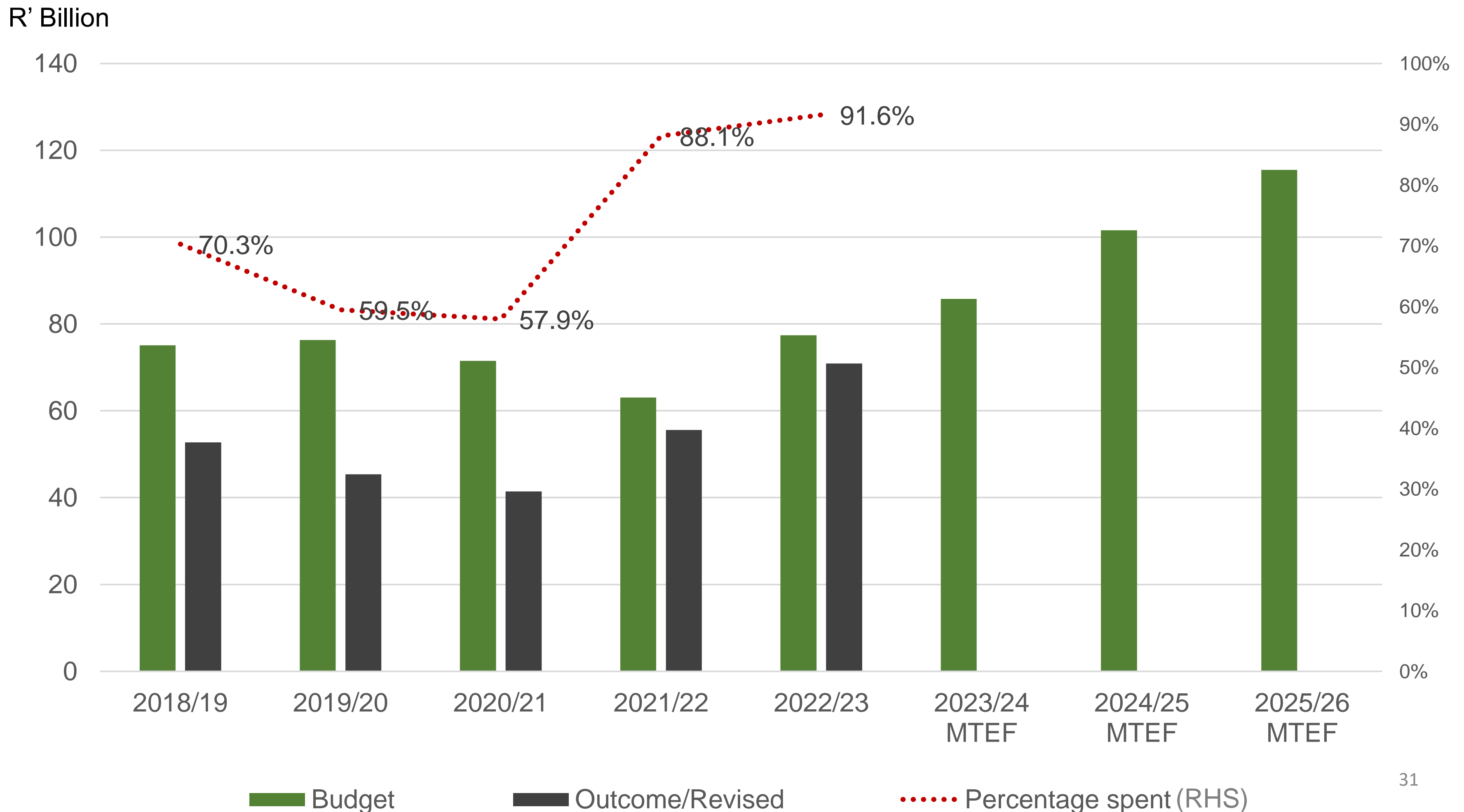
- Compensation of public entity employees is generally not included in the Budget numbers
- They are mainly included in transfers

R million	2015/16	2018/19	2021/22	Average annual growth 2015/16 – 2021/22
		Outcome		
National departments				
Salaries and wages	136 387	165 433	181 628	4.9%
Headcount	427 160	408 962	395 267	-1.3%
Average unit cost	0.319	0.405	0.460	6.3%
National public entities				
Salaries and wages	44 813	56 423	62 829	5.8%
Headcount	109 285	104 377	117 619	1.2%
Average unit cost	0.410	0.541	0.534	4.5%
Provinces				
Salaries and wages	288 910	358 278	416 458	6.3%
Headcount	893 221	883 730	912 856	0.4%
Average unit cost	0.323	0.405	0.456	5.9%
Local government				
Salaries and wages	81 757	105 152	130 032	8.0%
Headcount	314 446	329 918	342 048	1.4%
Average unit cost	0.260	0.319	0.380	6.5%
Total				
Salaries and wages	**551 867**	**685 286**	**790 948**	**6.2%**
Headcount	**1 744 112**	**1 726 987**	**1 767 790**	**0.2%**

Source: National Treasury, Statistics South Africa

Infrastructure spending: Budget versus outcome

- Actual spending was below 70 per cent of the amount budgeted between 2018/19 and 2020/21
- The revised estimate for 2022/23 is 91.6 Per cent below budget



Implementation and oversight

Challenges from the analysis of the 2019-2024 MTSF

Findings from the analysis of the 2019-2024 MTSF, specifically priority 2: Economic transformation and job creation

Challenges identified with the implementation of the 2019-2024 MTSF

- In addition to under performance on targets
- Performance indicators to measure performance on the 2019-2024 MTSF are not presented in departmental APPs
  - Oversight bodies cannot determine the progress made on the priorities if regular reports are not available
  - If priority indicators are not reflected in APPs government funds may be allocated to outputs that are not prioritised
- If the MTSF indicators are not reflected in the APPs it will also not be audited
- Some departments also introduce several new indicators in the MTSF, which do not have historic information or systems in place to measure the outputs
- Reporting on specific indicators are not in line with the targets set
- Departments report that 'reports have been produced on specific targets'
  - These reports are submitted to Cabinet and are, however not published and available to the public or oversight bodies

Performance on the 2019-2024 MTSF: Priority 2: Economic Transformation and Job Creation

Findings indicate:

- Between 2019/20 and 2021/22, 2.95 million work opportunities have been created through the Expanded Public Works Programme
- Performance measures on the implementation of interventions, such as the Jobs Summit, the Mass Employment Stimulus Programme and Operation Phakisa, have not been included in the relevant departmental APPs
- To report progress on investments for accelerated growth, the Department of Trade, Industry and Competition mainly produced progress reports on their interventions, without showing progress on the targets set for the planned outputs
- The Department of Communications and Digital Technologies focuses on fast tracking the Broadcasting Digital Migration
- Funding has been allocated to establish a broadband access fund for household connectivity, but Progress to ensure that 80 per cent of the population would have access to the internet by 2024 or the competitive reduction in data costs have not been reported on in the APP

Performance on the 2019-2024 MTSF: Priority 2: Economic Transformation and Job Creation

- Township and rural enterprises were supported to the value of R694 million in 2021/22
- Separate reports are produced on the support to SMMEs and Co-operatives
- The Department supported 6 315 start-up youth businesses financially and non-financially in 2021/22 against a target of 10 000 per year over the MTSF
- A Localisation Policy Framework including the listing of product brands produced by SMMEs and Cooperatives have also been developed
- DPE produces progress reports on the legal separation and the Eskom roadmap for a reformed electricity supply industry. The specific status of the unbundling process has not been presented in the quarterly performance report on the APP
- Current progress shows that a renewable energy sector master plan report is under review, the gas master plan is undergoing stakeholder consultation and the completion of an Integrated Energy Plan is estimated to be completed in 2023/24

State owned enterprises and contingent liabilities

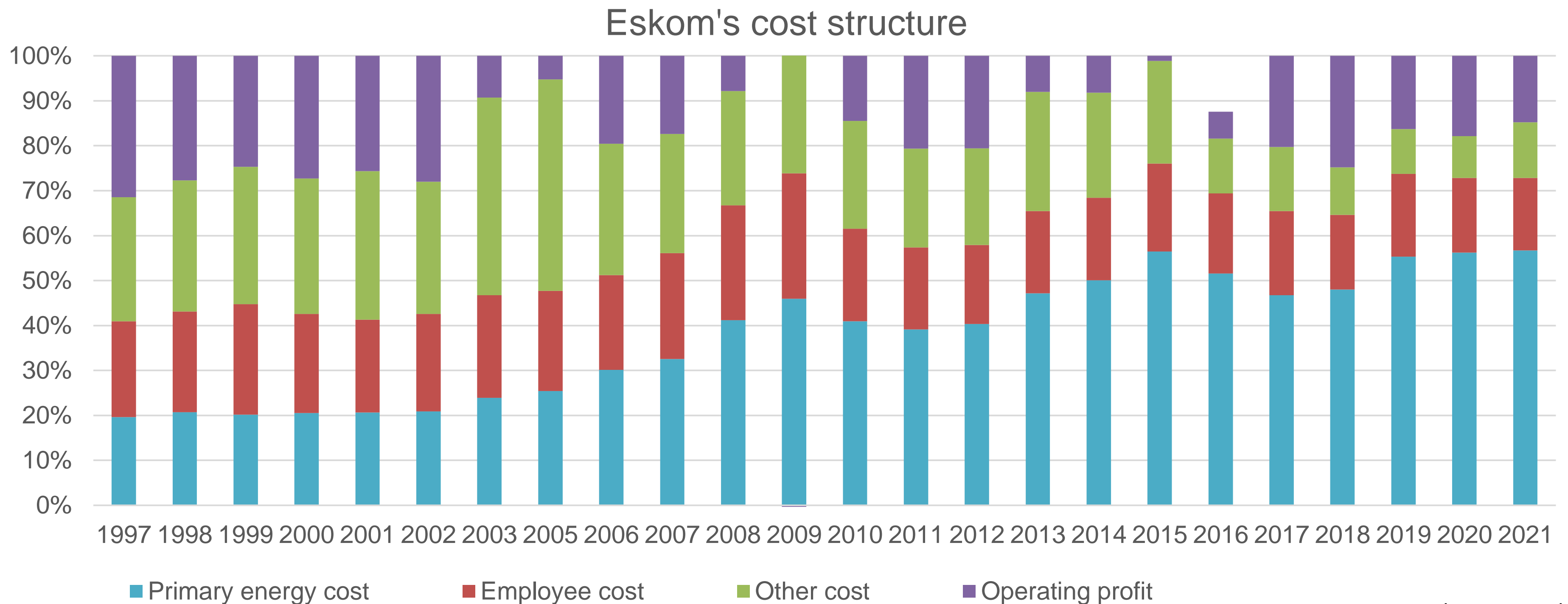
SOEs, contingent liabilities and bailouts

Eskom and public finances

State owned enterprises (SOEs)

- SOEs continue to pose significant concerns for public finance management
- The government's debt reduction strategy is partly offset by realisation of contingent liabilities into liabilities, including the planned take over of Eskom debt
- The Government plans to take over a significant portion of Eskom's R400 billion debt
  - The government said it will apply strict conditions to debt relief, including timeous execution of measures to address the sustainability of newly unbundled businesses
  - In 2019 government announced R230 billion 10-year support package to Eskom, to date R140 billion has been disbursed
- R30 billion of tax receipts that were above the estimated revenue will be used to cover the contingent liabilities for SOEs that need immediate injections of funds
  - SANRAL is allocated R23.7 billion to settle debt and debt-related obligations
  - Transnet receives R5.8 billion to repair infrastructure & maintain freight rail locomotives
  - Denel is allocated R204.7 million to reduce contingent liabilities as it sees weak financial position, R3.4 billion provided conditions are met
- The government indicated that funding to SOEs will have strict conditions
- The Land Bank remains in financial distress as it hasn't met conditions to merit the R5 billion that was allocated in the previous budget
- The State-Owned Enterprises Council and NT are developing a funding framework which they say will be finalised in 2022/23

SOEs: Eskom and public finances



Data: Eskom Annual

- Over a long period, South Africa will remain dependent on Eskom, its high levels of coal pollution and its need for high tariff increases
- Eskom's primary energy cost, which is predominantly coal, has been the major driver of Eskom's operating costs and will very likely mean that Eskom requires high tariff increases and further government bailouts in the future
- The transmission system will require maintenance, upgrading and further investment to provide access. These may also require government funding

SOEs: Eskom and public finances

- The government is working hard to reduce load shedding and has plans to increase available electricity with new generation and embedded generation
- It is also working on addressing problems in Eskom, increasing efficiency in Eskom and ultimately restructuring Eskom, including establishing an independent transmission company
- The announcement that the government will takeover part of Eskom's debt is an important move in the correct direction
- However, the MTBPS and other government plans do not explain government's long term plans for Eskom and the fiscal implication
- Eskom continues to provide about 95 per cent of the electricity used in SA
- Almost 85 per cent of that electricity is from coal
- Eskom has had trouble completing and bringing on line Medupi and Kusile with Kusile expected to be completed only by 2025
- The rest of Eskom's coal generation is old and Eskom plans to decommission 22 000 MW of generation capacity by 2035

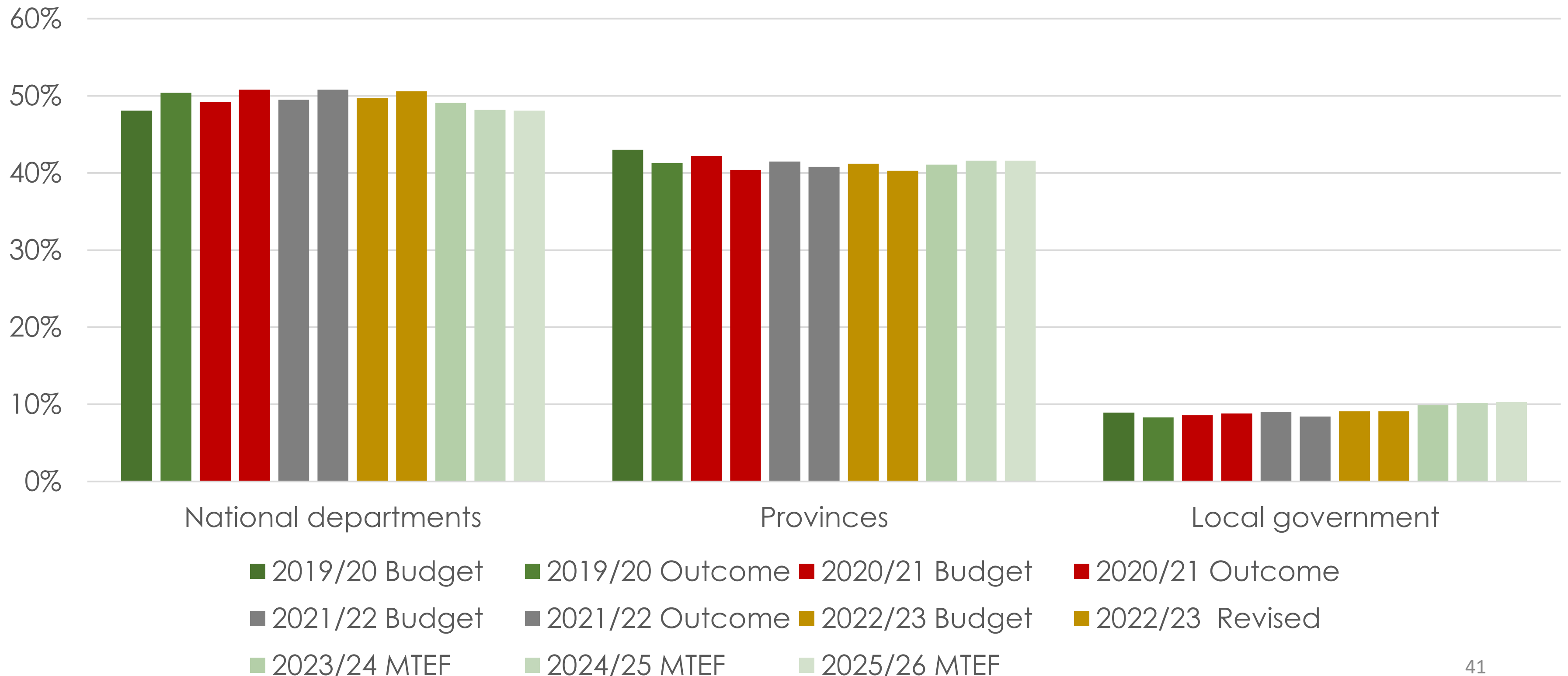
Division of revenue

Budget versus actual outcomes
Provincial equitable share

Division of Revenue trends of budget versus actual outcome

R billion	2019/20 Budget	2019/20 Outcome	2020/21 Budget	2020/21 Outcome	2021/22 Budget	2021/22 Outcome	2022/23 Budget	2022/23 Revised	2023/24	2024/25	2025/26
									Medium-term estimates		
Division of available funds											
Main budget expenditure	**1 658.7**	**1 691.0**	**1 766.0**	**1 789.0**	**1 834.3**	**1 887.5**	**1 975.3**	**2 018.2**	**2 041.6**	**2 144.5**	**2 263.2**
Percentage shares											
National departments	*48.1%*	50.4%	*49.2%*	50.8%	49.5%	50.8%	49.7%	50.6%	49.1%	48.2%	48.1%
Provinces	*43.0%*	41.3%	*42.2%*	40.4%	41.5%	40.8%	41.2%	40.3%	41.1%	41.6%	41.6%
Local government	*8.9%*	8.3%	*8.6%*	8.8%	9.0%	8.4%	9.1%	9.1%	9.9%	10.2%	10.3%

Source:National Treasury



Changes to the Provincial Equitable Share

- Increase over the 2022 MTEF: was 1.0 per cent
- Increase over the 2023 MTEF: 2.4 per cent

R million	2021/22	2022/23	2023/24 Budget estimate	2023/24	2024/25	2025/26	Average annual MTEF growth
					MTEF		
Eastern Cape	70 950	72 231	69 779	71 682	74 059	77 422	2.3%
Free State	30 342	31 107	30 109	30 815	31 798	33 157	2.1%
Gauteng	115 621	120 042	116 264	118 566	123 219	128 844	2.4%
KwaZulu-Natal	111 592	114 558	110 786	113 240	116 758	121 688	2.0%
Limpopo	62 556	64 056	62 073	64 175	66 774	70 276	3.1%
Mpumalanga	44 543	45 962	44 595	45 834	47 581	49 882	2.8%
Northern Cape	14 469	14 942	14 434	14 878	15 441	16 182	2.7%
North West	38 294	39 540	38 298	39 373	41 027	43 091	2.9%
Western Cape	56 467	58 367	56 810	57 822	59 844	62 359	2.2%
Total	**544 835**	**560 805**	**543 149**	**556 385**	**576 501**	**602 900**	**2.4%**

Conclusion

- Total real per capita expenditure declines over the medium term in the 2022 MTBPS
- Even though the 2022 MTBPS states that the government is prioritising education and health, expenditure on these priorities decline in real terms over the medium term
- The focus on the share of the social wage in total expenditure should change to focusing on its actual size after accounting for inflation and population growth
- Fiscal policy and the fiscal framework have to take into account current socio-economic conditions, including the extreme levels of structural UPI
- These extreme levels of UPI and lack of resilience in SA households are exacerbated by the current global cost of living crisis and serious global and domestic risks
- The fiscal framework must grapple with how it can reduce the severity of these socio-economic problems and risks and the credibility problem they could pose to it
- In other words, fiscal sustainability should not narrowly focus on achieving budget surpluses and reducing government debt to GDP because decisions about the fiscal framework affects broader societal and political stability
- Further, the approach where the government narrowly focuses on fiscal ratios and points to structural reforms to increase economic growth that it hopes will trickle down to struggling households should be replaced by an approach where fiscal policy is seen as an important part of a policy toolbox to transform the economy

Conclusion

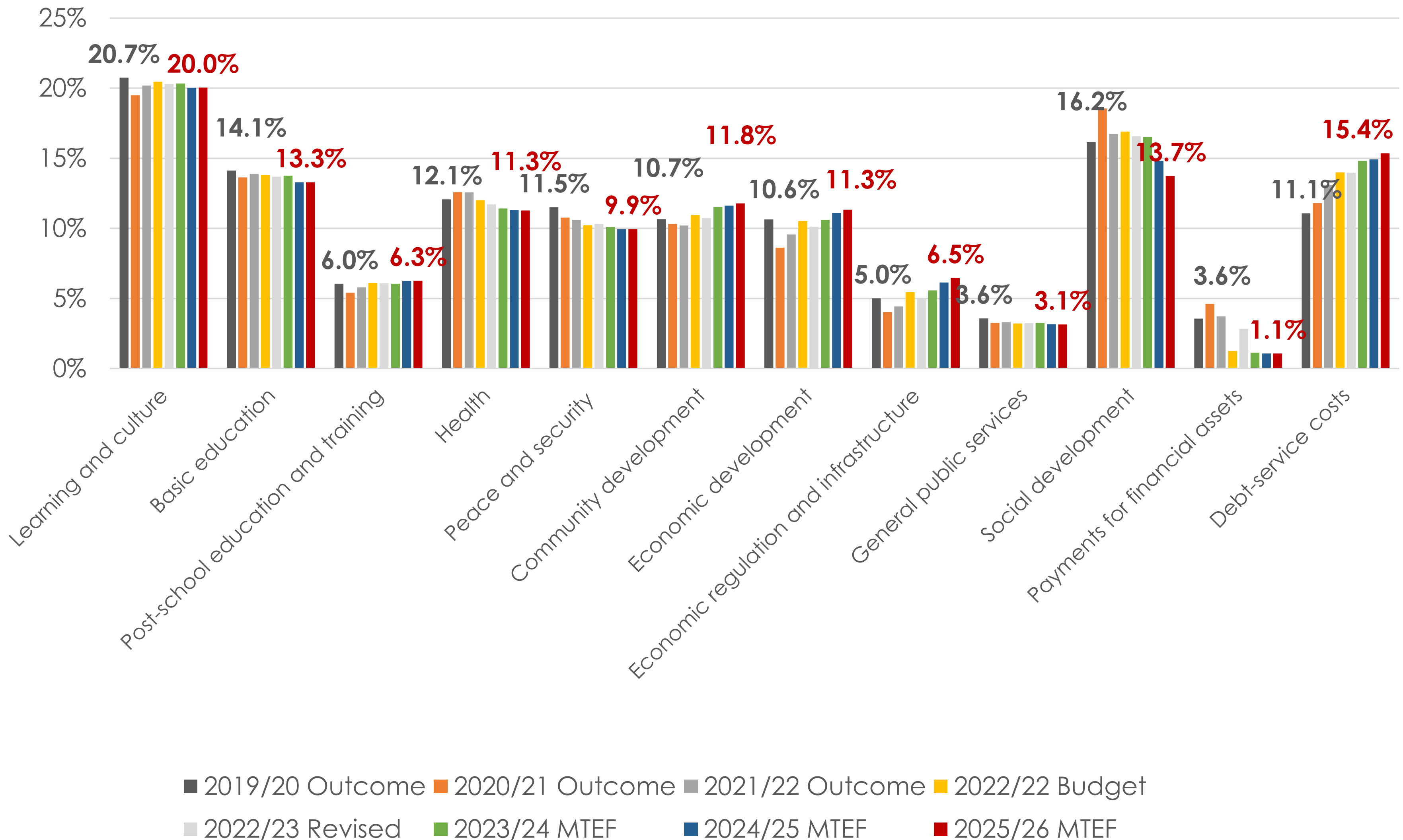
- This toolbox of policies includes improving social security and fixing holes in the social security net that excludes adults as well as economic policies to transform the structure of the economy
- The developed countries' pursuit of tighter monetary and fiscal policies seems to put them in danger of recessions that may culminate in a global recession
- Whether there is a recession or not the likelihood that household consumption, economic growth, and private sector investment and employment creation will be negatively affected is very high
- In this situation government expenditure into the economy and the consumption and investment that this expenditure generates may be the only domestic source of GDP growth
- Therefore, the choice to reduce debt rather than invest more on social transfers and the social wage to build more resilience to cost of living crises and other risks pushes South Africa towards implementing pro-cyclical fiscal policy at a time when increased government spending may be the only component of GDP that can support growth

Conclusion

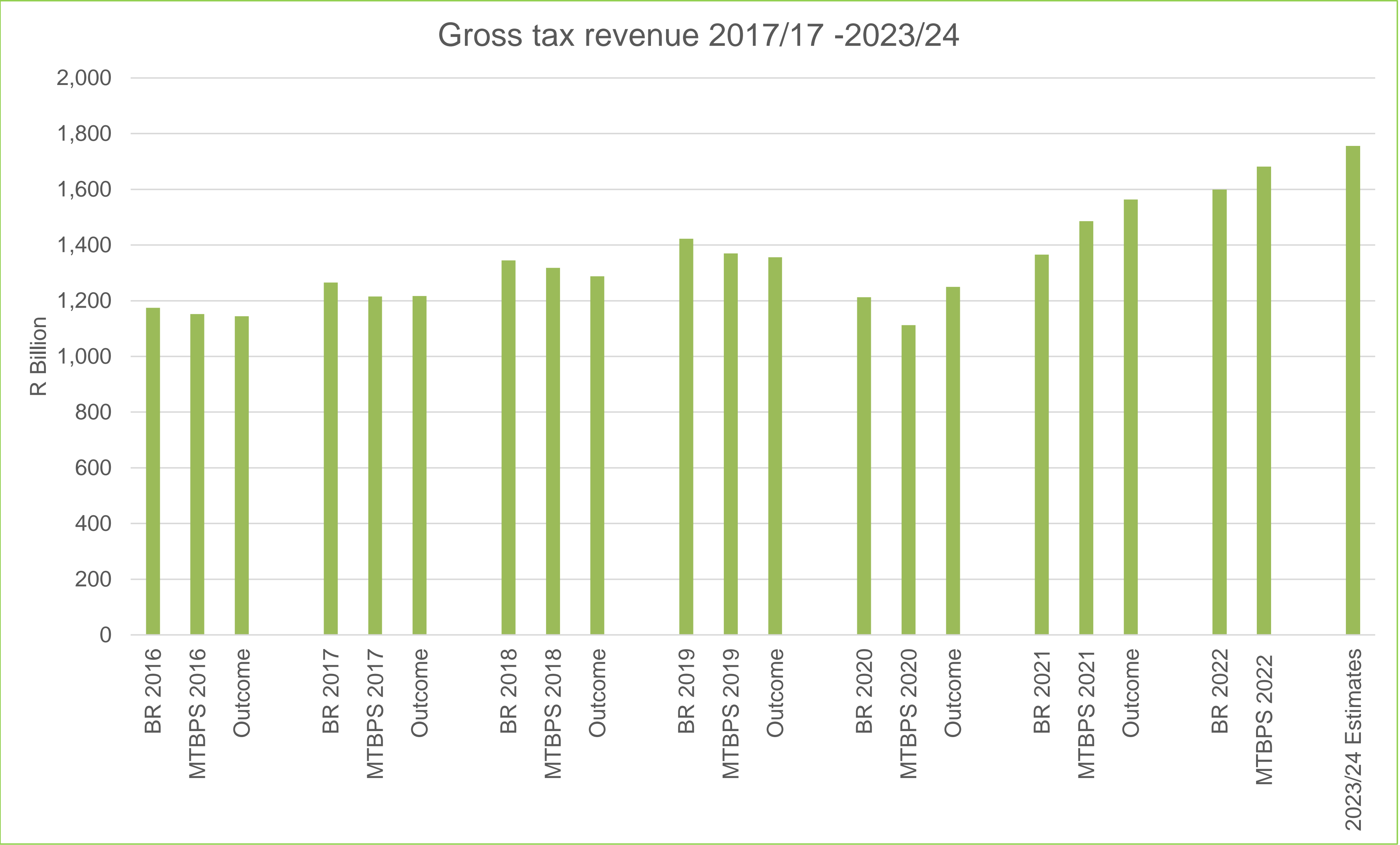
- The extension of the SRD grant is welcomed but the future of this type of support should have been addressed in the MTBPS
- As stated in the PBO's pre-MTBPS presentation, now that adults have been receiving social security support it will be hard, and potentially destabilising, to stop providing this form of relief from severe, structural UPI
- There are multiple additional sources of revenue that could increase the government's revenue base that should be thoroughly explored
- The PBO found that progress with the MTSF has been uneven with many departments reporting slow progress on annual targets
- For Priority 2: Economic Transformation and Job Creation, the PBO is concerned that important targets are absent from departmental APPs and in some cases progress is reported on interventions not achievement of targets
- Government's contingent liabilities and exposure to poorly performing state enterprises requires ongoing examination
- The potential cost to the government of plans for Eskom and its structuring over the medium term and beyond should be presented to Parliament

Additional slides

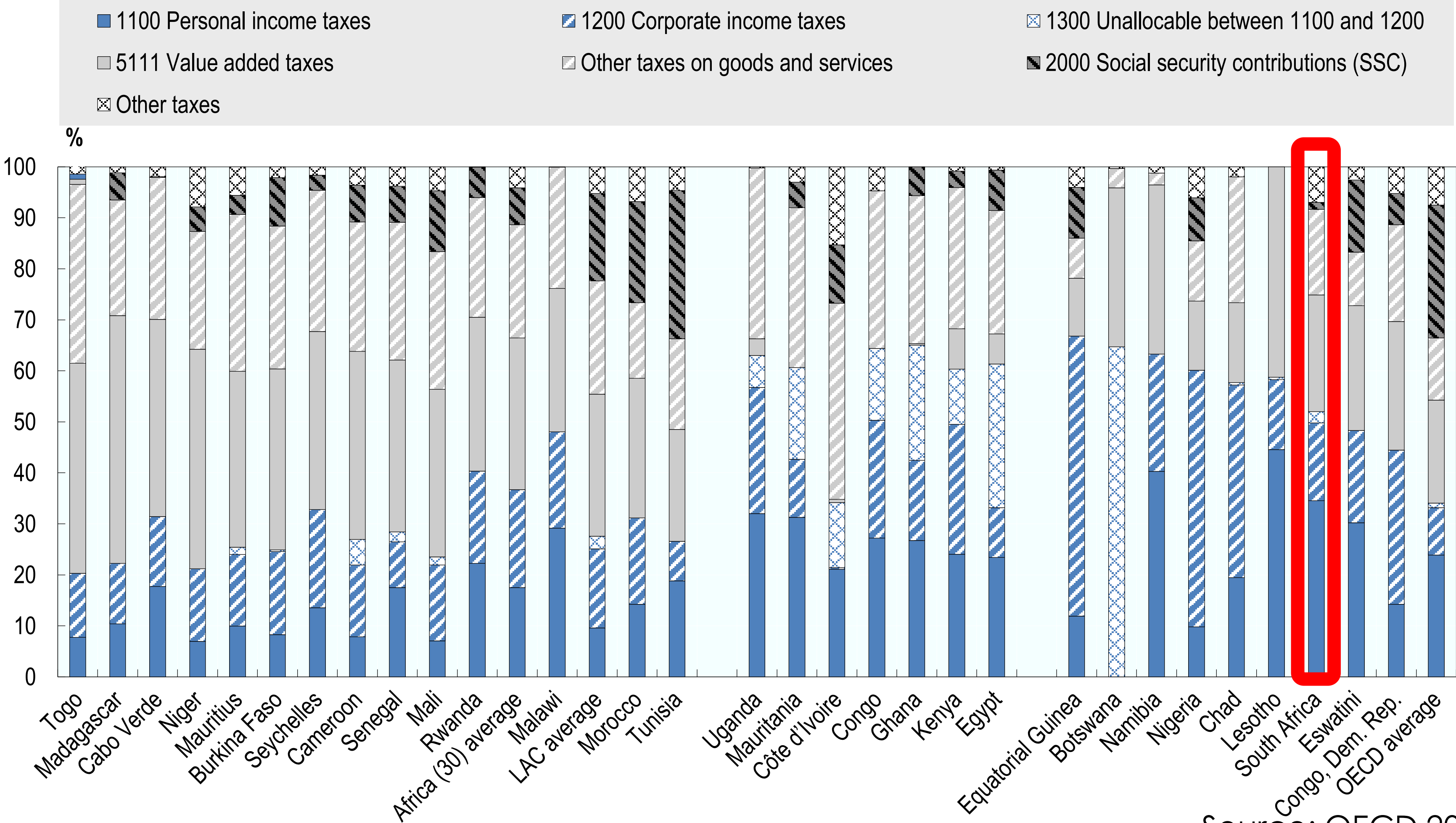
Change in spending priorities per function group over the MTSF



Gross tax revenue outcomes and projections



Gross tax revenue outcomes and projections



Source: OECD 2020