2023 Appropriations Bill assessment and comments on the 2023 Eskom Debt Relief Bill

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Parliamentary Budget Office

PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Introduction
- Macroeconomic outlook
- Spending priorities
- 2023 Appropriations Bill
- Possible risks to the 2023 Appropriations
- Eskom debt relief

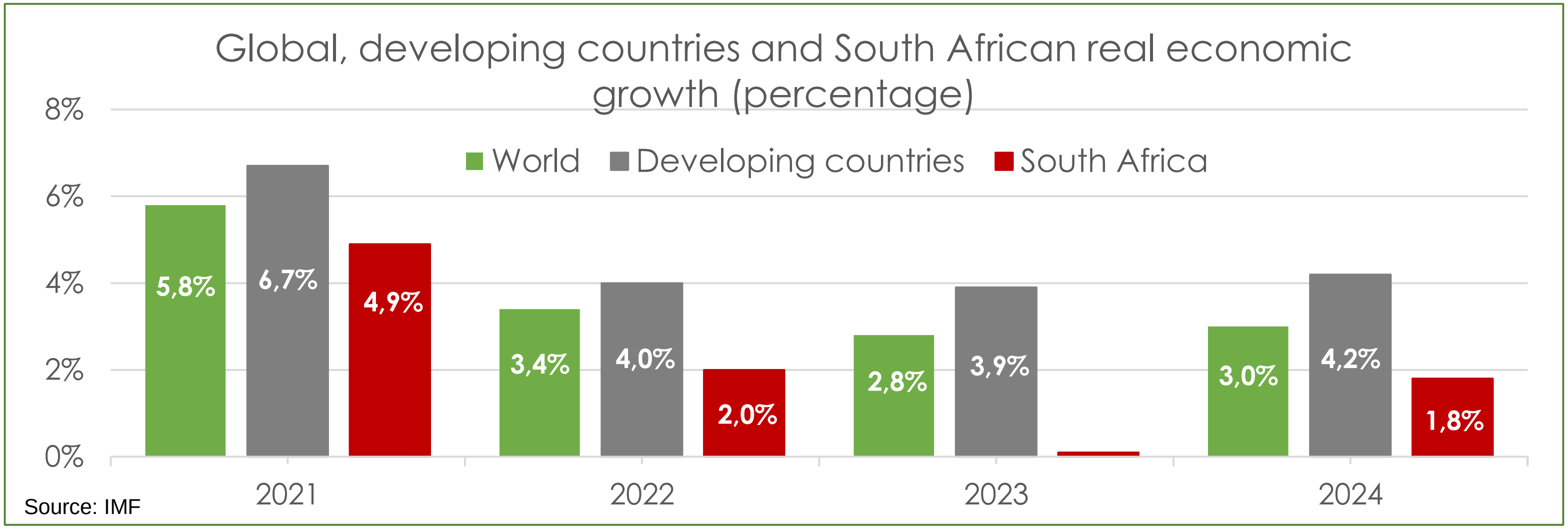
Introduction

- The 2023 Appropriations Bill:
  - Appropriates money from the National Revenue Fund for the requirements of the State for the 2023/24 financial year
  - Prescribes conditions for the spending of funds withdrawn for the 2024/25 financial year before the commencement of the Appropriation Act for the 2024/25 financial year
  - Provides for matters incidental thereto
  - Amounts, listed as specifically and exclusively, which means that it may only be used for the purpose indicated, unless the amount or purpose is amended by, or in terms of, an Act of Parliament
- Parliament is, in terms of the Money Bills and Related Matters Act, required to pass, with or without amendments, or reject the Appropriation Bill within four months after the start of the financial year to which it relates
- This presentation provides:
  - The economic and strategic background for the 2023 Appropriations
  - An assessment of the Appropriations
  - Identifies possible risks to the Appropriations
- It also includes comments on the Eskom Debt Relief Bill

Macroeconomic outlook

Global economic performance
South African economic performance
Employment
The current account, bond yields & inflation
South African growth outlook

Global economic performance

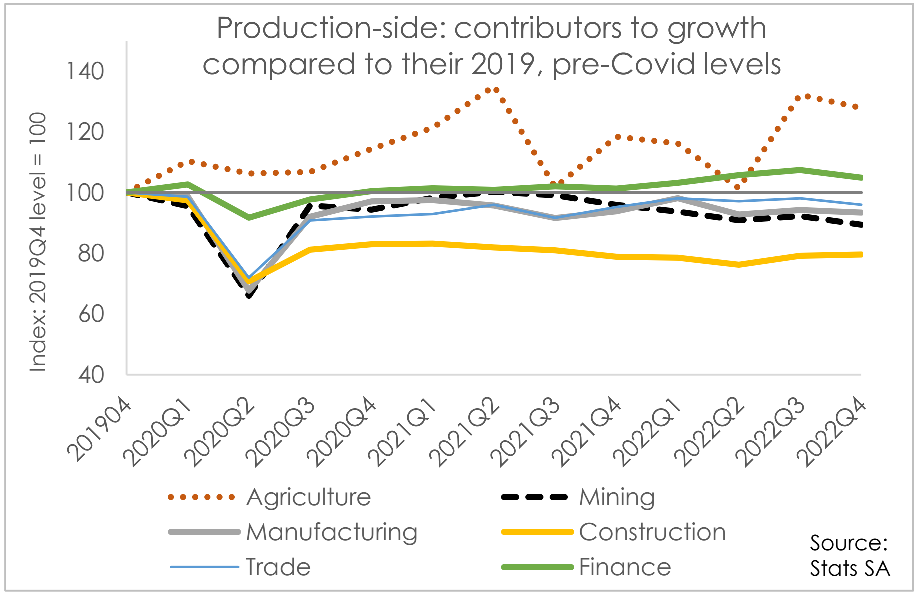


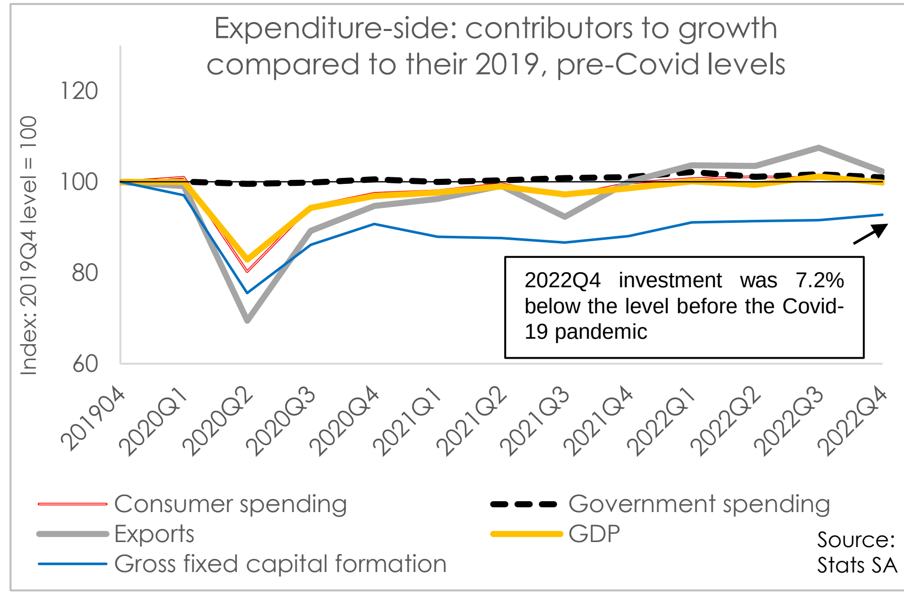
- Global growth forecasts show slightly improved growth expectations for 2023, however there is a broad-based downturn and much uncertainty in the global economy:
  - There may be positive impacts of China reopening, recovery in value chains and freight transport, and slowly declining inflation
  - However, there are also continued geopolitical conflicts (including, the ongoing war in Ukraine as well as civil war in Sudan and political instability across Africa), continued rate hikes and financial instability to worry about
- The rapid increase in interest rates in the US caused the collapse of two major banks (Silicon Valley Bank and Signature Bank) and has increased instability in global financial markets (see additional slides)
- While immediate concerns of bank collapses have been dealt with there is the risk that the new higher interest rate situation could trigger more financial instability

Global economic performance

- Global growth and financial stability will also be negatively affected because many developing countries have increased risk of defaulting on their public debt after increasing borrowing to deal with the Covid-19 pandemic
- These debt pressures on developing countries could thwart their efforts to recover after the pandemic and lead to government expenditure cuts on much needed social and infrastructure programmes
- The risk of developing countries not building resilience to future risks associated with the global polycrisis has increased
- According to the 2023 Global Risk Report of the World Economic Forum "Present and future risks can interact with each other to form a 'polycrisis' – a cluster of related global risks with compounding effects, such that the overall impact exceeds the sum of each part"
- A global solution to ease the public debt burden of developing countries and to support their efforts to build resilience to crises is required
- In January 2023, the UN Secretary General advocated for developing country governments to embark on "bold, targeted and timely" fiscal expansion and support from developed countries to support their recovery and stimulus

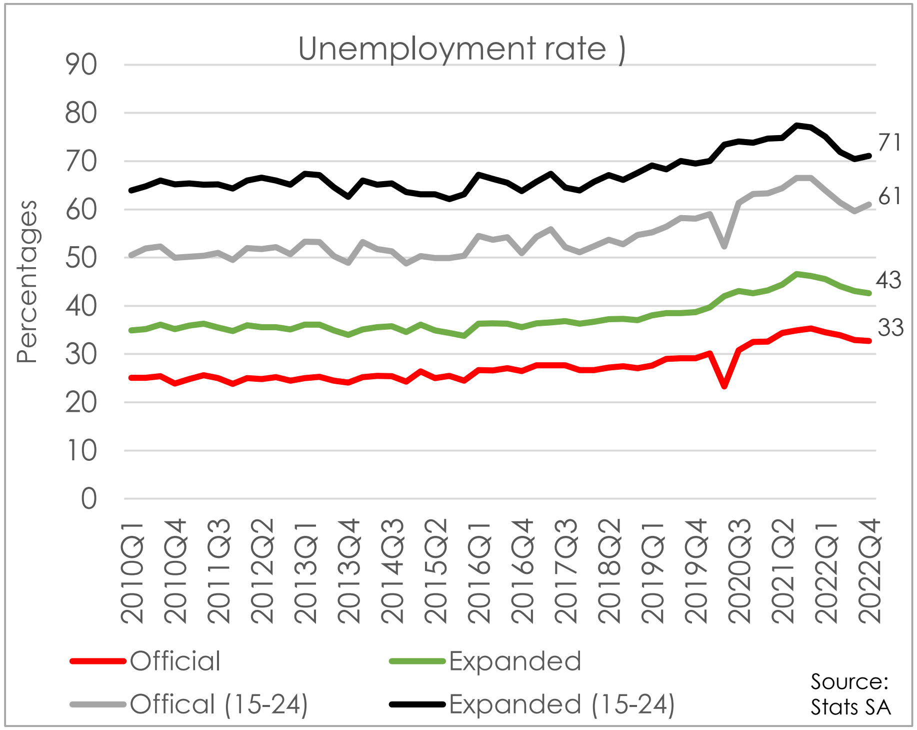
South African economic performance: Divergent economic performance across sectors





- The GDP growth rate for 2022 was 2 per cent compared to the rebound growth of 4.9 per cent achieved in 2021after the large Covid-19 induced recession during 2020
- Economic activity in 2022 was again constrained by fiscal consolidation, higher interest rates, the war in Ukraine, KZN floods, bottlenecks at Transnet's ports and lower global demand and growth
- Following the 1.3 per cent GDP decline in the fourth quarter of 2022, the level of real GDP dipped back to below the pre-COVID level (fourth quarter of 2019)
- Except for agriculture and finance, all other sectors remained below pre-pandemic levels in 4Q2022
- In terms of expenditure on GDP (demand-side), gross fixed capital formation rose by 4.7 per cent in 2022. Investment by private businesses grew by 7.3 per cent while capital expenditure by public corporations declined by 3.6 per cent
- Even after the growth in 2022, fixed investment remains 7.2 per cent below pre-pandemic levels

Employment– jobs lost/gained per sector



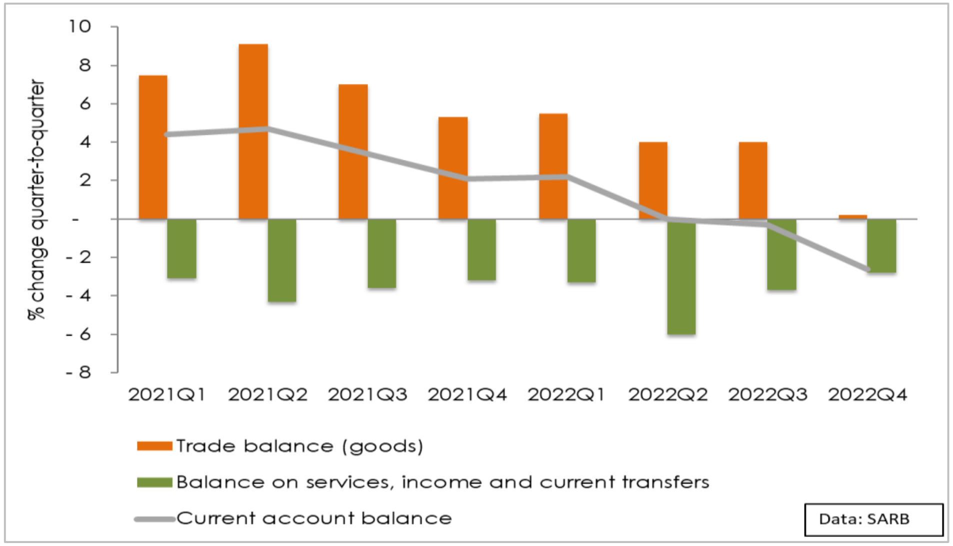
Change in employment since the pandemic ('000s)	**4Q2022 vs 4Q2019**
Total (formal & informal)	-317
Agriculture	-25
Mining	7
Manufacturing	-64
Utilities	4
Construction	-141
Trade	48
Transport	-29
Finance	-84
Community & social services	-65
Private households	-144

Source: Stats SA QLFS

- The official unemployment rate was 32.7 per cent in the 4th quarter of 2022
- A total of 317 000 formal and informal jobs were lost between 2019Q4 and 2022Q4
- Only mining, trade and utilities sectors fully recovered jobs lost during the pandemic
- The construction and private household sectors shed the most jobs
- Age and gender disparities persist in South Africa's labour market with the unemployment rate of the youth (15-24 years) and females at 61 per cent and 46.6 per cent respectively – higher than the national average rate of 34.5 per cent

The current account, bond yields & inflation

Balance of the current account (as a percentage of GDP)



- The South African current account had a small surplus of R3.1 billion in the third quarter of 2022
- During the fourth quarter of 2022 it was in deficit by R174 billion (2.6 per cent of GDP)
- The 4Q2022 deficit was not caused by the trade balance which was small but positive
- It was driven by net financial transfers on the current account, which have been negative over the past 2 decades

- The yield on SA's 10-year bond increased throughout most of 2022 and remained relatively high in early 2023 because of interest rate increases in developed countries in response to rising inflation
- Higher interest rates in developed countries often trigger capital outflows from developing countries
- Headline consumer inflation (CPI) was at a more-than-a-decade high of 6.9 per cent in 2022 and 7 per cent in February 2023
- The largest contributors to higher inflation were transport and food prices due to the war in Ukraine, continued supply chain disruptions, higher crude oil prices and profiteering by large corporations
- Inflationary pressures may be due to corporations passing on costs of load-shedding to consumers
- An important strategy to kick start growth in the face of a cost of living crisis is to build household resilience by fiscal expansion through increasing services, grants and infrastructure investment
- Increased social support and infrastructure investment should boost aggregate demand & growth

South African growth outlook

GDP growth outlook - calender year*	2023	2024	2025
National Treasury - MTBPS 2022	1.4%	1.7%	1.8%
National Treasury - Budget 2023	0.9%	1.5%	1.8%
South African Reserve Bank - January 2023	0.3%	0.7%	1,0%
South African Reserve Bank - March 2023	0.2%	1,0%	1.1%
IMF - World Economic Outlook - January 2022	1.1%	1.3%	
IMF - World Economic Outlook - April 2023	0.1%	1.8%	
Bureau for Economic Research - January 2023	0.5%	1.4%	1.8%
Bureau for Economic Research - March 2023	0.3%	1.4%	1.8%
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, International Monetary Fund, BER			

- Since the tabling of the 2023 Appropriation Bill, GDP growth has been adjusted downwards due to several constraints such as:
  - Intensified load-shedding
  - Continued fiscal consolidation
  - Higher interest rates
  - Bottlenecks at Transnet's ports
  - Weakening growth outlook in some of the country's major export markets
- Estimates by the SARB and IMF for 2023 growth indicate that the economy is barely growing (and that expected GDP per capita is negative)

Spending priorities

2023 Budget objectives and priorities

Spending priorities over the 2023 MTEF continues from the 2022 MTEF

Budget objectives and priorities

- The 2023 Budget is framed by the three policy objectives set out in the 2022 MTBPS, which are to:
  - Reduce the budget deficit and stabilise debt as a percentage of GDP
  - Support economic growth by maintaining a prudent fiscal stance, directing resources towards infrastructure, and fighting crime and corruption
  - Reduce fiscal and economic risks, including through the Eskom debt-free arrangement
- The pursuit of higher growth in the 2023 Budget remains anchored on three pillars:
  - Ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth
  - Implementing growth-enhancing reforms in key sectors, particularly in energy and transport
  - Strengthening the capacity of the State to deliver quality public services, invest in infrastructure and fight crime and corruption
- These pillars also link to the Presidential priority to:
  - Restructure government to improve efficiency: Reducing Red tape/Improve the ease of doing business

Spending priorities over the 2023 MTEF continues from the 2022 MTEF

2022 MTEF: 2022/23-2024/25	2023 MTEF:2023/24-2025/26
Wage increases adjusted	**Carry-through from 2022/23 public service wage increase (R45.6 billion)**
Social welfare interventions and free basic services (R87 billion over the MTEF)	**Poverty and the rising cost of living** • COVID-19 social relief of distress grant (R36 billion in 2023/24) • Social grants: increase in grant values (R29.6 billion) • Local government equitable share: free basic services (R8.1 billion)
Health (R21 billion over MTEF)	**Service delivery** • Health (R23.5 billion)
Education (R57 billion over MTEF)	**Service delivery** • Basic education sector (R22.4 billion)
Infrastructure investments and employment (R27 billion over MTEF)	**Infrastructure-related spending** (R42.8 billion)
Peace and security (R7.4 billion over MTEF)	**Crime and corruption (R14.4 billion)** • Additional 5 000 police trainees per year • Border Management Authority • Mozambique deployment, prime mission equipment and navy defence systems • State Capture Commission and Financial Action Task Force recommendations
	Economic growth and employment • South African Revenue Service (R1.5 billion) • South African Weather Service: operational funding (R244 million) • Department of Home Affairs digitisation project (R840 million)
Other priorities (R26.3 billion over MTEF)	**Other** (R2.1 billion)

Improving efficiency in government: Progress

Reducing Red tape/Improve the ease of doing business is prioritised by:

- 2019-2024 MTSF
- SONA
- 2022 Annual Performance Plan of the Department of Trade Industry and Competition
- Department of Small Business Development (DSBD)

Progress:

- DSBD developed a National Integrated Small Enterprise Development (NISED) master plan for the period ending 2030, of which some of the objectives are to:
  - Reform policy, laws and regulations to enable SMME growth and efficient governance, which implies red-tape reduction
  - Establishment of the Red Tape Reduction Task Team (RTRTT)
  - From a list of almost 100 potential red tape issues government agreed to proceed with three prioritised focus areas, namely:
    - Tourism travel permits: Reducing licensing backlogs
    - Mining and prospecting rights licensing system: Lack of a proper system and differences between the State Information Technology Agency (SITA) and the Department of Mineral Resources and Energy (DMRE)
    - Work permits and visa administration: Reduction of turnaround times at the Department of Home Affairs

Improve efficiency in government: Identify Public Entities to be retained, consolidated or disposed of

Reasons:

- Duplication of functions
- Placed incorrectly
- High administrative costs including compensation of employees
- Difficult to monitor performance
  - Quarterly performance reports not published/DPME database
  - Performance not reflected in the transferring department's statutory document

For example, the Department of Trade Industry and Competition (DTIC):

- 17 Public entities of which
  - 13 receive a transfer from the department
- 2 Provide funding to companies with a focus on an inclusive economy
- 2 Promotes trade with countries outside of the Republic
- 3 are Adjudication bodies
- Not sure if the National Credit Regulator (NCR) is placed correctly under DTIC?
- DTIC has not reported any outcomes since 2018/19 in the APP
- All of these have governance structures and produce audited annual reports
- The Export Credit Insurance Corporation of South Africa:
  - Top 6 positions earn on average R5.3 million in 2023/24
  - Accumulative surpluses and capital reserves of R8.5 billion

2023 Appropriations Bill

Main budget expenditure

Expenditure trends of a selection of national departments (above 3 per cent of total)

Total appropriations per vote

Total appropriations per vote and direct charges

Expenditure per vote by economic classification

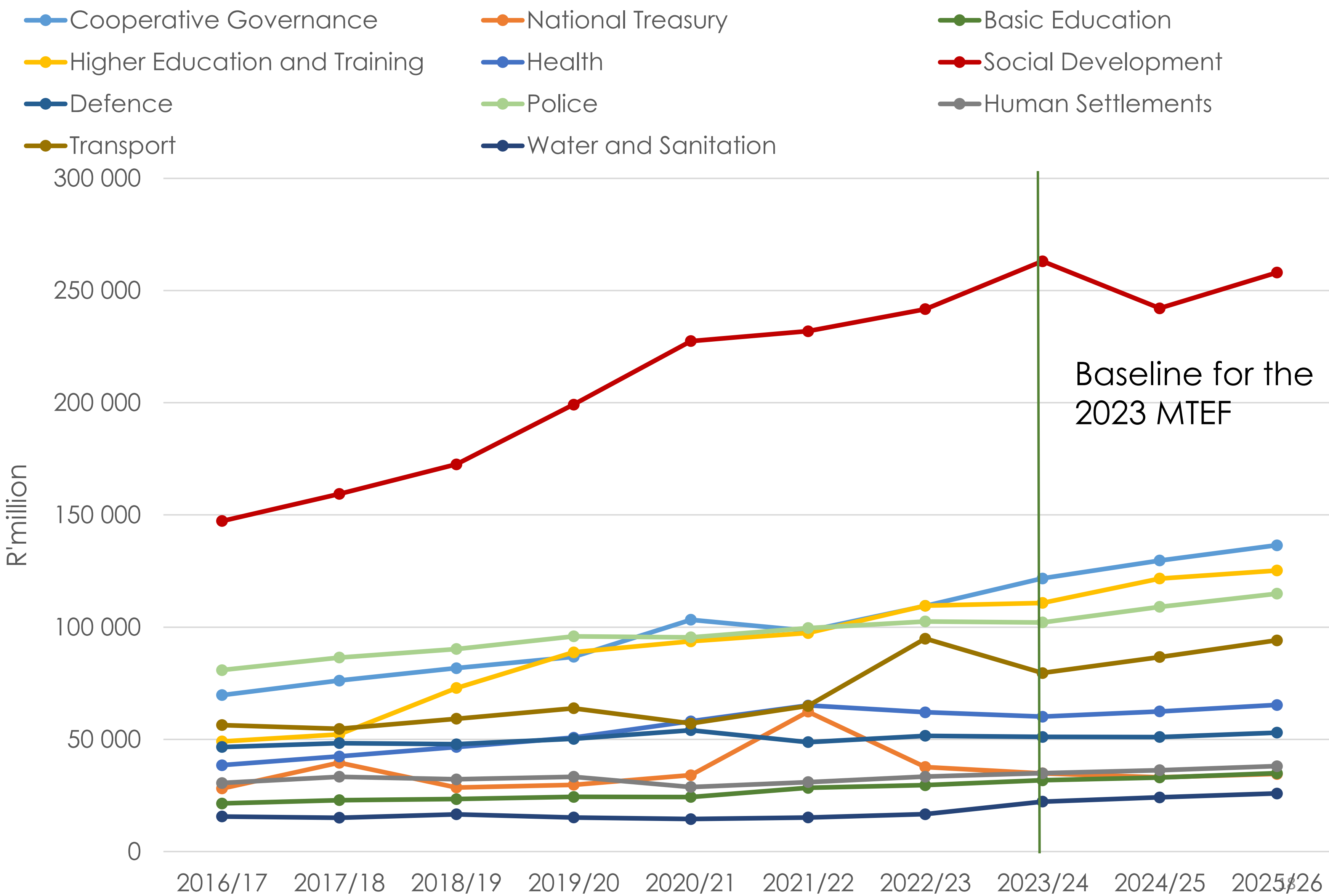
Main budget expenditure

- Total per vote as per the 2023 Appropriations Bill: R1 077 billion
- Direct charges amounts to R950.6 billion, mainly includes:
  - Provincial Equitable Share (PES)
  - Debt-service cost
- Total to be Appropriated (ENE): R2 028 billion

R billion	2023/24
Total appropriations per vote: Appropriations Bill	**1 077**
including:	
Direct transfers to provinces: Conditional Grants	127.5
Direct transfers to local government: Equitable share	96.5
Direct transfers to local government: Conditional Grants	52.0
Direct charges	**950.6**
Expenditure estimates by votes	**2 028**
Provisional allocations not assigned to votes	1.5
Contingency reserve	5.0
Total expenditure estimates	**2 035**

Source: National Treasury

Expenditure trends (nominal values) of a selection of national departments



Total appropriations per vote

R million		Revised estimate 2022/23	2023/24	Change since 2022/23	Annual average growth since 2016/17	Annual average growth over the 2023 MTEF
1	The Presidency	580.9	617.2	36.3	3.7%	5.0%
2	Parliament	2 367.3	3 423.5	1 056.2	10.2%	9.9%
3	Cooperative Governance	109 499.1	121 698.3	**12 199.1**	**8.3%**	**7.6%**
4	Government Communication and Inform	729.7	750.7	21.1	3.6%	3.8%
5	Home Affairs	11 096.2	10 863.3	-232.9	4.2%	-0.3%
6	International Relations and Cooperation	6 682.3	6 694.1	11.8	-0.3%	3.0%
7	National School of Government	231.1	229.0	-2.1	14.7%	2.6%
8	National Treasury	37 701.2	34 889.4	-2 811.8	3.1%	-2.8%
9	Planning, Monitoring and Evaluation	452.4	475.8	23.5	3.8%	4.7%
10	Public Enterprises	33 934.7	302.9	-33 631.8	2.6%	-78.6%
11	Public Service and Administration	524.1	553.5	29.3	2.6%	4.8%
12	Public Service Commission	289.6	292.1	2.6	3.5%	3.2%
13	Public Works and Infrastructure	8 028.7	8 782.1	753.4	4.6%	6.0%
14	Statistics South Africa	2 999.4	2 691.7	-307.7	1.3%	-0.6%
15	Traditional Affairs	177.6	193.1	15.6	5.7%	5.7%
16	Basic Education	29 593.2	31 782.7	2 189.6	5.8%	5.7%
17	Higher Education and Training	109 537.6	110 781.6	1 244.0	**12.3%**	**4.6%**
18	Health	62 108.8	60 111.4	-1 997.3	6.6%	1.7%
19	Social Development	241 703.2	263 029.2	**21 326.0**	**8.6%**	**2.2%**
20	Women, Youth and Persons with Disabilitie	983.2	1 036.4	53.2	7.5%	-4.4%

Total appropriations per vote

R million	Revised estimate 2022/23	2023/24	Change since 2022/23	Annual average growth since 2016/17	Annual average growth over the 2023 MTEF
21 Civilian Secretariat for the Police Service	155.9	154.2	-1.8	6.5%	2.5%
22 Correctional Services	26 062.7	26 026.7	-36.0	2.7%	2.9%
23 Defence	51 601.6	51 124.4	-477.2	1.3%	0.9%
24 Independent Police Investigative Directc	363.5	364.4	0.9	6.0%	3.0%
25 Justice and Constitutional Development	20 482.0	20 793.9	311.9	3.8%	3.2%
26 Military Veterans	670.0	894.7	224.7	**8.5%**	**16.5%**
27 Office of the Chief Justice	1 344.9	1 304.5	-40.3	6.2%	1.8%
28 Police	102 555.0	102 137.7	-417.3	3.4%	3.9%
29 Agriculture, Land Reform and Rural Devel	17 533.6	17 254.3	-279.3	1.7%	2.5%
30 Communications and Digital Technologie	5 285.7	3 512.2	-1 773.5	3.2%	-21.1%
31 Employment and Labour	4 098.3	4 092.2	-6.0	5.8%	0.0%
32 Forestry, Fisheries and the Environment	8 834.8	9 873.6	1 038.7	3.8%	3.4%
33 Human Settlements	33 415.5	34 942.4	1 526.9	1.9%	4.4%
34 Mineral Resources and Energy	10 201.6	10 701.2	499.6	2.2%	4.8%
35 Science and Innovation	9 145.3	10 874.2	1 729.0	5.6%	3.4%
36 Small Business Development	2 532.9	2 574.8	41.9	**11.6%**	3.5%
37 Sport, Arts and Culture	6 265.5	6 357.7	92.2	3.5%	0.9%
38 Tourism	2 437.4	2 524.2	86.9	4.0%	4.2%
39 Trade, Industry and Competition	10 839.7	10 922.5	82.9	-0.1%	0.7%
40 Transport	94 880.9	79 552.4	**-15 328.4**	**5.0%**	-0.3%
41 Water and Sanitation	16 682.2	22 257.3	**5 575.1**	**5.2%**	**15.8%**
Total appropriation by vote	**1 084 609.1**	**1 077 437.8**	**-7 171.4**	**6.0%**	**2.1%**

Total Appropriations of the seven votes that include funding from direct charges

- Presidency: Salaries of the President and Deputy President
- Parliament: Members remuneration
- National Treasury: Debt-service cost, Provincial Equitable Share, Fuel levy, Auditor General
- Higher Education Skills levy and sector education and training authorities
- Justice and Chief Justice: Salaries of Magistrates and Judges
- Transport: International Oil Pollution Compensation Fund

R million		**Vote appropriations 2023/24**	**Total expenditure estimates 2023/25**	**Direct charges against the NRF Difference**
1	The Presidency	617.2	**625.1**	7.9
2	Parliament	3 423.5	**3 895.2**	471.7
8	National Treasury	34 889.4	**958 484.5**	923 595.1
17	Higher Education and Training	110 781.6	**133 808.5**	23 027.0
25	Justice and Constitutional Development	20 793.9	**23 192.7**	2 398.7
27	Office of the Chief Justice	1 304.5	**2 429.2**	1 124.7
40	Transport	79 552.4	**79 565.0**	12.6
Total appropriation by vote		**1 077 437.8**	**2 028 075.4**	**950 637.6**

Source: National Treasury

Expenditure estimates per vote by economic classification

- Payment for financial assets not included in the table amounts to R1. 97 billion on the National Treasury budget includes provisional allocations not assigned to votes
- Numbers include the direct charges

R'thousands	Compensation of employees	Goods and services	Interest and rent on land	Transfers and subsidies	Payments for capital assets	Grand Total
The Presidency	390 948	217 954	0	570	15 584	625 056
Parliament	**1 436 789**	887 142	0	544 500	**1 026 764**	3 895 195
Cooperative Governance	346 684	4 745 373	0	**116 582 750**	23 444	121 698 251
Government Communication and Information System	284 102	201 835	0	256 609	8 200	750 746
Home Affairs	3 958 078	2 661 380	0	3 956 519	287 366	10 863 343
International Relations and Cooperation	3 006 890	2 454 756	151 101	798 907	282 419	6 694 073
National School of Government	60 416	48 927	0	115 680	3 995	229 018
National Treasury	920 001	2 100 834	340 460 294	612 872 530	163 151	958 484 458
Planning, Monitoring and Evaluation	**322 692**	147 986	0	0	5 170	475 848
Public Enterprises	185 333	113 512	0	20	4 047	302 912
Public Service and Administration	300 214	194 208	0	52 515	6 523	553 460
Public Service Commission	220 075	69 813	0	558	1 673	292 119
Public Works and Infrastructure	587 601	694 966	0	7 490 793	8 745	8 782 105
Statistics South Africa	1 648 543	722 857	0	202	320 144	2 691 746
Traditional Affairs	97 179	44 782	0	47 010	4 150	193 121
Basic Education	557 535	2 460 990	36 184	26 990 726	1 737 278	31 782 713
Higher Education and Training	11 180 080	672 137	0	121 651 029	305 298	133 808 544
Health	682 135	1 870 898	0	56 251 340	1 307 061	60 111 434
Social Development	513 773	415 724	0	**262 085 938**	13 764	263 029 199
Women, Youth and Persons with Disabilities	126 871	76 498	0	829 267	3 808	1 036 444

Expenditure estimates per vote by economic classification

Proportions spent of total appropriations per vote:

- Compensation of employees: 17.0 per cent
- Goods and services: 7.7 per cent
- Transfers and subsidies of expenditure estimates by votes: 69.0 per cent

R'thousands	Compensation of employees	Goods and services	Interest and rent on land	Transfers and subsidies	Payments for capital assets	Grand Total
Civilian Secretariat for the Police Service	108 852	39 834	0	144	5 322	154 152
Correctional Services	17 361 502	7 107 846	0	724 740	832 584	26 026 672
Defence	30 629 334	13 923 488	0	5 721 088	850 519	51 124 429
Independent Police Investigative Directorate	246 010	110 809	0	1 031	6 536	364 386
Justice and Constitutional Development	12 939 254	6 051 336	0	3 413 303	788 757	23 192 650
Military Veterans	134 447	291 780	0	442 873	25 604	894 704
Office of the Chief Justice	1 812 328	372 119	0	136 369	108 418	2 429 234
Police	79 795 136	17 340 461	0	1 267 160	3 734 899	102 137 656
Agriculture, Land Reform and Rural Development	3 803 430	3 622 711	0	9 314 498	513 709	17 254 348
Communications and Digital Technologies	302 042	1 545 986	0	1 653 275	10 882	3 512 185
Employment and Labour	1 410 904	718 242	0	1 853 177	109 902	4 092 225
Forestry, Fisheries and the Environment	1 956 117	4 677 758	46 200	2 826 907	366 584	9 873 566
Human Settlements	415 003	539 373	0	33 460 598	527 427	34 942 401
Mineral Resources and Energy	1 066 567	1 076 824	0	8 543 464	14 363	10 701 218
Science and Innovation	370 517	207 452	0	10 285 840	10 412	10 874 221
Small Business Development	225 116	118 355	0	2 226 364	4 944	2 574 779
Sport, Arts and Culture	385 269	613 684	0	5 072 729	286 001	6 357 683
Tourism	374 463	564 512	0	1 581 786	3 483	2 524 244
Trade, Industry and Competition	1 066 140	679 203	0	9 161 515	15 689	10 922 547
Transport	547 528	1 116 540	0	77 894 899	6 044	79 565 011
Water and Sanitation	1 790 160	1 755 157	0	14 061 490	4 650 499	22 257 306
Total amounts to be appropriated from the NRF	183 566 058	83 276 042	340 693 779	1 400 170 713	18 401 162	2 028 075 402

Source: National Treasury

Possible risks to the 2023 Appropriations

Total appropriations per vote for compensation of employees

Contingent liabilities

Support for SOEs

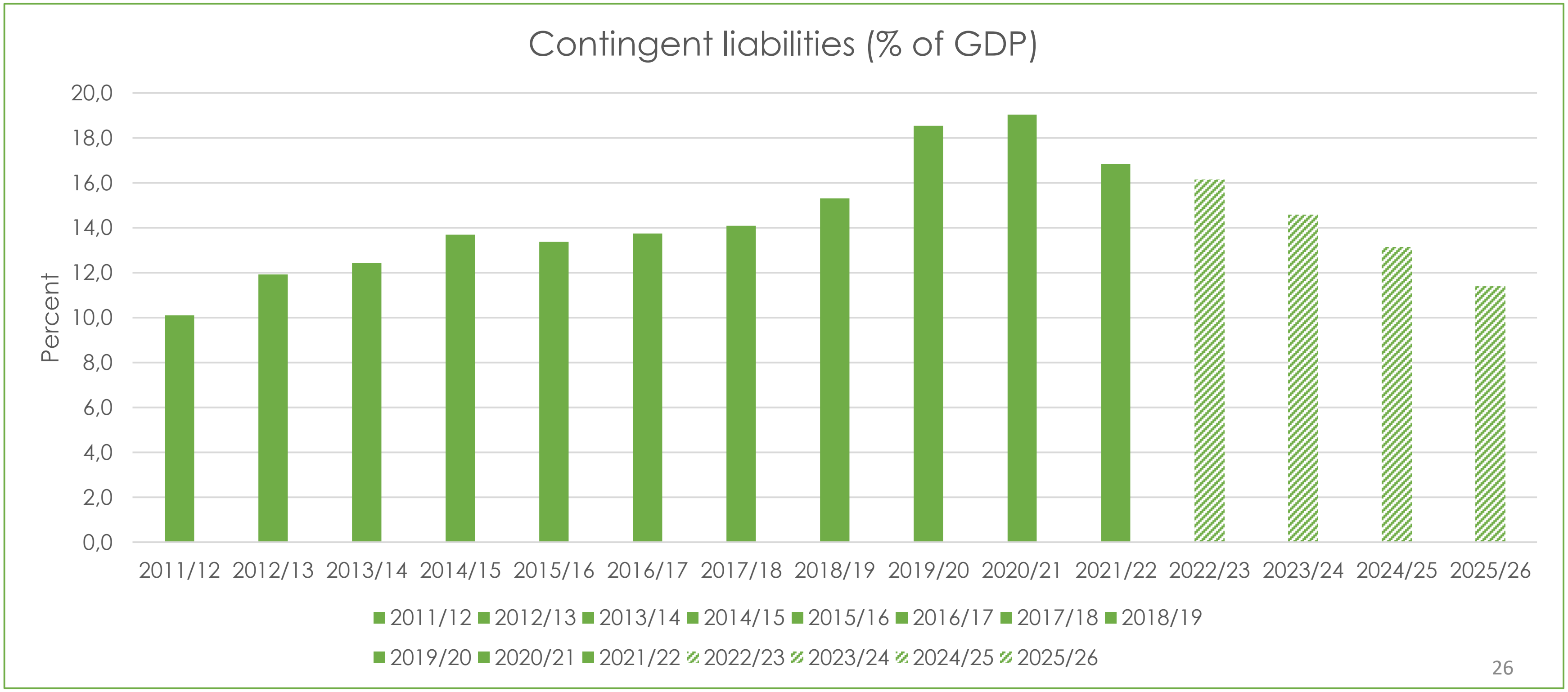
Spending pressures: Unfunded COE in National departments

R million	Main Budget 2022/23	Revised estimate	Medium-term expenditure estimate 2023/24	Difference between revised estimate for 2022/23 and 2023/24	Average expenditure growth rate (%) 2019/20 - 2025/26
1 The Presidency	382.0	353.5	390.9	37.5	3.9%
5 Home Affairs	3 883.9	4 265.1	3 958.1	-307.1	0.7%
6 International Relations and Coope	2 859.8	3 025.6	3 006.9	-18.7	0.3%
8 National Treasury	888.4	860.2	920.0	**59.8**	3.2%
13 Public Works and Infrastructure	581.2	549.2	587.6	**38.4**	4.1%
14 Statistics South Africa	1 627.0	1 745.0	1 648.5	-96.5	2.6%
17 Higher Education and Training	10 775.6	10 467.2	11 180.1	**712.9**	4.5%
18 Health	787.3	811.7	682.1	-129.6	-1.8%
22 Correctional Services	17 871.7	18 010.0	17 361.5	-648.5	1.8%
23 Defence	30 679.6	31 786.4	30 629.3	-1 157.1	0.7%
25 Justice and Constitutional Develop	12 783.7	13 161.7	12 939.3	-222.5	3.7%
27 Office of the Chief Justice	1 768.6	1 945.7	1 812.3	-133.4	2.5%
28 Police	79 137.4	81 028.8	79 795.1	-1 233.7	2.9%
29 Agriculture, Land Reform and Rura	4 078.8	4 294.8	3 803.4	-491.4	1.2%
30 Communications and Digital Tech	302.9	271.4	302.0	**30.6**	3.6%
32 Forestry, Fisheries and the Environm	1 946.0	2 010.5	1 956.1	-54.4	1.3%
36 Small Business Development	190.0	159.8	225.1	**65.3**	11.5%
40 Transport	542.6	558.4	547.5	-10.9	3.8%
41 Water and Sanitation	1 836.4	1 836.4	1 790.2	-46.3	2.5%
Total	**182 821.2**	**187 123.5**	**183 566.1**	**-3 557.4**	**2.4%**

- Annual average personnel growth rate: between -1.8 per cent and 11.5 per cent
- Several departments show a reduction in the allocation between the 2022/23 revised estimate and the 2023/24 estimate
- Home Affairs and Health show a reduction in personnel numbers as well as an reduction in the expenditure estimates between 2022/23 and 2023/24
- Correctional Services and Defence show an increase in the numbers but a decrease in the expenditure between 2022/23 and 2023/24
- Police shows the increase of 5 000 police trainees, but a reduction in the expenditure
- ? Credibility of COE budgets

Contingent liabilities

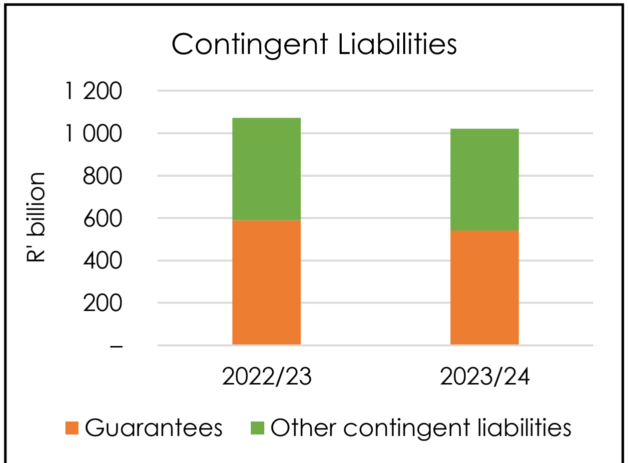
- Contingent liabilities are set to decline from R1.07 trillion (16.1% of GDP) in 2022/23 to R904.1 billion (11.4% of GDP) in 2025/26
- This reduction is expected primarily due to government's debt relief to Eskom and the related arrangements over the next 3 years
- Many SOEs remain unable to adequately fund their operations and debt obligations, and are even less able to optimally invest in infrastructure.
- Critical that government monitors and updates contingent liabilities



Contingent liabilities (cont.)

- Guarantees to SOEs, including the Road Accident Fund, amounts to 88 per cent of the total contingent liabilities
- The Road Accident Fund guarantee is set to increase to R371.7 billion by 2025/26 from R99.2 billion in 2015/16
- Risks from independent power producers present a low risk to public finances and exposure is expected to decrease from R187.1 in 2022/23 to R134 billion in 2025/26.
- Contingent liability exposure from public-private partnerships arises mainly from early termination of contracts. Exposure is expected to decline from R7.1 in 2022/23 to R2.9 billion in 2025/26.
- Imperative to improved management of SOEs to profitability and self-sufficiency as listed under Schedule 2 of the Public Finance Management Act (1999) and Presidential interventions

Contingent liabilities	BR 2022	BR 2023	
	Share of total 2022/23	Share of total 2022/23	Share of total 2023/24
Eskom	28%	31.5%	30.7%
Independent power producers	13%	17.4%	16.7%
South African National Road Agency	4%	2.7%	2.4%
Road Accident Fund	40%	33.1%	34.6%
Other guarantees	4%	3.4%	3.3%
Other contingent liabilities	10%	12.0%	12.4%



Government guarantees and bailouts

- The total issued guarantees declined from R581.6 billion in 2020/21 to a projected R478.5 billion as at 31 March 2023.
- The government's exposure to Eskom's debt increased as the utility drew down on its guarantees. Eskom accounts for 85.3 per cent of total exposure.
- The Eskom guarantee is projected to decline by R118.9 billion by the end of 2025/26.
- Government has granted R331.2 billion in recapitalisations over the period 2013/14 to 2022/23. Eskom accounts for 55 per cent of the total of these recapitalisations.

R billion	**2020/21**		**2021/22**		**2022/23**	
	Guarantee	**Exposure**	**Guarantee**	**Exposure**	**Guarantee**	**Exposure**
Public institutions	**581.6**	**384.7**	**559.9**	**395.3**	**478.5**	**396.1**
of which:						
Eskom	*350.0*	*298.3*	*350.0*	*313.0*	*350.0*	*337.8*
SANRAL	*37.9*	*37.4*	*37.9*	*42.0*	*37.9*	*28.6*
Trans-Caledon Tunnel Authority	*43.0*	*13.2*	*25.0*	*9.6*	*25.0*	*8.7*
South African Airways	*19.1*	*6.7*	*19.1*	*2.8*	*19.1*	*0.3*
Land and Agricultural Bank of South Africa	*9.6*	*2.4*	*9.6*	*1.9*	*8.1*	*0.4*
Development Bank of Southern Africa	*10.0*	*4.9*	*9.9*	*5.2*	*9.9*	*5.5*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*6.9*	*3.4*	*3.4*	*3.5*	*3.4*	*0.3*
South African Express	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Industrial Development Corporation	*0.5*	*0.1*	*0.5*	*0.1*	*0.5*	*0.1*
South African Reserve Bank	*100.0*	*13.7*	*100.0*	*12.8*	*20.0*	*10.0*
Independent power producers	**200.2**	**176.7**	**200.2**	**165.7**	**208.5**	**187.1**
Public-private partnerships	**8.0**	**8.0**	**7.9**	**7.9**	**7.1**	**7.1**

Historical SOEs Bailouts		
2013/14 - 2022/23 (R'ml)		
SOE	**2013/14**	**2022/23 (Total)**
Eskom	*-*	*181 550.0*
SAA	*-*	*48 400.0*
SANRAL	*-*	*23 736.0*
SASRIA	*-*	*22 000.0*
Land Bank	*300.0*	*13 563.0*
SAPO	*205.0*	*10 392.0*
Denel	*-*	*8 994.0*
DBSA	*2 400.0*	*7 912.0*
Transnet	*-*	*5 837.0*
SA Express	*-*	*3 296.0*
SABC	*-*	*3 200.0*
ACSA	*-*	*2 325.0*
TOTAL	**2 905.0**	**331 205.0**

Eskom

Debt Relief Bill

The Eskom Debt Relief Act, 2023

- The National Treasury indicated that "The current approach of providing R230 billion over 10 years does not sufficiently address Eskom's underlying solvency or liquidity challenges." (The R230 billion over 10 years was announced in the 2019 Budget Speech)
- The goal of the Act, including R254 billion in debt relief and conditions for conversion of the loan into equity, is to support security of electricity supply
- This increased debt relief is expected to strengthen Eskom's balance sheet so that it can both restructure and undertake required investment and maintenance
- The debt relief will cover Eskom's full debt settlement requirement over the next three years in the form of annual advances of:
    - R78 billion in 2023/24
    - R66 billion in 2024/25 and
    - R40 billion in 2025/26
- The government will also directly assume up to R70 billion of Eskom's loan portfolio in 2025/26

The Eskom Debt Relief Act, 2023

- The debt relief will be financed through the R66 billion medium-term expenditure framework (MTEF) baseline provision announced in the 2019 Budget, and R118 billion in additional borrowing over the MTEF period
- Some of the NT's considerations for providing this new debt relief to Eskom:
  - Eskom's internally generated cash flows are insufficient to service its debt
  - Risk of default on contingent liabilities of R350 billion of Eskom guaranteed debt increases South Africa's risk premium and borrowing costs
  - Addressing the debt effectively will enable much-needed investment in critical transmission and other infrastructure, and proper maintenance of plant and equipment
- The NT reports that it has worked with Eskom to develop financial models covering various debt relief scenarios that considered debt relief levels that take into account Eskom's long-term financial position, including tariffs, operational efficiencies, disposal of non-core assets, capital investment and maintenance requirements
- According to the NT, the modelling exercise included an assessment of financial benchmarks that would enable Eskom to operate sustainably, without continued transfers from the national budget

The Eskom Debt Relief Act, 2023

- The debt relief is provided in the form of three interest free subordinated loans that are provided to Eskom annually when its interest and redemptions payments are due
- The Act has arrangements that allow the Minister of Finance (MoF) or an employee of the NT delegated by the MoF the ability discipline Eskom to ensure compliance with the conditions attached to the debt relief
- Eskom would be allowed to repay this debt not in cash but with newly issued shares if the MoF is satisfied that Eskom has complied with the conditions
- The Eskom Conversion Act of 2001 converted Eskom into a public company with its entire share capital owned by the State. Any new shares issued by Eskom and dividends paid to government as part of the debt relief will be added to the current stock of Eskom shares owned by the State
- This conversion of government loans to equity had also occurred in 2014 when the Cabinet approved converting to equity the government's R60 billion subordinated loan approved by Parliament in 2008 (to support Eskom's capital expenditure programme)
- The 2023 Eskom Debt Relief Act requires Eskom to adhere to the conditions attached to the loan within three years of the first advance or 1 April 2023 (whichever comes earlier)
- The National Treasury, the Department of Public Enterprises and Eskom are required to hold quarterly meetings to discuss Eskom's progress with achieving the conditions and
- If Eskom is found to be in breach then Eskom will have to repay the loan amount for that quarter into the National Revenue Fund at market rates
- If Eskom has to repay the loan in cash for a certain quarter, the government will meet Eskom before repayment of the loan to rectify non-compliance
- The NT stated that it will be publish further terms and conditions of the loan by 31 March 2023

The Eskom Debt Relief Act, 2023

- The W3 Appendix to the 2023 BR states that the 2023 debt relief has the following conditions:
  - **Eskom's capital expenditure is restricted to transmission and distribution**. The only capital expenditure that may be undertaken for generation relates to minimum emissions standards, flue-gas desulfurisation and required maintenance. No other greenfield generation projects will be allowed during the debt-relief period.
  - **Eskom may not use proceeds from the sale of non-core assets for capital and operating needs**. All proceeds from the sale of non-core assets, including the Eskom Finance Corporation and any property sales, will be used for the debt-relief arrangement.
  - **No new borrowing will be allowed** from 1 April 2023 until the end of the debt-relief period, unless written permission is granted by the Minister of Finance.
  - **Eskom's guarantee framework agreement** for the R350 billion facility (which expires at the end of March 2023) **will reduce** in line with National Treasury recommendations.
  - **Positive equity balances in Eskom's derivative contracts** (swaps/hedges) **cannot be used to structure new debt or loan agreements** without the approval of the National Treasury. Nor can any such balance be used as "margin financing" for another derivative contract or derivative overlays.
  - **The debt relief can only be used to settle debt and interest payments**.
  - **Eskom may not implement remuneration adjustments that negatively affect** its overall **financial position** and sustainability.

Concerns about the Eskom Debt Relief Act, 2023

- In Appendix W3 of the 2023 BR, the National Treasury states that it "recognises that debt relief alone will not return the utility to financial sustainability"
- According to the NT, "A key assumption considered in the debt-relief determination is the implementation of the recent tariff increase approved by the regulator (18.65 per cent in 2023/24 and 12.74 per cent in 2024/25). Without these increases, the debt-relief arrangement is not sustainable."
- The NT also mentions efforts to resolve the outstanding municipal debt, which has grown to R56.3 billion as at 31 December 2022
- The NT issued a circular to municipalities with conditions to be met before Eskom could write-off about R70 billion worth of municipal debt. They will have to commit to cutting off non-paying electricity users, maintaining an 80 per cent electricity revenue collection rate, tabling a "reasonable budget" and regularly paying their Eskom bills
- This plan poses some degree of execution risk because it requires:
  - Significant political will to implement, particularly from provinces and municipal councils tasked with oversight
  - A meaningful take-up by historically recalcitrant municipalities who need to agree to participate in the plan
  - Behavioural change from households, businesses and municipalities
  - Some municipalities may require investment in additional capacity to collect (i.e., in staff, systems, etc.)

Concerns about the Eskom Debt Relief Act, 2023

- While the NT acknowledges its assumption about the recent tariff increase, fail to state its other assumptions that will affect Eskom's operational and financial performance, for example its assumptions about the amount of electricity that Eskom would be able to produce and sell
- The Eskom debt relief bill outlines the intention of a debt takeover arrangement of R70 billion for the 2025/26 financial year, as direct charge against the National Revenue Fund. However, given the complexity of Eskom's debt to many bondholders and numerous loan terms, maturities and conditions, the NT should clarify the process by which the government will directly take over the R70 billion in 2025/26
- The Act seems to preempt the proposals that the new Minister of Electricity will make to the cabinet
- The conditions of the Act, particularly those that limit capital expenditure while empowering the MoF with regard to managing Eskom's debt, may impinge on policymaking and actions of other ministers, particularly the Ministers of Public Enterprises, Mineral Resources and Energy and the Minister of Electricity
- A general concern is that this debt relief (while needed to avoid debt defaults by Eskom) is being implemented in the absence of a larger government vision and plan not only for the future of Eskom but the South African electricity industry as a whole

Eskom's Financial statements

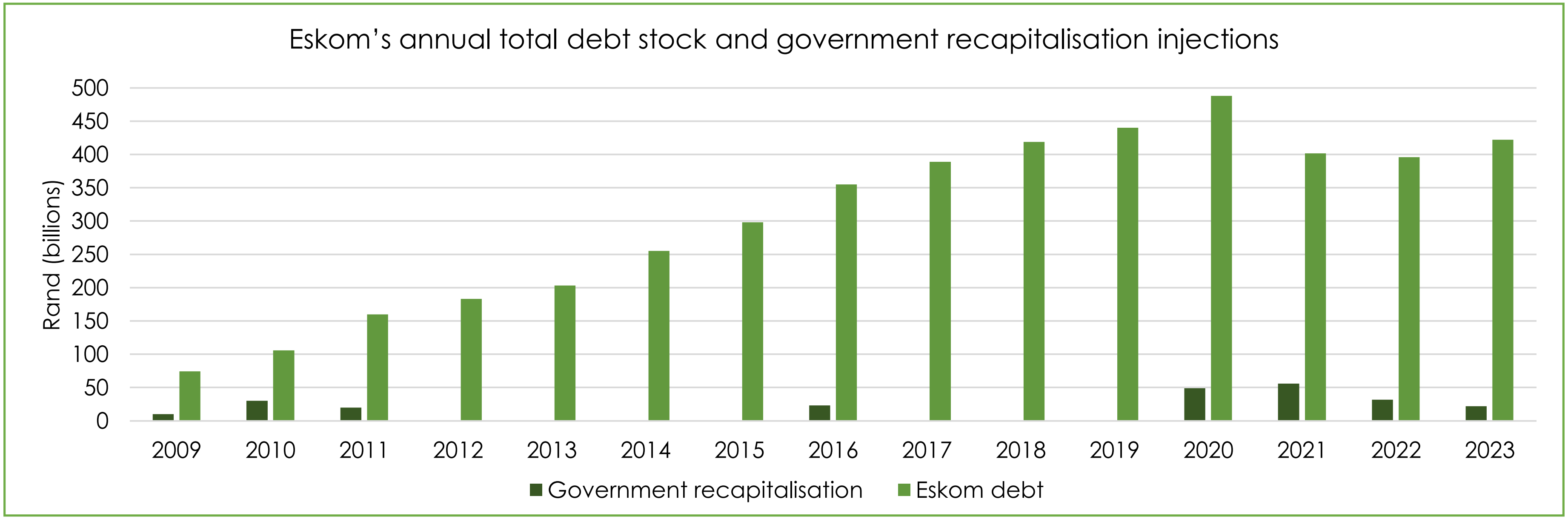
Snapshot of Eskom statistics		
Year	**2008**	**2022**
Revenue	R44.4 billion	R246.5 billion
Electricity Price	R19.45 per kWh	R127.32 per kWh
Electricity sales volume	224 366 GWh	198 281GWh
Primary energy cost	R18.3 billion	R132.4 billion
Staff costs	R11.4 billion	R33 billion
Energy availability factor	84,85 per cent	62.02 per cent
Non-payment of debt to Eskom	*	R44.8 billion
Total debt	R74 billion	R396.3 billion
Net Finance cost	R1.8 billion	R33 billion
Profit/ (loss) after tax after tax	**R377 million**	**(R12,3 billion)**

Source: PBO based on Eskom annual financial statements
* Data not found

- Generation capacity has increased by 4 108 MW since 2008
- Eskom has not been able to secure sufficient resources to cover operating, maintenance, debt-service costs and investment over the last two decades
- Eskom's profitability has declined since 2008 when load shedding was first introduced
- While revenue has increased for the entity, it has experienced lower profit margins
- Revenue increases have been a result of significant increases in the electricity price
- In 2022, Eskom sold less electricity (198 281 GWh) than it did in 2008 (224 366 GWh)
- In 2008, Eskom made a profit of R377 million after tax. In 2022, it made a loss of R12.3 billion (however, the profit rate would be positive before depreciation and amortisation of R32bn)

Lessons from government support of Eskom's: debt and relief

- Solutions that involve inadequate financial transfers from the fiscus will lead to larger problems and larger bailouts in the future
- Fiscal consolidation and chasing budget surpluses when there are huge financing requirements for infrastructure and social security are unrealistic fiscal policies
- Important to note that "[r]ecapitalisations were granted for the implementation of turnaround plans, to repay debt/government guarantees, improve liquidity and for capital expenditure" (National Treasury, 2023)
- At the same time, Eskom has had to make substantial new investments while facing large increases in primary energy and other costs
- Immediate and decisive actions are required from the government to prevent mismanagement and corruption in SOEs from causing economy-wide damage



Note: 2023 debt based on December 2022 data

Source: Eskom financial statements, National Treasury

In summary

- Global growth forecasts show slightly improved growth expectations for 2023, however, there is a broad-based downturn and much uncertainty in the global economy
- Since the tabling of the 2023 Appropriation Bill, GDP growth has been adjusted downwards due to several constraints
- Estimates by the SARB and IMF for 2023 growth indicate that the economy is barely growing (and that expected GDP per capita is negative)
- The 2023 Budget remains anchored on three pillars, which all link to the Presidential priority to restructure government to improve efficiency
- Total per vote as per the 2023 Appropriations Bill amounts to R1 077 billion
- Direct charges amounts to R950.6 billion, which mainly includes:
  - Provincial Equitable Share (PES)
  - Debt-service cost
- Total to be Appropriated as per the Estimates of National Expenditure: R2 028 billion
- Contingent liabilities remains a risk to the 2023 allocations due to many SOEs' ability to adequately fund their operations and debt obligations
- The goal of the Eskom Debt Relief Bill is to provide for R254 billion in debt relief and conditions for the conversion of a loan into equity
- The debt relief will cover Eskom's full debt settlement requirement over the next three years in the form of annual advances

In summary

- Different Ministers responsible for electricity or energy should always make a joint comment public statements or account together to Parliament and/or the public with regard to short and medium term plans now that the Cabinet has heard the Electricity Ministers presentation.
- In this way perception of mixed messages can be avoided, as these that has caused confusion and the Minister of Finance's approach with regard to Eskom's finances also seems to be at odds with the different views from Ministers.
- The Minister of Electricity is correct that the problems of Eskom go beyond Eskom's finances that they have major implications for the economy. Therefore, the Eskom Relief Act, which is focused on putting Eskom on a better financial position over the next 3 years maybe be insufficient approach at this time.
- Even in NT says that the conditions with regard to the loans apply for only 3 years – given the long period that the economy has suffered with load shedding (and the poor recovery and very low growth trajectory we face) 3 years may be too long
- The Eskom's challenges and its implications for the broader economy must be addressed now. We had a state of disaster declared for this exact risk (reason). Perhaps it should be reinstated because the situation has not improved.
- Irrespective of whether one agrees with the recommendations by the Minister of Electricity about fixing the old power stations, he is correct about the need for the government to use fiscus to help Eskom improve the availability of electricity and to reduce and stop load shedding.
- The approach by the NT to focus on the Eskom's finances while trying to maintain their fiscal consolidation stance and achieving a budget surplus over the MTEF puts the whole economy's performance, which is forecast to be very poor over the MTEF, at further risk.

Thank You

Additional slides

Global financial instability add to risks

Global financial instability add to risks

- The increases in interest rates in the US and Europe since 2022 have caused money to flow out of developing countries and increased hardship around the world
- In early March 2023 the US Fed announced that they would continue to increase interest rates over a longer period
- The response in US bond markets was increased trade in bonds, which resulted in the yield on US Treasury Bonds increasing to over 5 per cent - the highest since 2007
- When bond yields rise the price of bonds fall
- US Bond yields rose because traders expect rising interest rates to trigger a recession
- The US Fed seemed to have failed to take into account the impact of their interest rate increases on the levels of risk in the US banking system
- Rising interest rates and bond yields led to a run on Silicon Valley Bank (SVB), the 16th largest US bank (based on assets on 31 Dec. 2022) that forced it to close on 10 March
- Rising bond yields reduced the value of the bonds held by SBV below the value of the deposits in the bank
- The run on the bank was by the nearly 90 per cent of SBV depositors who had deposits larger than the US$250 000 limit covered by the Federal Deposit Insurance Agency
- A large number of these depositors held money in SBV to be able to pay their workers
- It was the second largest bank failure in the history of the USA and the largest since the global financial crisis of 2008. The next day Signature Bank had a run and was closed
- More uncertainty of higher interest rates and financial instability increases global risks

Risks: State Owned Enterprises

- The financial position of major state-owned companies remains under pressure
- The materialisation of contingent liabilities at state-owned companies could increase funding needs and associated costs
- Continuous delay and underspending on infrastructure projects hampers capital investment
  - In 2020/21, most of these companies deferred their capital investment projects to preserve cash in order to meet short-term obligations.
  - These deferrals resulted in a 6.2 per cent decline in their consolidated asset base
- Energy crisis and Eskom's and Transnet's operational and financial weaknesses remains a risks to consistently weaker growth and revenues
  - The government debt relief to Eskom is a step to a right direction in addressing Eskom's crises
  - However, more need to be done in terms of incapacities and corruption, developing sectorial plans and reconfiguring how SOEs operates
- The IMF warned the country that;
  - Economic growth is hampered by a lower productivity and private investment of inefficient SOEs.
  - Inefficient SOEs places a heavy burden on the fiscus as public resources are diverted away other social and infrastructure expenditure priorities.
  - Improving spending efficiency would facilitate fiscal adjustment and reduce the negative short-term effects of fiscal consolidation on growth.
  - In the long run, it will maximize the return on capital and social spending, especially when combined with structural reforms to boost private sector investment.
  - High public debt leaves limited fiscal space to respond to adverse shocks including materialization of contingent liabilities