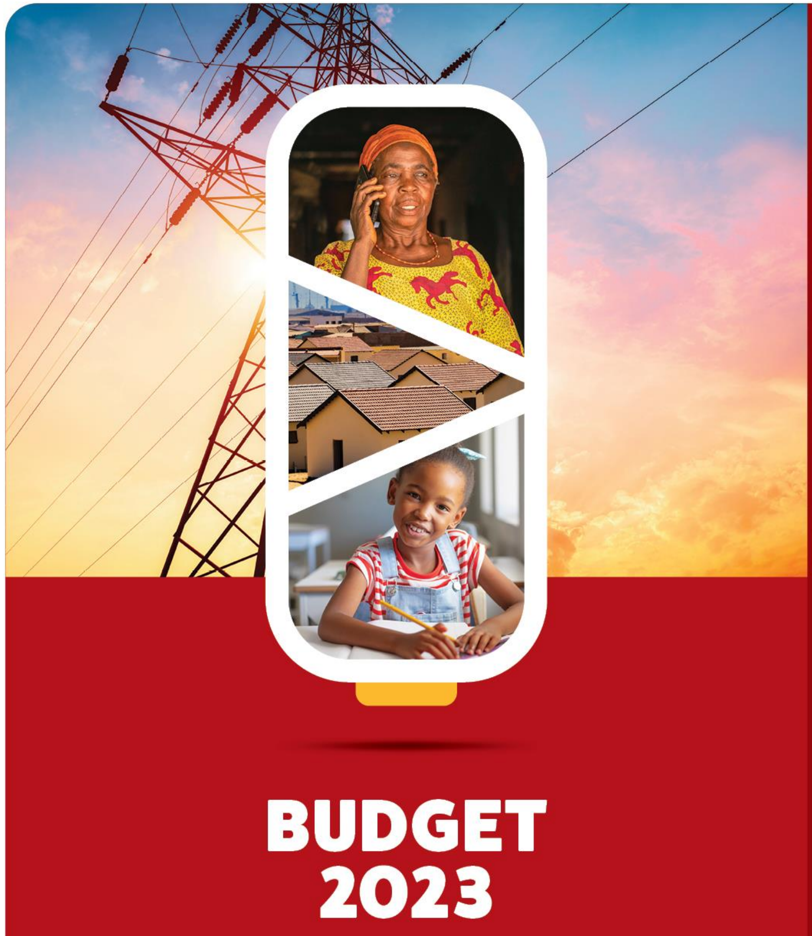

NAVIGATING AN UNEVEN ECONOMIC RECOVERY

February 2023

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2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

BUDGET
2023

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OVERVIEW

- South Africa is prioritising stable and clear policies that promote economic growth and fiscal health in the midst of an uncertain outlook.
- The economy is estimated to have grown by an upwardly revised 2.5 per cent in 2022. However, the growth rate for 2023 is revised downward to 0.9 per cent.
- Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Other reforms are under way to improve performance in the transport sector, in particular freight rail.
- The 2023 Budget proposes a major debt-relief arrangement for Eskom to address its persistently weak financial position and enable it to conduct the necessary investment and maintenance.
- Fiscal consolidation measures have positioned the public finances to absorb a portion of Eskom debt, maintain support for the economy and the most vulnerable, and make budget additions to fight crime and corruption.
- The fiscal strategy ensures that the social wage is protected and fiscal balance is restored without resorting to unsustainable borrowing and damaging tax increases.
- A primary surplus is achieved in 2022/23 and the consolidated deficit is projected to narrow at a faster rate than previously estimated, to 3.2 per cent of GDP in 2025/26.
- Government debt is projected to stabilise at 73.6 per cent of GDP in 2025/26.

BUDGET 2023

GLOBAL ECONOMIC OUTLOOK

- Growth in some of the world's largest economies is set to slow in 2023, with Europe and the United States showing signs of weakening activity. China's manufacturing activity was adversely affected by its zero-COVID policy, and the removal will support a gradual rebound in activity this year.
- Many countries are countering the effects of high inflation through increased interest rates and while headline inflation seems to have peaked in many countries, it remains high.
- A number of global risks remain, implying the need for stronger domestic demand to support economic growth.

Economic growth in selected countries

Region/country	2021	2022	2023	2024
Percentage	Actual	Estimate	Forecast	
World	**6,2**	**3,4**	**2,9**	**3,1**
Advanced economies	**5,4**	**2,7**	**1,2**	**1,4**
United States	5,9	2,0	1,4	1,0
Euro area	5,3	3,5	0,7	1,6
United Kingdom	7,6	4,1	-0,6	0,9
Japan	2,1	1,4	1,8	0,9
Emerging and developing countries	**6,7**	**3,9**	**4,0**	**4,2**
Brazil	5,0	3,1	1,2	1,5
Russia	4,7	-2,2	0,3	2,1
India	8,7	6,8	6,1	6,8
China	8,4	3,0	5,2	4,5
Sub-Saharan Africa	**4,7**	**3,8**	**3,8**	**4,1**
Nigeria	3,6	3,0	3,2	2,9
South Africa[1]	4,9	2,5	0,9	1,5
World trade volumes	**10,4**	**5,4**	**2,4**	**3,4**

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2023

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DOMESTIC ECONOMIC OUTLOOK

Macroeconomic performance and projections

Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Final household consumption	1,2	-5,9	5,6	2,8	1,0	1,5	1,8
Final government consumption	2,1	0,8	0,6	0,3	-2,2	0,4	0,0
Gross fixed-capital formation	-2,1	-14,6	0,2	4,2	1,3	3,8	3,5
Gross domestic expenditure	1,4	-8,0	4,8	3,8	0,9	1,5	1,8
Exports	-3,4	-11,9	10,0	8,8	1,0	2,2	2,9
Imports	0,4	-17,4	9,5	14,0	1,1	2,3	2,9
Real GDP growth	**0,3**	**-6,3**	**4,9**	**2,5**	**0,9**	**1,5**	**1,8**
GDP inflation	4,6	5,7	6,2	4,0	3,5	4,9	4,6
GDP at current prices (R billion)	**5 613,7**	**5 556,9**	**6 192,5**	**6 597,6**	**6 894,8**	**7 338,3**	**7 814,5**
CPI inflation	4,1	3,3	4,5	6,9	5,3	4,9	4,7
Current account balance (% of GDP)	-2,6	2,0	3,7	-0,4	-1,8	-2,0	-2,1

Sources: National Treasury, Reserve Bank and Statistics South Africa

- South Africa is expected to register better-than-expected GDP growth of 2.5 per cent in 2022, largely due to higher-than-expected agriculture and services sector growth in the third quarter.
- Real GDP growth is now projected to average 1.4 per cent from 2023 to 2025, compared with 1.6 per cent in the 2022 MTBPS, as a result of persistent structural constraints especially power cuts, and a less supportive global environment.
- Although output has recovered to pre-pandemic levels, the persistent scarring impact of the pandemic on employment and investment decisions continues to weigh on the recovery.

BUDGET 2023

RISKS TO THE ECONOMIC OUTLOOK REMAIN ELEVATED

Risks to the global outlook include:

- Weaker-than-expected global growth, including the effects of monetary policy tightening in major economies.
- Further disruptions to global supply chains, renewed inflationary pressures, and constrained food and energy supplies stemming from the war in Ukraine.
- A sustained period of lower growth and elevated borrowing costs, which poses a threat to highly indebted countries.

The domestic outlook faces a range of risks, and include:

- Continued power cuts and a deterioration in port and rail infrastructure.
- Slow implementation of structural reforms could lower business confidence and deter new investment.
- Widespread criminal activity poses a threat to economic growth and national security.
- 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.

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ENHANCING ECONOMIC GROWTH

- Higher economic growth and a durable recovery in economic activity require a stable macroeconomic framework, complemented by rapid implementation of economic reforms and improved state capability.
- Government continues to provide a stable macroeconomic policy framework, underpinned by a flexible exchange rate, inflation targeting and sustainable fiscal policy, to encourage investment.
- Numerous reforms under way through Operation Vulindlela and the economic recovery plan. However, the most pressing reforms are required in electricity and freight rail.
- Implementing urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. NECOM interventions include:
  - Improving Eskom's plant performance.
  - Clearing regulatory obstacles by establishing a one-stop shop to bring electricity onto the grid more rapidly. This will be supported by the Energy Security Bill, which removes regulatory impediments for independent power producers.
  - Supporting the rollout of rooftop solar for households and businesses, including through tax incentives.
  - Implementing a wheeling framework and grid capacity rules to provide certainty to private producers investing in energy projects.

BUDGET 2023

ENHANCING ECONOMIC GROWTH (CONT.)

- Several reforms are under way to support recovery in the transport sector, arrest the decline and increase the volume of freight rail. These include:
    - The Economic Regulation of Transport Bill, which will establish the transport regulator, has been tabled in Parliament and is now with the National Council of Provinces.
    - Software upgrades to increase efficiency through better signaling.
    - Steps to prevent theft and vandalism and resolving legal challenges in relation to locomotive procurement.
    - Granting third-party access to the rail network.
    - To facilitate competition and improve pricing, the operations and infrastructure management functions of Transnet Freight Rail are due to be separated by October 2023.
- The 2023 Budget makes allocations towards infrastructure as well as crime and corruption, to ensure that public resources are used to lay the foundation for a more resilient economy.

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BUDGET 2023

MEDIUM-TERM FISCAL STRATEGY

The medium-term fiscal strategy aims to:

- Achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
- Support economic growth by maintaining a sustainable fiscal stance and directing resources towards infrastructure and other key policy priorities.
- Reduce fiscal and economic risks, including through building fiscal buffers for future shocks, providing targeted conditional in-year support to key public entities and providing debt relief to Eskom with strict conditions.

The fiscal strategy also avoids tax rate increases that would overburden households and firms during a slow and uneven economic recovery and makes targeted injections to spending.

- Tax relief of R13 billion is proposed. Tax measures also promote clean energy transition.
- Vulnerable households continue to receive support — 60.2 per cent of consolidated non-interest spending goes to the social wage over the 2023 MTEF period.
- Key baselines for the delivery of services are gradually being restored, without making unaffordable permanent commitments.

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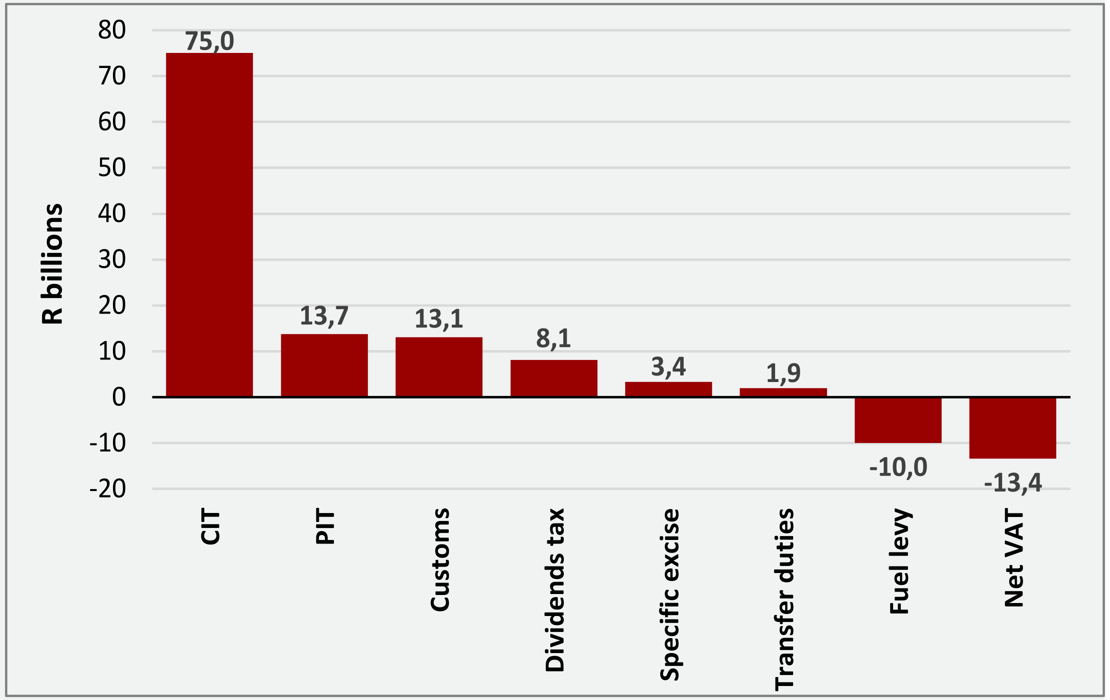
IN-YEAR REVENUE OUTLOOK

- A more broad-based corporate tax recovery improves the near-term revenue outlook; despite softening commodity prices, which remain historically high.
- Growth in corporate tax collections has been driven by financial and manufacturing firms.
- Compared to the 2022 Budget, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher.
- Despite intensifying loadshedding and weaker global economic conditions, most major tax bases grew positively, as income and profits proved more resilient than anticipated.
- A portion of the revenue improvement is also due to improved tax compliance and tax administration.

Gross tax revenue estimates compared to the 2022 Budget



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BUDGET 2023

TAX PROPOSALS

Impact of tax proposals on 2023/24 revenue[1]

R million		Effect of tax proposals
Gross tax revenue (before tax proposals)		**1 800 456**
Budget 2023/24 proposals		**-13 000**
Direct taxes		**-9 000**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*15 700*	
Increase in brackets and rebates by inflation	*-15 700*	
Rooftop solar tax incentive for individuals	-4 000	
Corporate income tax		
Expansion of section 12B - renewable energy incentive	-5 000	
Indirect taxes		**-4 000**
Fuel levy		
Not adjusting the general fuel levy	-4 000	
Specific excise duties		
Increasing excise duties on alcohol by inflation	–	
Increasing excise duties on tobacco by inflation	–	
Gross tax revenue (after tax proposals)		**1 787 456**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

Source: National Treasury

- The 2023 Budget provides tax relief totalling R13 billion
- It support the clean energy transition, and increasing electri city supply
- Cushion the impact of consistently high fuel prices

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MEDIUM-TERM REVENUE OUTLOOK

Revised gross tax revenue projections

R billion	2021/22[1]	2022/23	2023/24	2024/25	2025/26
Revised estimate	**1 563,8**	**1 692,2**	**1 787,5**	**1 907,7**	**2 043,5**
Buoyancy	*2,07*	*1,42*	*1,06*	*1,06*	*1,09*
2022 MTBPS	**1 563,8**	**1 681,9**	**1 788,9**	**1 907,3**	**2 036,5**
Buoyancy	*2,07*	*1,30*	*1,03*	*1,00*	*1,06*
2022 Budget	**1 547,1**	**1 598,4**	**1 694,3**	**1 807,6**	
Buoyancy	*1,93*	*1,09*	*1,06*	*1,06*	
Projected improvement against 2022 MTBPS	–	10,3	-1,4	0,4	7,0
Projected improvement against 2022 Budget	16,7	93,7	93,2	100,1	

1. Actual outcome
Source: National Treasury

- A projected revenue surplus for 2022/23 translates into marginally better revenue estimates over the medium term.
- The tax-to-GDP ratio is expected to reach 25.7 per cent by 2025/26 despite a weaker medium-term growth outlook, and tax relief of R13 billion proposed in this Budget.
- Higher revenue collection requires sustained investment and economic growth.

BUDGET 2023

IN-YEAR EXPENDITURE ADJUSTMENTS SINCE THE 2022 BUDGET

- In-year non-interest expenditure increases by a net R23.4 billion as upward adjustments are partially offset by declared unspent funds, projected underspending, shifting of funds between votes and drawdowns of contingency reserve and provisional allocations not assigned to votes.
- Conditional in-year allocations to Denel, the South African National Roads Agency Limited and Transnet will reduce contingent liabilities and enable these entities to continue supporting economic growth.
- Further proposed in-year allocations of:
  - R1 billion to SAA to assist the business rescue process
  - R2.4 billion to SAPO to implement its turnaround plan will reduce contingent liabilities.
  - R5 billion is allocated as announced in the 2022 Budget towards the Land Bank from funds retained in the contingency reserve for this purpose.

Revisions to 2022/23 non-interest expenditure since 2022 Budget

R million	2022/23
Non-interest expenditure (2022 Budget)	**1 673 450**
Upward expenditure adjustments	**77 419**
2022 MTBPS	54 117
Special appropriation [1]	*30 014*
Other allocations in the AENE [2]	*24 102*
Second adjustments appropriation	23 302
South African Airways	*1 000*
South African Post Office	*2 400*
2022/23 public-service wage increase	*14 602*
Political parties fund	*300*
Land Bank section 6 provision	*5 000*
Downward expenditure adjustments	**-54 039**
Projected underspending	*-19 427*
Other downward adjustments [3]	*-34 613*
Revised non-interest expenditure (2023 Budget)	**1 696 829**
Change in non-interest expenditure from 2022 Budget	**23 379**

1. The entities receiving the allocations are Transnet, SANRAL and Denel

2. 2022 Adjusted Estimates of National Expenditure including self-financing expenditure and expenditure earmarked in the 2022 Budget for future allocation

3. Includes declared unspent funds, shift of funds between votes, and drawdowns to provisional allocations not assigned to votes and contingency reserve

Source: National Treasury

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BUDGET 2023

CHANGES TO MEDIUM-TERM MAIN BUDGET NON-INTEREST EXPENDITURE SINCE 2022 BUDGET

- The following are proposed revisions to main budget non-interest spending over the MTEF period compared with the 2022 Budget.
  - Additional funding amounting to R227 billion will be provided to address a range of spending pressures.
  - These spending additions are partially funded by existing budget resources of R98.6 billion – mainly the reduction in provisional allocations and drawdown of the 2023/24 unallocated reserve.
  - The remaining R128.4 billion is funded by the projected revenue improvement since the 2022 Budget.

Changes to main budget non-interest expenditure over MTEF period

R million	2023/24	2024/25	2025/26	MTEF total
Non-interest expenditure (2022 Budget)	**1 657 028**	**1 733 044**	**1 820 169**	**5 210 242**
Spending pressures funded in the 2023 Budget	**91 022**	**61 337**	**74 660**	**227 019**
Carry-through of 2022/23 public-service wage increase	14 973	15 198	15 426	45 597
Infrastructure-related spending	11 046	13 830	17 880	42 757
Service delivery[1]	16 095	17 568	20 238	53 902
Security cluster	4 396	4 503	5 474	14 373
COVID-19 social relief of distress grant	36 081	–	–	36 081
Social grants increase with CPI inflation	5 890	9 114	14 572	29 575
Other allocations[2]	2 539	1 124	1 069	4 732
Changes in provisional allocations not assigned to votes[3]	**-29 678**	**-25 686**	**-32 046**	**-87 410**
Change in reserves and other adjustments[4]	**-24 252**	**6 410**	**6 648**	**-11 194**
Revised non-interest expenditure (2023 Budget)	**1 694 120**	**1 775 105**	**1 869 432**	**5 338 656**
Change in non-interest expenditure from 2022 Budge	37 092	42 060	49 263	128 415

1. Health, education and local government free basic services

2. Details are in Table 5.2

3. Includes Infrastructure Fund and SARS provisional allocations, rescheduling of infrastructure projects and other adjustments and removal of Eskom funding provision from expenditure to financing

4. Includes changes in contingency and unallocated reserves, skills development levy and NRF payments adjustments

Source: National Treasury

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BUDGET 2023

ESKOM DEBT RELIEF ARRANGEMENT

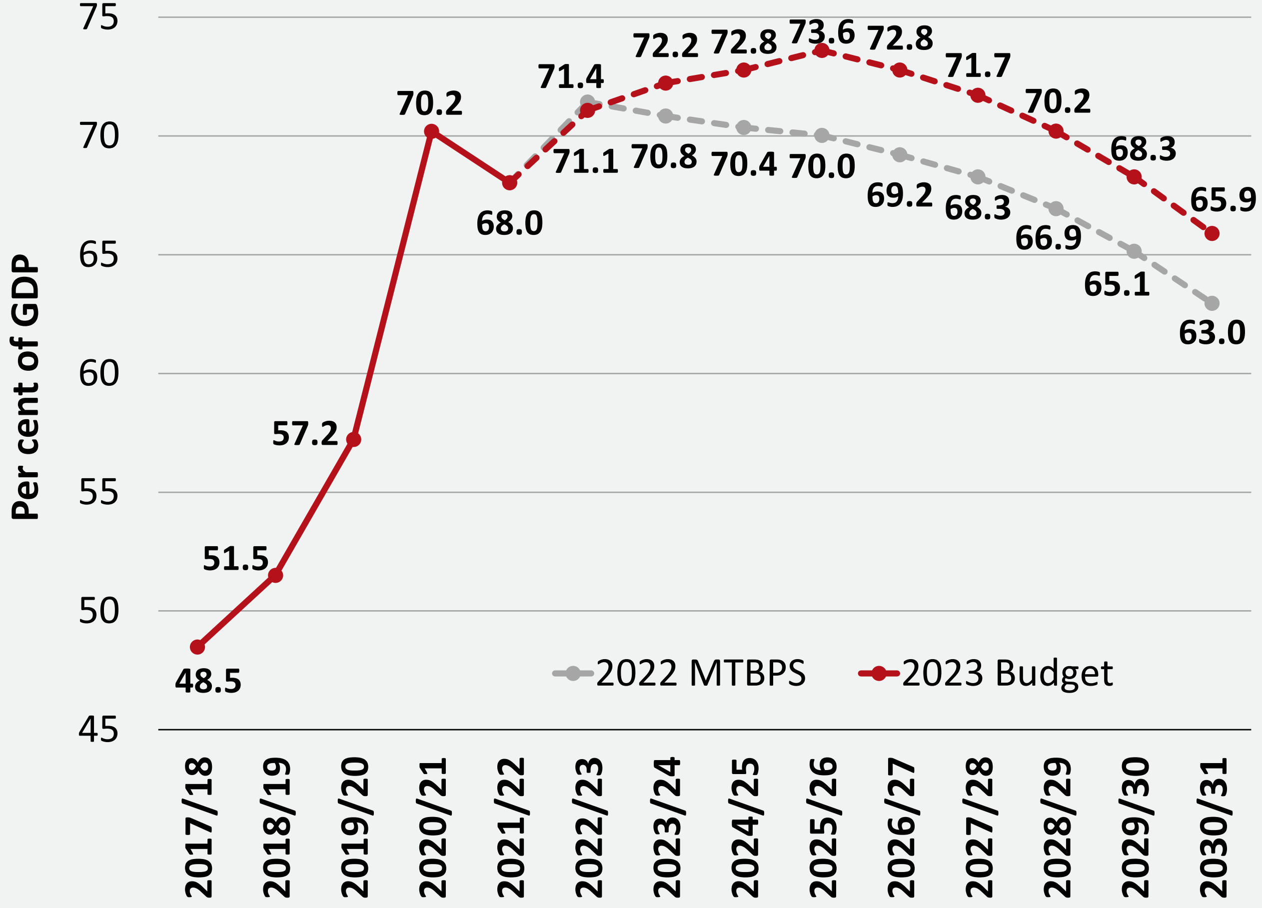
- Major debt relief arrangement of R254 billion (about R168 billion in capital and R86 billion in interest) over the next three years.
- This is a balance sheet transaction. Not a spending appropriation. Therefore, a finance bill – the ESKOM Debt Relief Bill – is tabled to effect the debt relief arrangement. The goal is to strengthen the utility’s balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support security of electricity supply. The key features of this arrangement are as follows:
  - Government will provide Eskom with advances of R78 billion in 2023/24, R66 billion in 2024/25 and R40 billion in 2025/26. These advances will cover capital and interest payments as they fall due and may only be used for that purpose.
  - These amounts will be financed through the R66 billion MTEF baseline provision that was in the 2022 MTBPS, and R118 billion in additional borrowing over the MTEF period ahead.
  - Over-and-above this, in 2025/26, government will directly take over up to R70 billion of Eskom’s loan portfolio.
- This arrangement, which is subject to strict conditions, will relieve extreme pressure on the utility’s balance sheet, enabling it to undertake the necessary maintenance and investment.
- The operating conditions associated with Eskom's debt relief support the broader restructuring of South Africa’s electricity industry.
- A review of all plants in Eskom's coal fleet is scheduled to conclude by mid-2023. Eskom is required to implement the operational recommendations emanating from this independent assessment.

BUDGET 2023

DEBT PATH

- The scale of Eskom debt relief increases government borrowing, resulting in debt stabilising later than projected in the 2022 MTBPS.
- Public debt is now set to stabilise at 73.6 per cent of GDP in 2025/26 – three years later and at a higher level than projected in the 2022 MTBPS.
- South Africa's public debt remains high. Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.
- The continuing rise in the cost of servicing debt underscores the importance of ensuring that the gap between government spending and revenues does not expand.

Gross debt-to-GDP outlook



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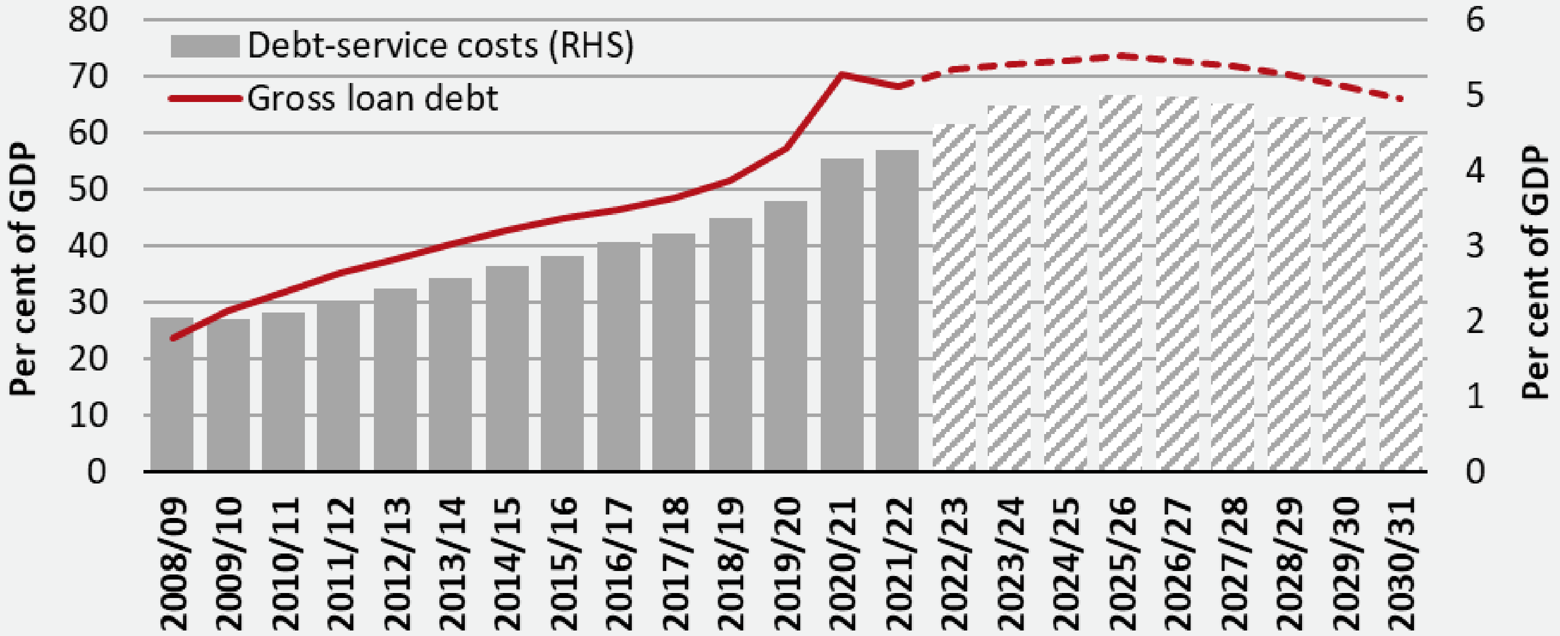
GOVERNMENT DEBT AND CONTINGENT LIABILITIES

Gross loan debt and debt-service costs



- Gross debt stock is projected to increase from R4.73 trillion in 2022/23 to R5.84 trillion in 2025/26.
- Debt is expected to stabilise at 73.6 per cent of GDP in 2025/26. Over time, debt stabilisation will allow government to reduce the crowding-out of essential services imposed by debt-service costs.
- Contingent liabilities are set to decline from R1.07 trillion in 2022/23 to R904.1 billion in 2025/26.

BUDGET 2023

CONSOLIDATED BUDGET FRAMEWORK

Consolidated fiscal framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 519,6**	**1 409,2**	**1 750,6**	**1 892,7**	**1 958,9**	**2 077,8**	**2 225,3**
	26,7%	*25,1%*	*27,8%*	*28,5%*	*28,0%*	*27,9%*	*28,0%*
Expenditure	**1 807,1**	**1 964,4**	**2 042,9**	**2 168,8**	**2 242,6**	**2 359,7**	**2 477,4**
	31,7%	*35,0%*	*32,5%*	*32,6%*	*32,0%*	*31,7%*	*31,2%*
Non-interest expenditure	*1 593,1*	*1 723,5*	*1 765,8*	*1 852,8*	*1 893,1*	*1 987,4*	*2 070,4*
	28,0%	*30,7%*	*28,1%*	*27,9%*	*27,0%*	*26,7%*	*26,1%*
Budget balance	**-287,5**	**-555,1**	**-292,3**	**-276,1**	**-283,7**	**-282,0**	**-252,1**
	-5,0%	*-9,9%*	*-4,6%*	*-4,2%*	*-4,0%*	*-3,8%*	*-3,2%*

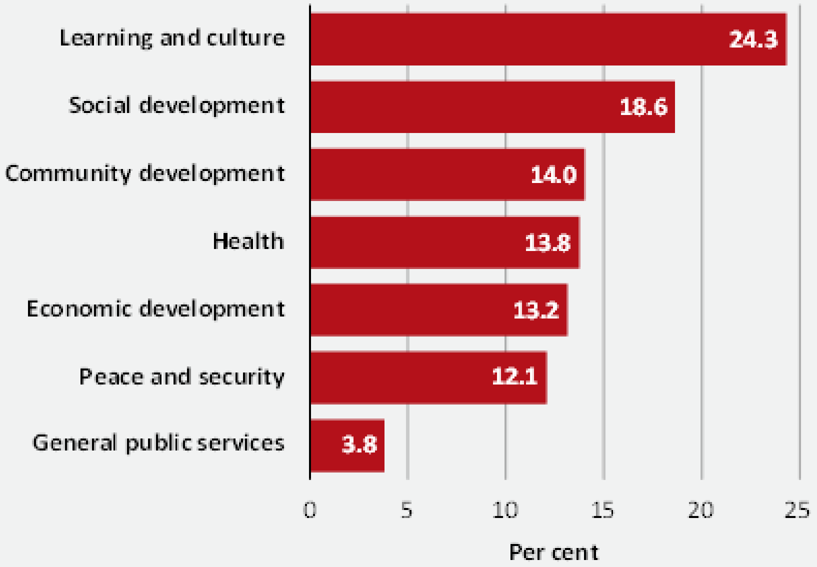
Source: National Treasury

- Although the stock of government debt will increase, the fiscal balance will nevertheless continue to improve over the medium term.
- Between the 2022 Budget and 2023 Budget, the consolidated budget deficit expected for 2022/23 declined from 6 per cent to 4.2 per cent of GDP.
- The deficit is projected to reach 3.2 per cent of GDP in 2025/26, as the main budget deficit narrows and social security funds, provinces and public entities move into a combined cash surplus in the outer year.
- Over the next three years, consolidated non-interest expenditure will contract at an annual average of 1 per cent in real terms.

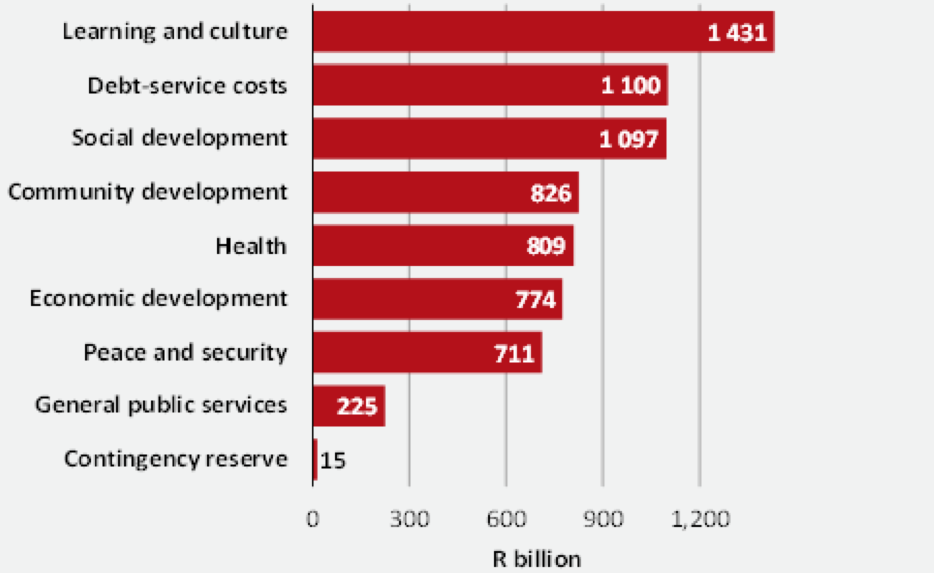
BUDGET
2023

EXPENDITURE PRIORITIES

Percentage of total MTEF allocation by function, 2023/24 ¬– 2025/26



Total consolidated government expenditure, 2023/24¬ – 2025/26



- Over the MTEF period, consolidated government expenditure will total R7.08 trillion
- The social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years.
- Spending across functions supports the implementation of new and existing policy priorities. The learning and culture function receives 24.3 per cent (R1.43 trillion) of the total function budgets, while general public services receives the smallest share at 3.8 per cent (R224.6 billion).
- Payments for capital assets are the fastest-growing item by economic classification, growing at 14.4 per cent annually, due to the additional funds allocated to improve investment in infrastructure.

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BUDGET 2023

GOVERNMENT INFRASTRUCTURE INVESTMENT PLANS

- Public-sector infrastructure spending over the 2023 medium-term expenditure framework (MTEF) period is estimated at R903 billion.
- State-owned companies continue to be the largest contributor to capital investment, spending a projected R302.1 billion over the next three years.
- Provinces are expected to spend R209.8 billion on infrastructure over the same period, while municipalities are forecast to spend R190.3 billion.
- Several reforms are under way to strengthen public investment management, including improving operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting, improving the public-private partnership regulatory framework, and building a strong project pipeline.

Public-sector infrastructure expenditure and estimates

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	MTEF
	Outcomes			Revised estimate	Medium-term estimates			Total
Energy	26,2	30,0	35,5	38,7	39,8	51,1	67,0	157,8
Water and sanitation	22,5	29,5	30,6	36,1	40,8	44,9	46,9	132,5
Transport and logistics	70,5	58,6	65,9	90,8	97,5	119,9	133,7	351,1
Other economic services	5,7	6,9	21,8	23,5	22,7	21,2	21,2	65,2
Health	12,2	14,7	16,4	14,2	14,1	14,0	14,6	42,8
Education	17,4	14,2	14,5	21,4	18,0	21,7	20,8	60,6
Human settlements[1]	20,9	13,3	13,4	14,3	14,9	15,1	15,8	45,9
Other social services	4,7	4,1	2,2	3,6	3,2	3,0	3,1	9,3
Administration services[2]	7,4	12,1	12,0	12,5	12,5	12,2	13,1	37,8
Total	**187,4**	**183,4**	**212,3**	**255,2**	**263,6**	**303,2**	**336,3**	**903,0**
National departments	13,8	11,4	12,5	17,4	15,3	20,2	19,0	54,6
Provincial departments	61,0	51,8	57,7	67,1	69,3	69,1	71,4	209,8
Local government	41,2	55,6	62,1	62,8	61,4	63,0	65,9	190,3
Public entities[3]	14,5	8,8	20,2	29,5	31,2	41,7	51,6	124,4
Public-private partnerships	5,6	4,9	6,5	7,1	7,1	7,3	7,5	21,9
State-owned companies[3]	51,2	50,8	53,4	71,3	79,3	101,9	120,9	302,1
Total	**187,4**	**183,4**	**212,3**	**255,2**	**263,6**	**303,2**	**336,3**	**903,0**

1. Human settlements includes public housing and bulk infrastructure amounting to R45.9 billion over the MTEF period
2. Administration services include infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities
3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings
Source: National Treasury

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BUDGET 2023

GOVERNMENT PLANS ON FIGHTING CRIME AND CORRUPTION

- Over the medium term, R711 billion will be made available for the peace and security function, including measures to fight corruption and financial crimes, with significant additions compared to the previous budget.
- The police budget is increased by R7.8 billion to appoint 5 000 police trainees per year and absorb them once they complete their training.
- The National Prosecuting Authority is allocated R1.3 billion over the medium term to support implementation of the recommendations of the State Capture Commission and the outcomes of the Financial Action Task Force (FATF) evaluation of SA's framework for combating money laundering and terorism financing.

Peace and security expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation
	Revised estimate	Medium-term estimates			
Defence and state security	52 418	52 726	52 812	54 838	22,6%
Police services	112 512	112 066	119 244	125 358	50,2%
Law courts and prisons	51 472	51 437	53 726	56 081	22,7%
Home affairs	11 398	11 110	10 485	11 129	15,9%
Total	**227 800**	**227 340**	**236 267**	**247 406**	**100,0%**
of which:					
Compensation of employees	*157 049*	*155 379*	*163 820*	*172 169*	*69,1%*
Goods and services	*49 938*	*50 992*	*52 918*	*54 634*	*22,3%*
Transfers and subsidies	*12 806*	*12 877*	*11 986*	*12 120*	*5,2%*
Buildings and other fixed structures	*2 774*	*2 903*	*2 795*	*2 884*	*1,2%*
Machinery and equipment	*4 979*	*4 925*	*4 529*	*5 411*	*2,1%*

Source: National Treasury

- The Special Investigating Unit is allocated R100 million over the next three years to initiate civil litigation in the special tribunal flowing from proclamations linked to the recommendations of the State Capture Commission.
- To enhance security of South Africa's territory and surrounding areas, the Department of Defence is allocated an additional R3.1 billion over the medium term. This allocation will provide for the procurement of equipment and technology to support operations, and repair and maintain defence navy systems.
- The South African Revenue Service is allocated additional funding (total of R4.5 billion) to strengthen tax administration and collection, and combat the illicit economy.

COMBATING FINANCIAL CRIMES AND ILLICIT ACTIVITIES

- The FATF's most recent mutual evaluation of South Africa identified a number of deficiencies in its legislative framework and implementation. Government is working to rectify these shortcomings. The following enactment of legislation in 2022 addresses 15 of the 20 legislative deficiencies identified:
    - the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act
    - the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act
- The remaining five will be addressed through regulations and practices that do not require legislation.
- Government is committed to addressing flaws in the regulatory framework, strengthening enforcement and applying strong sanctions.

BUDGET 2023

DIVISION OF REVENUE

- Given the weight of the social wage in public expenditure, most budget resources are distributed to provincial and local government.
- Over the next three years, after budgeting for debt-service costs, the contingency and unallocated reserves and provisional allocations, 41.5 per cent of nationally raised revenue is distributed to provinces and 10 per cent is made available to local government.
- There is a notable increase in local government's share of nationally raised revenue, notwithstanding municipalities' considerable revenue-raising powers.

Division of revenue

R billion	2022/23	2023/24	2024/25	2025/26
	Revised	Medium-term estimates		
National allocations	854,4	828,6	835,7	877,9
Provincial allocations	694,6	695,1	720,5	754,7
Equitable share	*570,9*	*567,5*	*587,5*	*614,3*
Conditional grants	*123,7*	*127,5*	*133,0*	*140,4*
Local government allocations	147,8	164,0	174,4	183,3
Provisional allocations not assigned to votes	–	1,5	3,9	4,0
Total allocations	**1 696,8**	**1 689,1**	**1 734,4**	**1 819,9**
Percentage shares				
National	*50,4%*	*49,1%*	*48,3%*	*48,3%*
Provincial	*40,9%*	*41,2%*	*41,6%*	*41,6%*
Local government	*8,7%*	*9,7%*	*10,1%*	*10,1%*

Source: National Treasury

- Allocations to local government increase by R14.3 billion over the medium term. Direct allocations to municipalities grow just above inflation, at an average annual rate of 5.9 per cent, while indirect allocations grow at an annual average rate of 4.3 per cent.

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FINANCIAL POSITION OF STATE-OWNED COMPANIES

Combined financial position of public institutions

R billion/net asset value	2019/20[1]	2020/21[1]	2021/22
State-owned companies	352,7	376,7	417,6
Development finance institutions	98,1	127,8	161,5
Social security funds	-156,5	-210,3	-198,8
Other public entities[2]	811,2	834,3	927,5

1. Due to the COVID-19 pandemic, many entities had not released audited financial statements for the 2019/20 and 2020/21 financial year at the time of the publication and the draft financial statements were used

2. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA

Source: National Treasury

- Several major state-owned companies continue to rely on government bailouts and dominate the guarantee portfolio.
- Government continues to monitor the financial health of public entities and manage associated risks. A new framework for managing bailouts to state-owned companies will support continued reform efforts.

BUDGET 2023

RISKS TO THE FISCAL OUTLOOK

The fiscal position has improved since 2021/22, largely due to consolidation measures, economic recovery and accelerated GDP inflation. However, significant risks to the fiscal outlook include weaker-than-projected GDP growth and higher interest rates, along with:

- Worsening global financial conditions, increased volatility in capital flows and further exchange rate depreciation, which would affect government's ability to borrow additional funds and narrow the budget deficit.
- The weak financial condition of several state-owned companies, which rely on government support to operate.
- A public-service wage agreement that exceeds the rate of growth of the compensation budget, which would require steps to contain overall compensation spending through stricter headcount management.
- Additional spending pressures such as new, unfunded social spending programmes or the realisation of contingent liabilities, which would affect the sustainability of the public finances.

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CONCLUSION

- Economic growth is expected to slow in 2023. Higher and sustained growth depends on rapid progress in implementing reforms and a capable state to provide public goods and services. In the near term, government is focused on addressing growth-limiting electricity and transport challenges.
- Government's fiscal consolidation measures have registered some progress in narrowing the budget deficit. Debt relief for Eskom will increase the debt-to-GDP ratio, but the effect on the fiscal outlook is cushioned by the use of existing allocations to offset the borrowing requirement.
- Revenue collection remained strong in the past year and the medium-term outlook has improved slightly. The 2023 Budget includes several tax proposals designed to support businesses and individuals given the higher cost of living, and to promote private investments in green energy.
- Additional spending allocations are focused on funding key policy priorities and improving growth-enhancing investment. Government continues to reprioritise and review spending to meet policy priorities and improve efficiency.
- The 2023 Budget provides for targeted allocations to provinces and municipalities, with an emphasis on key basic services.
- The major fiscal risks include low or no economic growth, leading to lower tax revenues and simultaneous requests for fiscal support; rising borrowing costs due to inflation and higher interest rates; and unaffordable spending pressures such as the wage bill.

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