

The Parliamentary Budget Office is a juristic entity of Parliament headed by the Director as an Accounting Officer. The Office was established in accordance with the 2009 Money Bills Amendment Procedure and Related Matters Act, as amended (Act No. 9 of 2009). The main aim of the Parliamentary Budget Office is to provide independent, objective and professional analysis or advice to Parliament on matters relating to the Budget and other financial legislation. The Office supports the implementation of the Act by undertaking research and analysis for the relevant Finance and Appropriations committees.

Director: Dr Dumisani Jantjies

Enquiries: azuydam@parliament.gov.za

Table of Contents

- 1. Purpose 1
- 2. Introduction 1
- 3. Effectiveness of Government - Progress on 2019-2024 MTSF 2
- 4. Extension of the COVID-19 SRD grant and the cost of living crisis 3
- 5. Risks and outlook: The Global economy and South Africa 4
- 6. Fiscal policy position 6
- 7. State Owned Entities and Contingent liabilities- Risks 8

1. Purpose

The purpose of this brief is to assist members of parliament in their preparations for the 2022 Medium Term Budget Policy Statement (MTBPS). Its particular function is to inform members about the context of the 2022 MTBPS speech in its economic, societal and public finance aspects.

2. Introduction

Over the past few years, the Parliamentary Budget Office (PBO) has raised concerns about the severe domestic and global risks that should be accounted for when developing the fiscal framework. Recently, the IMF's managing director Kristalina Georgieva echoed the PBO's warning in preparing for

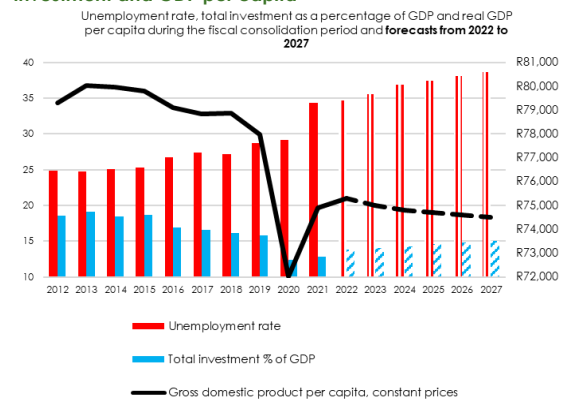
"Greater uncertainty, higher economic volatility, geopolitical confrontations, and more frequent, devastating natural disasters – a world in which any country can be thrown off course more easily and more often (IMF & World Bank 2022 Annual Meetings, 6 Oct. 2022)"

We are concerned that these major risks were not adequately considered in preparation for the fiscal frameworks making up South Africa's long,

unsuccessful experiment in fiscal consolidation. Instead, fiscal consolidation has constrained economic activity by focusing on short-term fiscal and debt targets at the expense of longer-term goals. These decisions have limited the government's ability to support millions of struggling households in an economy marred by deep structural unemployment.

The International Labor Organization (ILO) has recently argued that fiscal policies should protect jobs and take account of the underlying reasons for structural unemployment. In fact, all the international agencies warning about growing debt in developing countries have wisely cautioned against premature moves towards achieving budget surpluses. In this vein, the UN and ILO have gone beyond the IMF and World Bank by arguing for the implementation of the expansionary fiscal policies to build resilience to future risks.

Figure 1 Another "lost decade"? South African unemployment, investment and GDP per capita



The PBO is concerned that the continued increases of interest rates around the world may cause economic turmoil in developing countries and a global recession. When this scenario played out in the early-1980s it led to a global debt crisis and the imposition of structural adjustment programmes on African and developing countries. The outcome was a 'lost decade' of poor growth, unemployment and hunger. The South Africa has already experienced a lost decade during the fiscal consolidation era and it is forecast to continue over the next 5 years. The government's fiscal policy will have to change if we are to avoid another lost decade until 2031

3. Effectiveness of Government - Progress on the implementation of the 2019-2024 MTSF

Assessment of the progress of the 2019-2024 MTSF implementation plans has used the 2022 Departmental annual performance plans (APPs) and, in some instances, the quarterly performance reports for 2021/22. This assessment focused on five 2019-2024 MTSF priorities; *Priority 2: Economic Transformation and Job Creation, Priority 3: Education, skills and health, Priority 4: Consolidating the social wage through reliable and quality basic services, Priority 5: Spatial integration, human settlements and local government and Priority 6: Social cohesion and safe communities.*

The assumption is that if performance indicators are included in departmental APPs, then they are automatically linked to a budget program and therefore funded, monitored and audited through the standard government performance management system. The following challenges have been identified in line with the implementation of the 2019-2024 MTSF:

- Slow progress on annual targets already set and towards targets set for 2024
- Performance indicators to measure performance of the 2019-2024 MTSF are not presented in departmental APPs;
 - As a consequence, oversight bodies cannot determine the progress made on the priorities if regular reports are not available
 - If priority indicators are not reflected in APPs, then government funds may be allocated to non-priority outputs
 - If the MTSF indicators are not reflected in the APPs, then they will not be audited either
- Some departments have also introduced several new indicators in the MTSF which do not contain historic information
- Reporting on specific indicators are not in line with the targets set
- Departments have concluded that "reports have been produced on specific targets"
 - These reports are submitted to Cabinet but are not published or made available to the public and oversight bodies
- Several departments are responsible for reporting on interventions that contribute to the same outcome
 - This may result in duplication
- Departments indicate that they've made progress with specific outcomes such as unity in diversity, job creation and inn the ease of doing business in South Africa
 - This progress is not visible in the current macro-economic indicators measured on a quarterly basis
 - It is acknowledged that the performance of specific interventions will not be visible in macro-economic indicators, but it should improve the

quality of living and access to services such as the eradication of the bucket system

- One of the main concerns within the safety sector is the continuous increase in crime rates reported by the SAPS despite the progress made on interventions identified as priorities for the sector
- In many instances, the failure of Departments to include the 2019-2024 MTSF priorities in their APPs are visible in the environment, such as:
 - The failure to report on municipal capacity (adequate resources and infrastructure) for implementing climate change programs to deal with disasters
- The interventions required to implement the priorities over the MTSF are in many instances funded by transfers to other spheres of government or institutions
 - The transferring department should then be expected to coordinate and ensure the consolidation of the outputs for credible reporting
 - Conditional grants are in many instances allocated to fund government priorities where close monitoring of this source of funding is required
- The transfer of funds to implement government priorities should not just have a role in ensuring government effectiveness but should also contribute to the efficiency of government spending

3.1. Efficiency and expenditure trends

Table 1 Structure of the National Budget

R million	Revised estimates 2021/22	Medium-term expenditure estimates			
		2022/23	Proportion of total 2022/23	2023/24	
Current payments					
Compensation of employees	180 793	182 821	9.3%	178 115	186 992
Goods and services	87 029	81 730	4.2%	80 672	84 361
Interest and rent on land	268 504	302 020	15.4%	335 199	363 743
Total current payments	536 326	566 571	28.8%	593 985	635 096
Transfers and subsidies to:					
Provinces and municipalities	796 709	833 462	42.4%	827 994	860 476
Departmental agencies and accounts	146 924	154 579	7.9%	164 611	173 191
Higher education institutions	48 354	52 982	2.7%	52 905	54 863
Public corporations and private enterprise	37 181	40 115	2.0%	41 305	42 090
Households	239 365	264 472	13.5%	228 479	239 909
Total transfers and subsidies	1 275 181	1 351 978	68.8%	1 321 686	1 377 469
Total	1 900 217	1 965 257	100.0%	1 987 007	2 091 559

The structure of the national budget provides for total transfers and subsidies (68.8 per cent) of which the following percentage is transferred to provinces and municipalities: 42.4 per cent and to households: 13.5 per cent. Departmental accounts and agencies, and corporations and private enterprises receive 22.2 per cent of the total expenditure excluding transfers to provinces, municipalities and households

By the end of August 2022, national departments and provinces had spent just over 40 per cent of their 2022/23 budgets. Local government's 2021/22 preliminary outcomes then showed that municipalities continue to miss revenue collection targets and have under-spent their budgets.

Table 2 Provincial allocations and expenditure trends

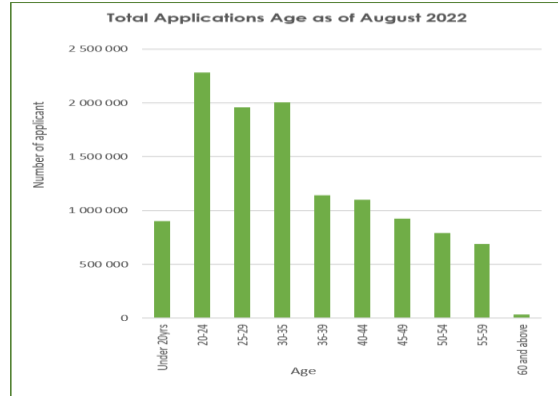
Provincial departments	Receipts/Payments to date, April - Aug 2022			
	2021/22 Actual Payments %	Main appropriation	Actual Receipts/Payments R'000	Actual Receipts/Payments %
Receipts				
Transfers from National	100.00%	682,067,683	290,342,629	42.6%
Equitable Share	100.00%	560,756,789	233,648,665	41.7%
Conditional Grants	100.00%	121,310,894	56,693,964	46.7%
Provincial own receipts	99.70%	21,423,046	8,948,092	41.8%
Total receipts	100.00%	703,490,729	299,290,721	42.5%
Payments by provincial departments				
Education	99.90%	289,837,704	118,813,661	41.0%
Health	98.20%	238,834,217	99,946,349	41.8%
Social Development and Special programmes	97.20%	20,956,158	8,770,559	41.9%
Total payments	98.30%	698,135,248	281,941,965	40.4%
Payments by economic classification				
Current payments	99.00%	571,350,804	232,662,408	40.7%
Compensation of employees	99.90%	422,485,143	173,260,764	41.0%
Goods and services	96.30%	148,858,369	59,376,907	39.9%
Total Transfers and subsidies	97.00%	88,380,938	38,408,073	43.5%
Provinces and municipalities	97.90%	10,824,401	2,977,307	27.5%
Departmental agencies and accounts	100.90%	12,073,025	5,927,109	49.1%
Public corporations and private enterprises	93.70%	9,994,377	3,704,755	37.1%
Non profit institutions	97.80%	36,310,580	18,242,296	50.2%
Households	94.60%	19,009,946	7,512,701	39.5%
Payments for capital assets	91.90%	38,397,954	10,862,449	28.3%
Buildings and other fixed structures	92.20%	29,573,859	8,147,359	27.5%
Total payments	98.30%	698,135,248	281,941,965	40.4%

These failures highlight the challenges facing the ability of local government to collect revenue within their revenue management value chain

4. Extension of the COVID-19 SRD grant and the cost of living crisis

The extension of the COVID-19 Special Relief of Distress (SRD) grant has provided a lifeline to many people in South Africa. In the context of high unemployment, poverty and inequality, the grant was intended to address the long-standing gap in social protection for the 18-59 years' group.

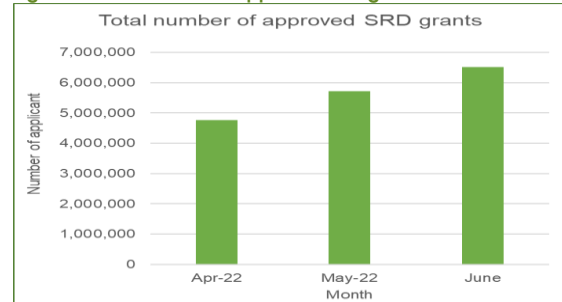
Figure 2 Total Applications Age as of August 2022 - SRD



However, only R44 billion was allocated in the 2022 Budget Review to support 10.5 million people until the end of March 2023. This allocation is insufficient for the 10.9 million people whom the Department of Social Development (DSD) indicated qualified for the SRD grant. Moreover, DSD has had to exclude applicants to remain within the budget allocation by introducing additional qualifying criteria for the grant. One critical change was the introduction of a means test of R350, resulting in the exclusion of a significant number of applicants. The 6.5 million applications approved in June 2022 are substantially lower than the 13.6 million people classified as economically inactive and the 18.3 million who live below the poverty line. In addition to the low approval rate, payments have also been delayed. Taking the figures from April to June 2022

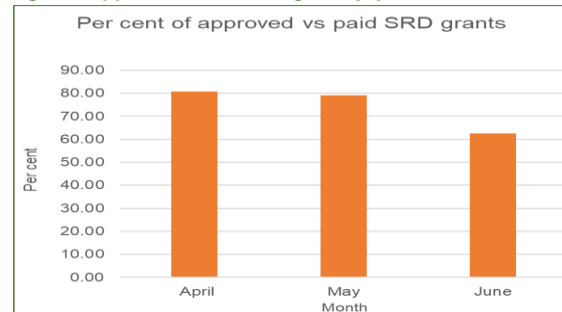
payments to approved applicants have also declined this year, while as of August 2022, only 63 per cent of approved payments had been made to beneficiaries.

Figure 3 Total number of approved SRD grants



These budget cuts are taking place in an economy where people are experiencing an ongoing and intense long-term cost-of-living crisis. Vulnerability to hunger has increase. While the percentage of households with limited access to food had decreased to 17.8 per cent in 2019 it returned to 20.9 per cent in 2021, and the overall number of people with limited access to food increased from 19.5 per cent in 2019 to 23.8 per cent in 2021. In recent remarks, President Ramaphosa highlighted that "African women are the face of poverty". With regard to the restricted criteria as well as delays in payment, the reduced budget allocation for SRD grants will ensure that the requirement for social assistance will not be met for too many households in dire need

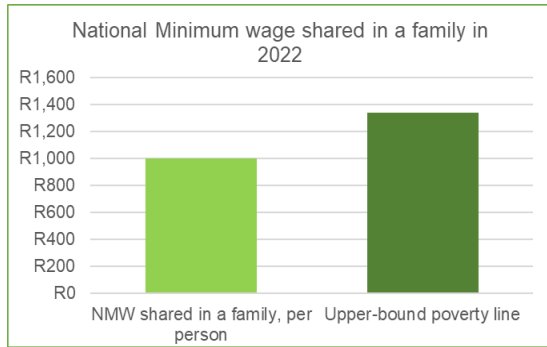
Figure 4 Approved vs Paid SRD grants (%)



4.1. Many households cannot meet their basic needs

The household food basket in the Household Affordability Index has been designed in conjunction with women living on low incomes in Johannesburg, Durban, and Springbok, Cape Town and Pietermaritzburg. The basket includes the food and the volume of the food bought by women living in a family of seven to give an average low-income household size. At present, the average household food basket falls below the minimum wage (R4081, 44 a month) but has increased by 12.6 per cent since 2021.

Figure 5 National minimum wage shared in a family-2022



To take an average of one waged worker in a household of 4.4 members, the evidence is that individuals within this average household have now fallen below the upper-bound poverty line.

Figure 6 Average food basket vs National Minimum Wage-2022

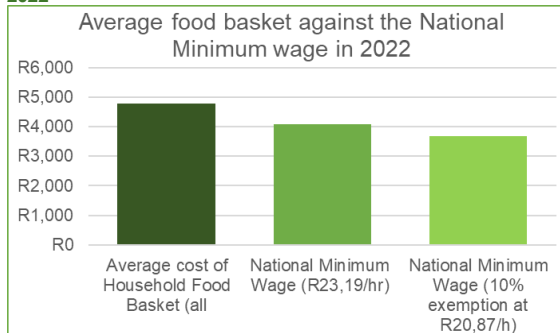
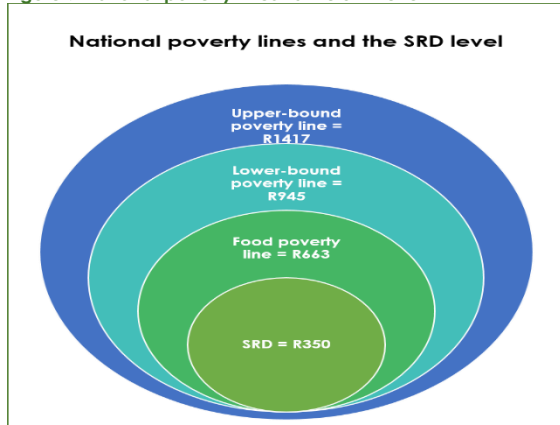


Figure 7 National poverty lines vs the SRD level



The PBO has concerns about the proposals put forward to the SRD in April 2023. The government's response has been that "Although BIG or permanent SRD-350 is the preferred option for DSD, option 3 in the Presidency Paper (the SRD-Job-seeker grant and SRD-caregiver grant) might be an acceptable compromise". In the context of the cost-of-living crisis, questions should be asked about the choices being proposed here and how they well they are positioned to progressively realize the government's Constitutional Obligation. The obligation states that "everyone has the right to have access to social security, including, if they are unable to support

themselves and their dependents" (SA Constitution, Chapter 2)

Table 3 SRD grant expenditure against the budget allocation

Budget allocation (R44 billion)	Amount	Per cent of total budget allocation
Approved (as of 2 August 2022)	R4, 76 billion	10,8%
Paid (As of 2 August 2022)	R4,36 billion	9,9%
Projected spend total spend (assuming 7.5 million beneficiaries going forward)	R27,99 billion	63,6%

5.Risks and outlook: The Global economy and South Africa

The world economy is suffering a downturn caused by simultaneous interest rate increases and fiscal austerity budgets occurring across many countries at the same time.

Table 4 Severe global and economic risks

Global risk	Domestic risks, incl., risks worsened by the current cost of living crisis
Intensifying geopolitical tensions and conflicts	Increased social and political instability due to poor service delivery and the impact of severe unemployment, poverty and inequality, including the possibility of a recurrence of the July 2021 social unrest. Further unravelling of the social fabric has increased violence against women and children, crime, drug abuse and gangsterism
Climate related severe weather events & disasters	Impact of climate change events, such as droughts and floods, on health and security, causing loss of property, food insecurity and a loss of economic activity, growth and development.
Ongoing Covid-19 and risk of future pandemics	Ongoing health challenges, such as HIV/AIDS, TB & Covid-19 alongside persisting health problems due to radically unequal access to healthcare and delays in the provision of universal health coverage.
Economic growth stagnation and possibility of recession due to interest rate increases and austerity	Erosion in consumer spending power due to weaker labor markets, public sector wage freezes, higher inflation and interest rates, resulting in long-run costs to government (particularly in health and education) and consequences for future economic growth and development due to more malnutrition and other physical and mental health effects particularly on children (stunted growth etc.)
Possibility of financial crises and contagion	Financial and economic downturn due to contagion
Supply chain disruption, higher fuel and food prices	Load shedding will cause ongoing disruption to households, communities, business and government, bringing about a further decline in economic activity, investment and employment.

In many countries, central banks and the international finance sector express tangible fears that the global economy is heading towards recession. The current constraints on economic growth remain over and above the ongoing problems caused by the continuing Covid-19 pandemic, war in Ukraine, lingering global supply chain problems and resultant high energy, freight, fertilizer and other costs.

The widespread implementation of higher interest rates has sought to fight inflation by curbing demand and increasing unemployment alongside a

widespread return to fiscal austerity on the part of governments across the world. Ortiz & Cummins (2021) warn of a post-pandemic fiscal austerity shock which may be more premature and severe than the one following the 2008 financial crisis. Internationally, the economic stimulus occurring after Covid-19 has had a smaller impact than expected because of the rapid return to fiscal consolidation.

5.1. Revised Global Growth Estimates

International agencies have all revised their global economic growth estimates downward. UN agencies revised down their estimate from 3.5 per cent in January to 2.5 per cent in October 2022. The OECD projects 3.0 per cent global growth in 2022 and 2.25 per cent in 2023, while the IMF revised their outlook to 3.2 (compared to 6 per cent in 2021) per cent for 2022 and 2.7 per cent for 2023 in their October 2022 World Economic Outlook report.

The impact of climate change events and disasters has caused increasingly severe economic distress in both developed and developing countries while worsening the global economic outlook. In many countries, the cost-of-living crisis has been exacerbated by higher interest rates and austerity, so contributing to increased domestic unrest and instability. The continuation of poor global growth on top of continued fiscal consolidation will very likely have a further negative impact on South Africa's economic growth prospects 2023-2024.

5.2. The South African economy

Although markets have most probably 'priced-in' the government's structural reforms already, the outlook for South Africa's economic performance is poor over the medium term.

Table 5 South Africa revised economic growth outlook

GDP growth outlook - calendar year*	2022	2023	2024
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
South African Reserve Bank - July 2022	2.0%	1.3%	1.5%
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
IMF - World Economic Outlook - July 2022	2.3%	1.4%	-
Reuters Consensus Forecast - January 2022	2.0%	1.8%	2.0%
Reuters Consensus Forecast - August 2022	2.0%	1.5%	1.8%

*Growth projections correspond to publication date and not forecast date
Data: National Treasury, South African Reserve Bank, IMF, Reuters

This poor performance is associated with an economic structure that remains highly concentrated and inadequately diversified. With little support for greater real-sector investment, in all likelihood employment and aggregate demand will remain severely constrained. Subsequent attempts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help them.

Figures 8 Sector value add to GDP

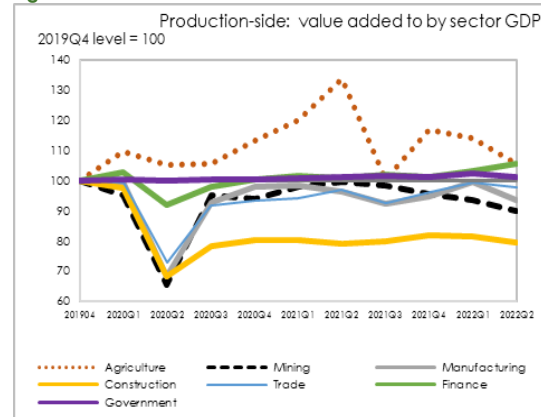
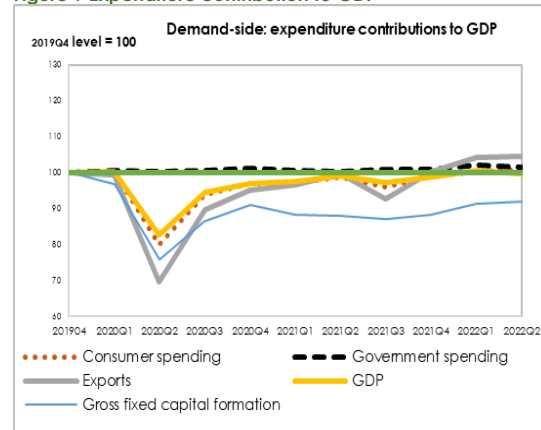


Figure 9 Expenditure contribution to GDP



Although in the first quarter of 2022 South Africa's GDP returned to its pre-pandemic level, economic activity has since slowed down and there has been a stark divergence in economic performance for different sectors of the economy. Excepting agriculture, finance and government spending, all other sectors remain below pre-pandemic levels, while the construction sector remains 20 per cent below pre-pandemic levels. In terms of expenditure on GDP (demand-side), gross fixed capital formation remains at 10 per cent below pre-pandemic levels.

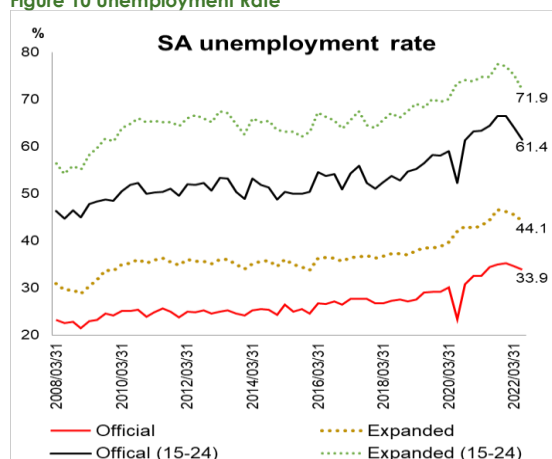
Table 6 Labour market – jobs lost/gained per sector

('000s)	21Q2 vs 19Q4	22Q2 vs 19Q4
Total (formal & informal)	-1 363	-685
Agriculture	-24	-11
Mining	-31	-22
Manufacturing	-306	-213
Utilities	-1	-16
Construction	-128	-174
Trade	-162	-86
Transport	-43	-105
Finance	-319	-108
Community & social services	-391	29
Private households	-92	-162

In addition, the labor market has not recovered from the jobs lost during the pandemic. The official unemployment rate is at a record high of 33.9 per cent. A total of 685 000 jobs were lost across all sectors

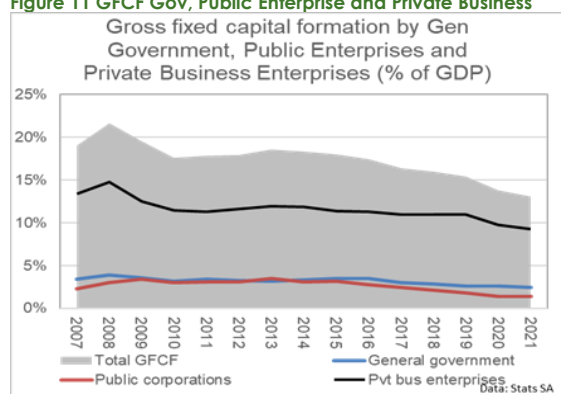
of the economy between the fourth quarter of 2019 and the second quarter of 2022. More alarming again is the reality that the construction and transport sectors continue to shed jobs despite the economy operating without any pandemic-related trade restrictions.

Figure 10 Unemployment Rate



South Africa's poor fixed investment landscape also points to ongoing difficulties faced by the economy. Despite the launch of a state infrastructure fund in August 2020, no mega infrastructure projects have been brought to market. Public investment remains subdued at below 5 per cent for general government and public enterprises alike, while private investment fell below 10 per cent at the height of the pandemic. In terms of capital accumulation, the largest growth in South African capital stock over 2012-2021 was in the finance, intermediation, insurance, real estate and business services sectors of the economy, indicating that the structure of the economy remains geared toward poor economic growth and continued high levels of inequality and unemployment.

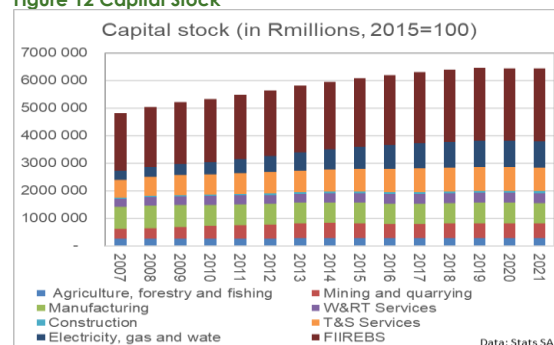
Figure 11 GFCF Gov, Public Enterprise and Private Business



Additional state measures are required to increase aggregate demand growth given the urgent problems of poor investment levels across the economy, weak export growth and the erosion in household spending power due to weaker labor markets, public sector wage freezes, and higher inflation and interest rates. In the short run, certainly, any growth in GDP will require further government

investment and support to raise consumption in otherwise struggling households. Increased government expenditure should also improve service delivery and upgrade the services infrastructure to support ongoing transformation of the economic structure and increased growth.

Figure 12 Capital Stock



6. Fiscal policy position

6.1. Fiscal Framework

On the positive side, the fiscal outlook has improved relative to the 2022 Budget Review at least partly due to stronger-than-expected tax revenue collection in the current five months of the 2022/23 financial year. The PBO expects higher gross tax revenue largely driven by increased corporate income tax collection specifically from companies profiting from higher commodity prices and inflation. As a result, a smaller budget deficit and improved debt outlook is expected contrary to the projections of the 2022 Budget Review.

Table 7 PBO Pre-MTBPS 2022 Revenue Projections- higher revenue than budget estimates

R million	NT Budget Review 2022	PBO Pre-MTBPS Projections 2022 ^{1,2}	Surplus (shortfall) compared to NT BR projections
Personal income tax	587 907	597 868	9 961 ↑ 1,7%
Corporate income tax	269 931	406 884	136 953 ↑ 50,7%
Skills development levy	20 619	21 515	895 ↑ 4,3%
VAT	439 681	512 004	72 324 ↑ 16,4%
Other tax revenue	280 309	283 625	3 316 ↑ 1,2%
Gross tax revenue	1 598 447	1 821 896	223 448 ↑ 14,0%
SACU payments	-43 683	-43 683	0 0,0%
Main budget revenue	1 588 044	1 811 492	223 448 ↑ 14,1%
Main budget expenditure	1 975 257	1 975 257	0 0,0%
Main budget balance	(387 213)	(163 765)	223 448 ↓ -57,7%
Main budget balance (% of GDP)	-6,0%	-2,5%	↑ 3,5%
Gross loan debt (% of GDP)	72,8%	70,0%	↑ -2,8%

1. Monthly revenue and expenditure generally do not follow a smooth profile, therefore year-to-date growth rates are not reliable predictors of annual growth rates.
 2. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

The PBO notes that while the tax windfall is set to be temporary, it would be better allocated to the government towards helping poor and struggling households, especially at a time when the country is faced with a cost-of-living crisis.

Figure 13 Main budget balance as % of GDP

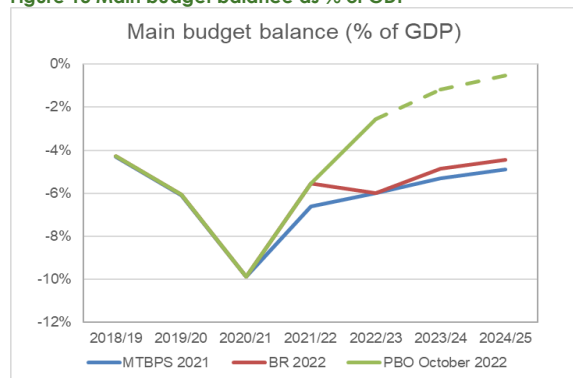
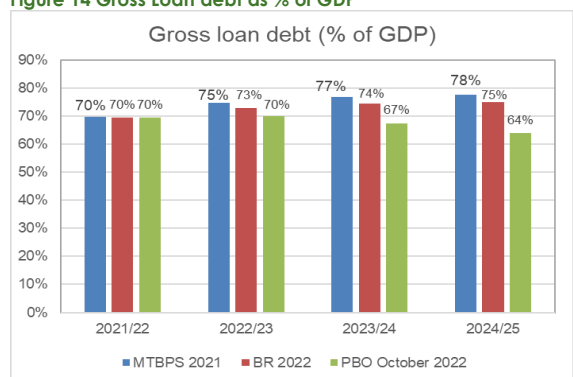


Figure 14 Gross loan debt as % of GDP



6.2. How to get South Africa back to fiscal sustainability?

The path to fiscal sustainability in South Africa has to account for the country's underlying economic dynamics. The PBO is concerned that years of fiscal consolidation have eroded fiscal sustainability by constraining economic growth while hurting households and exacerbating aggregate demand weaknesses. The economy is highly concentrated and financialized in a manner that worsens inequality.

South Africa's current path to economic growth is built upon outward-looking capital and an energy-intensive economic structure further complemented by bloated financial and non-productive services sectors. The growth of these sectors has not been translated into growth in investment and employment, entailing that a path to fiscal consolidation requires redistributive budgeting by the government in a strategic path to growth seeking to reduce inequality and build resilience. This new growth path should be inclusive, create employment and foster economic growth by meeting the needs and addressing the backlogs of the majority of struggling households.

The PBO argues that national finances can only be returned to fiscal sustainability by supporting social, public service and infrastructure spending in the name of realizing a new growth path. This growth path will draw on the untapped potential of the majority of South Africans, led by households and communities who have the support and the resources to contribute to economic growth because they have food, water

and sanitation, healthcare, education, housing, greater opportunities for decent work, transport to find work and go to work, etc.

The PBO further argues that there are very large costs associated with the very high levels of unemployment, poverty, inequality and insufficient resilience to domestic social and political instability, climate change events, the lasting effects of Covid-19 and possible future pandemic, geopolitical conflicts, and economic and financial instability. Budgeting and economic policies to reduce unemployment, poverty and inequality are the key to building resilience to the many intensifying risks facing households, communities, nations and regions and the globe.

The recent experiences with social unrest and floods have taught South Africa that destruction caused by political instability, pandemics and environmental disasters can cause very large financial losses and economic damage in very short periods of time. The country has seen how these risks undermine not only the credibility of fiscal frameworks but threaten democratic institutions. Building resilience through improved social security and public services will thus provide the economy with an automatic stabilizer in support of long-term fiscal sustainability

6.3. Improved tax and revenue outlook

Table 5 compares tax revenue collection between the 2021/22 and 2022/23 financial years for the first five months.

Table 8 2022/23 first five months' tax revenue outcomes

R million	2022 BR Estimates		Collection against target Apr - Aug 22		Collection against target Apr - Aug 21			
	R billion	Y-on-Y % change	R billion	YTD Collection rate (%)	R billion	YTD Collection rate (%)		
Personal Income Tax	587,907	13.9	230,581	39.2	8.4	212,665	41.2	2.4
Value Added Tax	439,681	18.8	159,700	36.3	11.9	142,722	38.6	10.4
Corporate Income Tax	269,931	26.6	142,938	53.0	14.7	124,583	58.5	58.8
Fuel Levy	89,113	7.2	27,643	31.0	-24.8	36,777	44.2	16.1
Dividend tax	30,325	80.1	15,703	51.8	25.8	12,483	74.1	0.9
Custom Duties	62,505	15.8	26,276	42.0	42.6	18,430	34.2	-8.5
Specific Excise Duties	51,864	18.6	19,380	37.4	32.4	14,634	33.5	-11.9
Skills Dev Levy	20,619	15.8	8,283	40.2	8.5	7,634	42.9	5.2
Ad-valorem	4,406	24.6	2,196	49.8	-13.3	2,533	71.6	21.9
Other	42,096	-12.0	18,711	44.4	10.0	17,008	35.6	26.0
Gross Tax Revenue	1,598,448	17.1	651,411	40.8	10.5	589,468	43.2	13.6

The year-on-year revenue collection comparison shows slower revenue collection against the targets in 2022/23 compared to the 2021/22 financial year for all tax instruments with exceptions of the specific excise duties (42%) and customs duties (37.4%). In contrast, specific excise duties collection reflects a 42.6 per cent year-on-year increase in tax collection while custom duties reflect a 32 per cent increase. Here, the year-on-year actual collection rates for corporate income tax, fuel levy and ad-valorem tax were

significantly worse over the same periods, at 14.7, 24.8 and 13.3 per cent respectively.

Figure 15 Tax revenue collected per tax instrument 31 August 2022

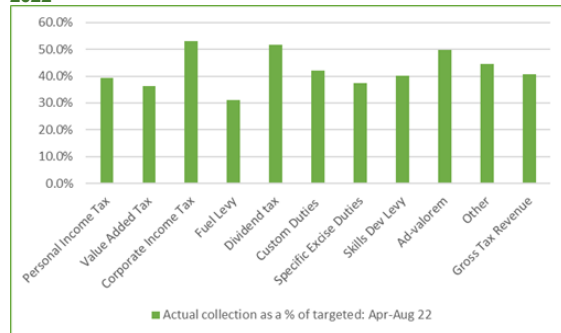


Figure 15 shows that by the end of August 2022, SARS had collected more than half of the budget-targeted tax revenue for corporate income tax (CIT) (53%) and dividends withholding tax (51.8%). In contrast, the lowest of all the tax instruments was the percentage of the general fuel levy (31%) collected relative to the target, which can be attributed to the reduction in the general fuel levy announced by the Minister of Finance in March 2022. The fuel levy was reduced to provide short-term relief to households from rising fuel prices as a result of the Russia/Ukraine conflict but was reduced by R1.50 per liter from 6 April to 6 July 2022. This reduction was extended up to 2 August 2022 but was later revised to R0.75 per liter.

7.State Owned Entities and Contingent liabilities- Risks

Total contingent liabilities have been increasing over the years and are expected to exceed R1.2 trillion by 2023/24. Of the R560.1 billion guarantees to state-owned companies, Eskom accounts for 78.7 per cent. Indeed, Eskom continues to pose a significant risk to the public finances as it relies on government guarantees to finance its operations. The intensity of the current power cuts threatens the entire economic outlook with a particularly significant impact on businesses (disruption in operations and closure to SMMEs) and households (exacerbating UPI issues).

Access to capital markets has become more restricted for SOEs as a result of weak revenue growth, poor operating performance and mounting debt-service costs. Contingent liabilities are a rating weakness for South Africa because of their relatively large size and the high risk that they might migrate onto the sovereign's balance sheet. Rising inflation and expectations of higher interest rates could increase borrowing costs. Lower-than-expected GDP growth and materialisation of contingent liabilities at state-owned companies could increase funding costs.

7.1. Insufficient energy security; Eskom's accumulative hours of load-shedding

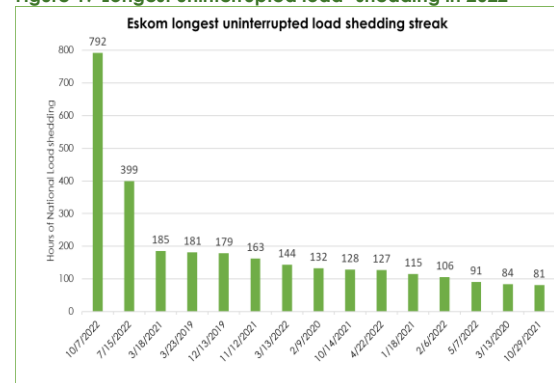
According to data from EskomSePush, Eskom has just implemented its longest uninterrupted streak of load-

shedding since it first started rotational power cuts in 2008 (as of 27 Sept 2022) by failing to suspend load-shedding for more than 450 hours. Eskom has already applied for a 32 per cent electricity price hike through the National Energy Regulator of South Africa (Nersa) from 1 April 2023. Eskom has also warned of stage 15 load-shedding, adding that it would cost hundreds of jobs.

Figure 16 Continued & severer load-shedding in 2022



Figure 17 Longest uninterrupted load- shedding in 2022



7.2. Implication of the extended load shedding

The single biggest risk to South Africa's economic outlook remains the availability of sustainable electricity. Electricity is a strong binding constraint that continues to hold back productivity and investment growth. Having experienced a 0.7% contraction in 2022 Q2, it is clear that the intensity of the current power cuts threatens the recovery of GDP (StatsSA, 2Q2022). The national economy is facing an unprecedented scenario with load shedding not only impacting upon food security and mobile networks, but business sectors and industries at large. The effects of load-shedding across business sectors are the following: contributing to inflation that may result in business producing less under rising costs; causing disruptions in business operations and schedules; increasing production costs (e.g. fuel in backup generators, etc.); increasing overall risk and causing more uncertainties for business.

The backup generators or solar system installations which can be installed by larger companies to mitigate the impact of power outages have proven unaffordable to many SMMEs. Eskom's load-shedding may thus be exacerbating unemployment while

creating additional poverty and inequality issues insofar as many jobs are being lost as a direct result of load-shedding. Many jobs could also have been created had load-shedding been avoided. The resulting loss of skills and expertise due to emigration is a secondary effect, as is the loss of confidence by the citizens in their government.