**Report of the Standing Committee on Finance on the 2022 Revised and Proposed Fiscal Framework, Dated 08 November 2022**

The Standing Committee on Finance, having considered the revised and proposed fiscal framework referred to it, reports as follow:

## INTRODUCTION AND BACKGROUND

### The Minister of Finance, Mr Enoch Godongwana, tabled the 2022 Medium-Term Budget Policy Statement (MTBPS) in Parliament on 26th October 2022 in terms of Section 27 of the Public Finance Management Act (PFMA), Act No. 1 of 1999 and Section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act (Money Bills Act), Act No. 9 of 2.

### The Minister, the Acting Director-General, Mr Ismail Momoniat, and senior officials from the National Treasury (NT) and the South African Revenue Services (SARS) briefed a joint sitting of the committees on finance and appropriation on 27th October 2022. The Committees received post-Budget tabling input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 01 November 2022.

### The Committees held public hearings on 2 November 2022 and received a total of **6** written submissions from the Congress of South African Trade Unions (COSATU), Institute for Economic Justice (IEJ), Public Economy Project (PEP), South African Institute of Chartered Accountants (SAICA), Budget Justice Coalition (BJC) and Healthy Living Alliance (HEALA).

### NT and South African Revenue Service (SARS) responded to the issues raised during the public hearings and engaged with the Committee and stakeholders on 04th November 2022.

## POLITICAL OVERVIEW

### The Minister of Finance stated that one of the things that National Treasury was trying to do, in a difficult political environment, was to manage the trade-offs. He reminded Members that over the past few years, more money was given to the state-owned enterprises (SOEs) and grants. He said that this undermined spending on baseline departments and frontline services.

### The Minister said that starting from Budget 2022 and this MTBPS, National Treasury has been trying to grapple with these trade-offs, that is why it has been able to give more money for teachers and the police. He said that while National Treasury was trying to address these issues, SOEs remained a formidable challenge. He said that SOEs which had a strategic importance in the economy presented a moral hazard, as they made it difficult for the National Treasury to simply “walk away from them in the current environment.”

### However, the National Treasury is reprioritising resources and beginning to put more money on infrastructure and social services such as education and the police, the Minister said. He said that were it not for the extension of the Social Relief of Distress (SRD) grant (implemented by Government during the period of Covid-19), National Treasury would have put more resources into infrastructure and social services. He said that the extension of the SRD grant was imposing another trade-off, as for example Government intended to employ 30,000 police officers but had to reduce that number to 15,000 new police officers in the next financial years.

### The Minister emphasised that Government had not reduced spending on social services. He said that he wanted Members to understand the fiscal strategy in terms of prioritisation, infrastructure and social services. He emphasised that there was a growth element in investing in more infrastructure, while also prioritising meeting the basic needs of the people. He said that this was the balancing act that the National Treasury was trying to achieve.

### The Acting DG, Mr Momoniat, stated that the good message out of the 2022 MTBPS was that South Africa was restoring the health of its public finances at the time when there was a real slowdown in the global economy. He said that there were very bleak projections in the global economy with high inflation, the impact of Covid-Zero in China and its impact on supply chains, and the ongoing Russia-Ukraine conflict. He said that these issues were having a huge impact and inducing real shocks in some economies, citing the recent unfunded mini budget in the United Kingdom (UK) which was swiftly rejected by the markets.

### Mr Momoniat stated that global risks were significant and the National Treasury would have to take them into account, including the impact of interest rates increases in the United States of America (US) and the UK, which are South Africa’s trading partners. He said that these risks will have an impact on many emerging economies. He said that the message from the global economic outlook was that it is going to be “a rough next six months and perhaps even rougher next year” and Members of Parliament needed to take cognisance of it. Mr Momoniat emphasised that in the current global environment, National Treasury needed to be a bit more fiscally prudent than it would have normally been.

### He said that what worked in South Africa’s favour was the higher than anticipated revenues, which have reduced the gross borrowing requirement of Government and enabled the fiscal framework to prioritise key spending areas for frontline services like health, education and policing. He added that National Treasury had also put more money on infrastructure so that the budget began to have more of a growth orientation.

### He explained that fiscal consolidation had really helped to put the country on a good course, emphasising that in 2023/24, a primary budget surplus of 0.7 per cent of GDP is expected. He clarified that there was still a budget deficit, and that the country must continue paying huge debt servicing costs but would not be borrowing to pay interest. He said that this helped to stabilise the public debt even as Government was considering taking on a portion of Eskom’s R400 billion debt. He said that Government will be able to do this despite the global and the local shocks such as the KZN flood damage that took place in April 2022. He noted that these events shocked the fiscal framework in a significant way.

## OVERVIEW OF 2022 REVISED AND PROPOSED FISCAL FRAMEWORK

### **Revised Economic Outlook**

### In 2021, the South African economy rebounded strongly from the COVID-19 pandemic, with Gross Domestic Product (GDP) growth averaging 4.9 per cent despite the impact of the July 2021 unrests, electricity supply constraints and slow implementation of economic reforms. Over the past two years, higher global commodity prices, a strong rebound in global economic activity and the easing of COVID-19 restrictions continued to support economic growth and improve export performance and revenue.

### The 2022 Budget projected economic growth of 2.1 per cent in 2022/23. Like the South African Reserve Bank’s (SARB’s) projection in September 2022, this has been revised down to 1.9 per cent. A downward revision of economic growth can be attributed to slower global growth; impacts of flooding in KwaZulu-Natal and the Eastern Cape provinces; industrial action in certain sectors of the economy; persistent electricity supply constraints; high inflation; and low levels of investment and employment.

### The 2022 MTBPS reported that since the tabling of the 2022 Budget, global and domestic risks to the economic outlook have materialised. GDP growth is expected to average 1.6 per cent in the next three years. The National Treasury expects GDP growth over the medium term to be supported through implementing economic reforms, particularly within the energy sector, stable public finances and medium-term spending increases. The negative impact of the pandemic on employment and investment decisions is expected to weigh on the recovery over the medium term.

### Risks to the global and domestic outlook include unresolved structural constraints to growth, slower global growth, continued tightening of monetary policy, increased power cuts, a deteriorating fiscal outlook due to unfunded spending pressures and, the materialisation of contingent liabilities.

Table 1: Macroeconomic performance and revised projections

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Real percentage growth** | **2021** | **2022** | **2023** | **2024** | **2025** |
| **Actual** | **Estimate** | **Forecast** |
| Household consumption |  5.6  |  2.9  |  1.6  |  1.7  |  1.8  |
| Gross fixed capital formation |  0.2  |  4.0  |  1.9  |  3.6  |  3.8  |
| **Real GDP growth** |  **4.9**  |  **1.9**  |  **1.4**  |  **1.7**  |  **1.8**  |
| Consumer price index (CPI) inflation |  4.5  |  6.7  |  5.1  |  4.6  |  4.6  |
| Current account balance (% of GDP) |  3.7  |  0.2  |  -0.9  |  -1.1  |  -1.2  |

**Source**: SARB and National Treasury

### Table 1 above shows that the inflation rate is expected to revert to the set target range of 3-6 per cent over the medium-term. Headline Consumer Price Inflation (CPI) is expected to bridge the target range in 2022 and average 6.7 per cent. Headline CPI is largely driven by increases in the prices of food, oil, electricity and other administered prices. The SARB continued to tighten monetary policy, increasing the repurchase rate by a cumulative 275 basis points to 6.25 per cent, from November 2021.

### The 2022 MTBPS reported that 2.3 million people lost their jobs during the COVID-19 pandemic. The 2022 Second Quarterly Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons increased by 648 000 to 15.6 million while the rate of unemployment measured at 33.9 per or 8 million persons. While fiscal policy supports economic growth through investment in public infrastructure, NT stressed that South Africa’s economic growth rate remains too low to address its poverty and unemployment challenges.

### **Revised and Proposed Fiscal Framework**

### The National Treasury’s medium‐term fiscal strategy is focused on reducing the fiscal risks in the short term, narrowing the budget deficit and stabilising debt, while proposing measures to enhance economic growth and restore funding for infrastructure and service delivery programmes.

### **Table 2** below shows that the consolidated revenue is expected to increase to R1.88 trillion in 2022/23 (an upward revision of R83 billion), reaching R2.22 trillion in 2025/26. Since the 2022 Budget, revenue collection has exceeded projections across most major tax categories. According to National Treasury, the higher revenue estimate is largely due to better-than-expected collections in the final quarter of 2021/22, upward revisions to near-term tax base growth projections and strong Corporate Income Tax (CIT) collections.

### While contribution from the increased commodity prices has waned, there has been a broad-based recovery in CIT collections. The National Treasury however cautioned that these revenue projections may be lowered if power cuts intensify, global growth slows further or there is an escalation in the Russia-Ukraine war. The tax-to-GDP ratio is expected to increase from 24.9 per cent in 2021/22 to 25.3 per cent in 2022/23. Further improvement depends on a durable economic recovery.

Table 2: Consolidated 2022 fiscal framework

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **R billion/percentage of GDP** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| **Outcome** | **Revised estimate** | **Medium-term estimates** |
| **Revenue** |  **1 750.4**  |  **1 882.2**  |  **1 952.8**  |  **2 072.2**  |  **2 218.7**  |
| *27.8%* | *28.3%* | *27.7%* | *27.5%* | *27.7%* |
| **Expenditure** |  **2 047.0**  |  **2 205.3**  |  **2 241.7**  |  **2 364.1**  |  **2 477.7**  |
| *32.6%* | *33.2%* | *31.7%* | *31.4%* | *30.9%* |
| **Budget balance** |  **-296.7**  |  **-323.1**  |  **-288.9**  |  **-291.9**  |  **-259.0**  |
| *-4.7%* | *-4.9%* | *-4.1%* | *-3.9%* | *-3.2%* |
| **Gross loan debt**  |  **4 277.5**  |  **4 752.0**  |  **5 002.2**  |  **5 296.1**  |  **5 607.8**  |
| *68.0%* | *71.4%* | *70.8%* | *70.4%* | *70.0%* |
| **Net loan debt**  |  **4 011.1**  |  **4 508.3**  |  **4 849.4**  |  **5 190.8**  | **5513.4** |
| *63.8%*  | *67.8%*  | *68.7%*  | *69.0%*  | *68.8%* |

**Source**: National Treasury

### The consolidated expenditure in 2022/23 is now estimated at R2.21 trillion, R2.24 trillion in 2023/24 and almost R2.5 trillion in 2025/26. Compared with the 2022 Budget estimates, the government proposes a net addition of R37 billion to the main budget non-interest spending in 2022/23. This consists of R54.1 billion in spending increases, partially offset by declared unspent funds, projected underspending and contingency reserve drawdowns. Overall, the social wage will take up 59.4 per cent of total non-interest spending over the medium term.

### Additional resources are provided over the medium-term for the security forces, health, education, local amenities and infrastructure investment. Government is also allocating funds to reduce fiscal and economic risks posed by Denel (R204 million to reduce contingent liabilities and an additional R3.4 billion for the turnaround plan implementation), South African National Road Agency Limited (SANRAL) (R23.7 billion) and Transnet (R5.8 billion) and plans to take over a portion of the R400 billion Eskom debt.

### The consolidated budget deficit is now projected to narrow from 4.1 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26. According to the National Treasury, South Africa’s fiscal policy is achieving its objectives of closing the gap between revenue and non-interest spending. In 2023/24, a primary budget surplus of 0.7 per cent of GDP is projected as revenue collection has exceeded projections. In the current year, the government will use 65 per cent of the projected additional revenue to improve its primary balance, followed by 45 per cent in 2023/24 and 37 per cent in 2024/25.

### The National Treasury expectsthe gross loan debt to stabilise at 71.4 per cent of GDP in 2022/23, which is two years earlier and at a lower level than projected in the 2022 Budget Review. Debt stabilisation in the current year reflects the impact of several changes since the Budget 2022. Net public debt will stabilise at 69 per cent of GDP in 2024/25. The improvement in the pace of debt stabilisation is largely a result of higher-than-anticipated inflation and revenue. It will be partly offset by the materialisation of fiscal risks, including a planned takeover of Eskom’s debt.

### NT reported that since 2007/08, South Africa’s public debt has risen sevenfold, from R577 billion to over R4 trillion in 2021/22. As a result, debt-service costs are expected to rise from R303.7 billion in 2022/23 to R332.2 billion (4.7 per cent of GDP) in 2023/24, reaching R380.7 billion (4.8 per cent of GDP) in 2024/25. Compared with the 2022 Budget estimate, debt-service costs will increase by R5.9 billion to R307.7 billion in 2022/23.

### NT cautioned that the materialisation of various fiscal risks could negatively affect the fiscal position and the government’s effort to stabilise the public finances. Risks to the fiscal outlook include further slowdowns in economic growth, higher-than-budgeted public-service wage costs, contingent liabilities of state-owned companies, continuous electricity-supply constraints and the introduction of unfunded spending programmes.

## INPUTS FROM CONSTITUTIONAL AND STATUTORY INSTITUTIONS

### **Financial and Fiscal Commission**

### On the macro-economy, the FFC highlighted that as a small open economy heavily dependent on commodity exports, South Africa is exposed to global developments. According to the Commission, macro-policy uncertainty, patchy policy implementation, low rates of fixed capital investment, deficient and intermittent power generation are weighing heavily on economic growth. Also, the impact of load shedding, the Transnet strike, cumulative increases in interest rates and, the resulting rising cost of living represented a risk to the fiscus and the fiscal consolidation exercise.

### The FFC further cautioned that if the Financial Action Task Force (FATF) greylisting materialises, it will dampen the prospect of economic growth as foreign investors may become reluctant to do business in South Africa, raising rating concerns at many international institutions and leading to capital outflows.

### On fiscal policy, the FFC noted that the impact of the Covid-19 pandemic, the Ukraine war, and the inflation shock has been cushioned by the improvement in the country's fiscal fortunes as a result of improved revenue projection. As a result, the 2022 MTBPS presented a better-looking fiscal metrics than the 2022 Budget due to the commodity boom resulting in windfall mining profits and revenue overruns. The FFC said that despite the projected primary budget surplus in 2023/2024 and the stabilisation of the gross government debt at 71.4 per cent of GDP in 2022/23, the FFC expects low growth and rising borrowing costs to continue increasing debt-service costs over the medium term, as the increases in CIT receipts is unlikely to become permanent.

### The FFC supported the stance taken not to use the revenue windfall to fund permanent spending increases, but primarily to address some critical issues at strategic SOEs, to counteract the effect of the pandemic, reduce debt, and support growth. Regarding expenditure pressures on the fiscus and sustainability of public finances and SOEs, the FFC noted that the 2022 MTBPS extended the Social Relief of Distress (SRD) grant for another year but did not provide details on a permanent Basic Income Grant (BIG). According to the FFC, the fiscal framework's credibility and sustainability depends on the consistency of the policy stance of fiscal consolidation.

### The FFC further noted the identified risks to the fiscal framework which include the materialisation of a higher-than-budgeted wage agreement, a permanent extension of the SRD grant without a corresponding permanent increase in funding, the financial support for strategic SOEs, and the poor financial health of most SOEs. The FFC noted that by 2024/25, contingent liabilities are expected to exceed R1 trillion. It emphasised that the deepening energy crisis, high inflation rate, the possible grey-listing of South Africa by the FATF, protracted wage negotiations, and above-inflation salary increases were likely to constrain growth.

### The Commission recommended that Government should continue to stay consistent on its policy stance towards maintaining fiscal credibility and ensuring fiscal sustainability in order to minimise economic risks. It said that the medium-term spending should be reprioritised towards social and economically inclusive growth-supporting expenditure in order to mitigate the exacerbation of inequalities and socio-economic vulnerabilities in the long run.

### It further submitted that there must be transparent processes on providing fiscal support to SOEs, through publicly available reports and conditions, and reforming the evaluation criteria for granting government guarantees to SOEs. It said that this includes establishing a governance framework with public reporting criteria that clearly defines detailed and precise profitability and other non-financial objectives for transparency.

### It said that the debt financing strategy should be aligned to economic growth initiatives in order to slow down the debt service costs and ensure that interest expenditure does not crowd-out critical spending in vital functional areas such as health and education. In addition, government should improve expenditure management by preventing fiscal leakages and fruitless spending, the FFC submitted. It emphasised reforms that will address vulnerabilities to corruption.

### The FFC said that careful attention should be given to the budget and debt financing strategy to slow the annual growth rate of debt service costs and ensure that interest expenditure does not continue to consume fiscal space and crowd out spending on basic services and realising socio-economic rights.

### The FFC submitted further that Government should address weak productivity in expenditure to create job-enhancing, inclusive growth through quality expenditure and investment-enticing reforms. In addition, long-term growth prospects will require addressing structural constraints. To that end, Government must implement reforms that address vulnerabilities to corruption (such as procurement reform), ensure energy security by enticing private sector investment and fast-tracking the unbundling of Eskom. Lastly, the overall increase in competitiveness of the economy through the reduction of regulatory barriers that support Small Micro and Medium enterprises (SMMEs) is urgently needed.

### Lastly, it said that the implementation of tax reforms needs to be done in a manner that does not harm growth.

### **Parliamentary Budget Office**

### Considering the assertions by the Minister of Finance and the 2022 MTBPS that the strategic goal of government is to reduce poverty, inequality and unemployment, the PBO questioned whether the approach taken in the 2022 MTBPS, and the solutions offered, supports the achievement of these goals given the experience with the chosen fiscal policy stance of consolidation over the past few years.

### The PBO raised concerns on the approach suggested that may further constrain economic activity, erode the social fabric and escalate risks to societal and economic stability. Also, progress on structural reforms has been slow and the advertised economic benefits of these reforms will most likely not be seen or felt over the medium-term, the PBO said. It said that the growth rates forecast in the 2022 MTBPS meant that real GDP per capita and real investment are expected to remain below the 2019 (pre-COVID-19) levels in 2025.

### The PBO submitted that fiscal consolidation has contributed to increased anger and heightened the risks of social and economic instability, as inadequate spending on social support and infrastructure has exacerbated poverty. It said that fiscal consolidation ignores potentially huge costs to the economy and government, associated with serious risks, such as the COVID-19 pandemic. Other serious risks include geopolitical conflict, domestic protests, climate change events, the possibility of new pandemics, global recession and the heightened likelihood of a financial and economic crisis.

### According to the PBO, the poor performance of the South African economy, which predates the COVID-19 crisis, is due to the interrelated structural weaknesses of the economy and extreme levels of unemployment, poverty and inequality. A path towards fiscal sustainability should consider these underlying dynamics of the economy, the PBO said. It should ensure resources for measures to transform the structure of the economy and to alleviate suffering associated with the triple challenges faced. The PBO said that South Africa’s extreme inequality is a great constraint on economic growth and development.

### The PBO said it believes that fiscal policy can be a more effective tool for redistribution in an unequal society and increased social security can provide automatic stabilisers to risks and shocks. It added that fiscal policy can also support economic development and transformation, including diversified, value-adding industrialisation and productive services.

### The PBO cautioned that the combination of higher interest rates and volatile cross-border capital flows poses serious risks to macroeconomic stability in developing countries. It said that maintaining a primary fiscal surplus and reducing government debt will not improve South Africa’s current account situation and prospects for growth because of the overwhelming impact and vulnerability to destabilizing, volatile short-term foreign capital flows and the high interest rate regime that this requires.

### The PBO raised further concerns that there is limited support for economic development in the 2022 MTBPS. It submitted that efforts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help. It also said that a lack of state capacity to deliver infrastructure projects as well as the insufficient progress in addressing structural constraints do not bode well for the fixed investment outlook. It added that the sectoral reforms will not reduce the high levels of economic concentration across most sectors of the economy, including financial services.

### The PBO recommended that fiscal policy and the fiscal framework must consider current socio-economic conditions, including the extreme levels of structural unemployment, poverty and investment. It said that fiscal sustainability should not narrowly focus on achieving budget surpluses and reducing government debt to GDP because decisions about the fiscal framework affect broader societal and political stability. It said that the approach where the government narrowly focuses on fiscal ratios and points to structural reforms to increase economic growth that it hopes will trickle down to struggling households should be replaced by an approach where fiscal policy is seen as an important part of a policy toolbox to transform the economy.

### The PBO submitted that tax is an important tool that can be used for the redistribution of income and wealth. It said that greater domestic resource mobilisation can be achieved through further progressive tax reforms, leveraging development finance, and non-traditional monetary policy tools, amongst others. It submitted that tax proposals taxing excess profits of companies that have used the inflation upsurge to profit and make up for COVID-19 losses should be considered, and windfall taxes for sectors benefiting from the commodity price boom. It said that failure to reach a global consensus on international tax reform for digital tax leads to a situation where South Africa should unilaterally introduce domestic taxes on the digital economy. There is a need for a systematic review of tax incentives and the removal of ineffective incentives and progressive measures to tax wealth.

### The PBO welcome the extension of the SRD grant and added that the MTBPS should have addressed the issue of basic income grant.

## SUBMISSIONS BY STAKEHOLDERS

**COSATU**

### COSATI said that it was deeply distressed that the MTBPS did not provide a clear plan or road map for South Africa to address its many massive challenges. These range from a staggering 44% general and 60% youth unemployment rate, an economy in recession and struggling to recover from Covid-19, the state bleeding billions to corruption and wasteful expenditure, Eskom struggling to provide reliable and affordable energy, Transnet and PRASA ravaged by cable theft, and the July 2021 violence and the March 2022 floods.

### COSATU submitted that there was little in the MTBPS that gave hope to workers and the nation that government has things under control and we can see the economy growing, jobs being created and the state rebuilt. Workers looked forward to hearing decisive action from government and were left disappointed on many fronts.

### COSATU said that Government needs to ramp up the fight against corruption, including by reversing the head count decline in the SAPS, filling key vacancies in the NPA, empowering SARS to undertake lifestyle audits of politicians, senior state managers and high wealth individuals.

### Most worryingly, COSATU, Government continues to pursue its focus on reducing the debt by allowing public servants’ wages to be eroded by inflation and allocating below inflation increases and thus cuts in real terms to key public services that workers and the economy depend upon.  It said that Government continues to outsource the bill for state capture and corruption to public servants.  The MTBPS provided no plans to reverse the rapid decline in the head count ratio for nurses, doctors, teachers and police officers.

### COSATU said that there was little that spoke to how Government is tackling corruption, ending wasteful expenditure or rebuilding key SOEs. It said that the failure by the NPA to meet even 20% of its annual targets halfway through the financial year should set off alarm bells for everyone.

### Halfway through the financial year, COSATU said, it is deplorable how far behind many key departments are in meeting their annual targets.  It said that the financial free fall of 90% of municipalities is well known, yet there was no sign of action by COGTA and SALGA in turning the state of local government around.

### Whilst the overall thrust of the MTBPS was depressing, COSATU welcomed its positive elements.  It said that these include the extension of the SRD grant until 2024, a commitment to relieve Eskom of up to 2/3 of its debt burden, additional funds to rebuild Transnet, relief for DENEL and ending of the E-Tolls saga.  COSATU also welcomed Government’s agreeing to these COSATU demands.

### COSATU said that Government needs to table a bold and progressive budget in February that will provide relief for the poor, protect workers and public servants, tackle corruption and wasteful expenditure, clamp down on tax and customs evasion, support Eskom as well as Transnet and Metro Rail and other key SOEs, rebuild local government and restore quality public services, stimulate the economy and reduce unemployment.  It said that the country cannot afford to continue to run an economy on a wing and a prayer and expect things to change.

**Budget Justice Coalition (BJC)**

### The BJC is comprised of 22 civil society organisations, working across a number of sectors, with a common goal of advancing the progressive realisation of socio-economic rights in South Africa.

### It said that Government continues to prioritise debt reduction over human rights and investments in state capacity. It said that the increase to basic education and healthcare funding still failed to ensure that spending in these areas kept up with CPI inflation and the rising demand for services, throughout the MTEF.

### BJC said that grants and pensions continue to be eroded due to the Government failing to keep grant values up with inflation, now for two years in a row. It said that globally, governments have stepped up to insulate their people from the effects of rising energy and food prices, yet the South African government was proposing cuts to grants and thereby condemning its people to greater hunger and energy poverty.

### BJC said that the 1.7% real cut in per capita non-interest expenditure in 2022/23 is already doing harm to public services that are essential for the protection and achievement of human rights and a just transition. It said that the primary budget surplus of 0.7% of GDP that government aims to achieve in 2023/24 is a self-imposed austerity measure of the harshest kind that will inflict further damage onto public services already buckling under the weight of state capture, a decade of austerity, and the Covid-19 pandemic.

### BJC argued that by taking revenue out of our economy and channelling it to debt repayments, the primary budget surplus target will slow our recovery from the Covid-19 pandemic even further, and will not enable households to “weather the storms that lie ahead”. It said that there was no evidence to support that a primary budget surplus will lead to greater poverty reduction, a narrowing of inequalities, or a substantial increase in employment.

### BJC asked the following questions: when will Parliament demand an end to more austerity? Why is gender equality not at the core of South African fiscal and budgetary policies? What political vision do these cuts represent other than one in which the state walks away from the hard-won socio-economic rights enshrined in our 1996 Constitution? What developmental benefits, if any, have been gained by the attacks on public education and healthcare services, among others, endorsed by Parliament over the past decade?

### BJC recommended that National Treasury should include an equity chapter in all its policy documents that will specifically outline the fiscal implications of policies on gender, race, class, disability, alongside other relevant social categories. It said that Parliament should not endorse the goal of a primary budget surplus. BJC added that government should honour its human rights obligations by undertaking human rights impact assessments of its fiscal and budgetary decisions.

### BJC recommended that Government should abandon the primary budget surplus objective, and instead ensure that public services and households are protected from inflation and receiving allocations that at least keep up with inflation and user demand. BJC submitted that Government should recognise the value that public sector workers contribute to the economy and society by ensuring that wages keep up with inflation and that vacancies in public health and education, are filled.

### BJC advocated for the implementation of progressive tax reforms targeting high net wealth and medium-high income earners to ensure fiscal sustainability, narrow inequality and raise additional long-term revenue for the universal basic income grant and other socio-economic priorities. It further submitted that Government should commit to a gender budgeting process that encapsulates budget allocations, taxes and revenue and debt management and in which womxn, with diverse perspectives, and with lived experience of different contexts, are centred in the process of developing goals, and debating priorities.

### Lastly, BJC recommended that Parliament should require that all budget decisions are informed by human rights obligations, and when budget cuts are proposed, undertake a participatory human rights impact assessment and publish the findings.

**SAICA**

### SAICA applauded that no further tax increases were proposed and that SARS will be allocated more funding over the medium-term. It also welcomed other initiatives such as the move to a single remuneration framework, the approval of the “Framework for professionalizing public sector”, the funding framework and enforcement of minimum criteria for state guarantees and the strengthening of National Treasury’s early warning system to improve oversight and timely assistance for municipalities.

### SAICA noted that despite all these initiatives (some of which it feared were being implemented too late), the credibility of the budget was in question. It said that this was evidenced by revenue predictions that were growing despite weak (and declining) economic growth and worsening tax buoyancy ratios. It pointed out that even the SARS Commissioner stated that these estimates were steep and the MTBPS documentation also admitted that there is significant uncertainty associated with the projections which could lead to significant downward revisions and put the fiscal strategy under pressure.

### In light of the above, SAICA submitted that the National Treasury should provide Parliament with evidence of their research proving that breaching the 25% tax-to-GDP level will not result in the fiscal policy becoming detrimental to the economy.

### SAICA observed that the lack of credibility of the fiscal framework was also reflected on the expenditure side, with the consistent breaches of the expenditure ceiling. It said that the National Treasury has noted that the expenditure ceilings were too weak and it was considering various approaches to safeguard fiscal sustainability and limit excessive deficits, for example, debt ceiling, expenditure or revenue rule.

### In this regard, SAICA submitted that the National Treasury should be requested to provide regular feedback on its research on the most appropriate model/policy to safeguard the country’s fiscal stability.

### SAICA pointed out that the unbudgeted items remain a significant risk to the credibility of the budget. It said that it noted these in its 2022 Budget Review and Appropriations Bill submissions and these included: SOEs contingent liabilities that are fast becoming government debt, financial support for municipalities that are in a precarious financial health situation, costs to fix the dilapidated water and sanitation infrastructure, costs needed to appoint 12 000 new police recruits as promised by the President in the 2022 SONA - as inflation will erode the increases given to the Police Department in the 2022 Budget, IRBA’s financing needs and the potential underfunding of the long-term funding requirements of the GEPF.

### SAICA stated that the latest known unbudgeted expenses are the Eskom debt that will be taken over by the government (+/-R200 billion) as well as the wage increases for 2023/24. It said that the other one is increase in wages of 3.1% for the medium-term, which is insufficient considering the unions’ current demands of between 6% to 10%.

### SAICA submitted that the budget should be adjusted to cater for at least a realistic estimate of the above matters. Furthermore, professionalising the public sector should be expedited so that the structural mix as well as individual performance management can start being addressed. It submitted that regarding the SOEs, the National Treasury should be requested to prepare a risk-based schedule of all guarantees with a reasonable estimate of risk realization in the medium-term and Public Private Partnerships should be escalated. It added that the R479 billion accumulated deficit of the Road Accident Fund needs urgent attention.

### SAICA stated that the MOST SERIOUS RISK to the budget is, however, “the inevitable grey listing” of South Africa by FATF. SAICA said that this appeared to have not been factored in at all, yet it will have a profound effect on the budget and cash reserves in the National Revenue Fund that are already decreasing rapidly. SAICA submitted that the budget should have at least prioritised immediate allocations to departments/entities tasked with enforcing the law, such as to the NPA for instance, by reallocating the R1.7bn from the “VIP unit” budget.

### Lastly, SAICA submitted that Parliament should review its committee mandate concerning the separation between SCoF, SCoA and SCoPA to ensure that oversight obligations don’t fall in-between the cracks and that Parliament is effective as a single collective arm of government.

**Institute for Economic Justice (IEJ)**

### The IEJ recommended that the Committee calls on the Minister of Finance to put the needs of all South Africans at the centre of the budget and budget processes. It said that this entailed a radical shift in the fiscal framework, from focusing on short-term goals such as the primary budget surplus to targeting unemployment, poverty, and inequality. It emphasised that the urgency of resolving this triple burden is more pronounced in the context of a rising cost of living crisis that disproportionately falls on the majority, low-income households, and the unemployed.

### The IEJ’s detailed analysis and submission to the Committee provided an analysis and evidence of how the current fiscal framework is unsustainable and at odds with the State’s obligation to progressively realise human rights. It said that the current path of austerity has had an impact on the delivery of public services, leading to a regression in the protection of human rights, and disinvestment in public services.

### The submissions further discussed the proposals for progressive taxation to raise the maximum available resources to invest in public services, comprehensive social protection, and public employment. The IEJ said that mobilising resources for the realisation of human rights involves raising, allocating, and spending money in a manner that prioritises people’s rights.

### It reminded the Committee that the State has a constitutional obligation to progressively realise socio-economic rights. As such, it has a duty to prioritise those who are most vulnerable, excluded, or discriminated against. It is this approach that should guide priorities in the Budget.

**Public Economy Project (PEP)**

### PEP noted the short-term improvement in the fiscal position on the back of a nominal boom but highlighted that the real economic stagnation meant continued fiscal weaknesses ahead. It observed that Government slowed down its spending on growth in the wake of the pandemic and a much larger slowdown is planned for 2023.

### PEP decried that there was no “end of consolidation” in the fiscal framework, as it continues for the full three years of the MTEF as indicated by falling real per capita spending on core services. It noted that employment levels in health, education and criminal justice will be forced down further unless real reductions in government pay are executed for another three years (or if spending is increased substantially).

### PEP said that the aggressive fiscal consolidation path appears to stabilize debt, but the spending trajectory is implausible, and the “spending ceiling” is unreliable as forward guidance. PEP further pointed out that the revenue outlook was too optimistic and major risks were not included in the baseline.

### PEP submitted that with slightly different assumptions, fiscal targets set out in MTBPS are not achievable. Lastly, it said that the lack of reliability of key budget metrics points to a deterioration in the quality of the MTBPS and raises questions about the country’s fiscal institutions.

**Healthy Living Alliance (HEALA)**

### HEALA stated that it believes in food justice and for all South Africans to have equitable access to affordable and nutritious food. It said that this can be achieved through strengthening food policies that protect the public against unhealthy food environments and those that promote good health. The economic, household and individual costs of not realising the Right to Food are placing our people at a disadvantage to developing into a flourishing nation, Heala said. It said that calling the health promotion levy (HPL) the “sugar tax” does not give it justice. HEALA said that since its inception, the HPL has already shown positive results in changing consumer behaviours, but it has the potential to do much more.

### HEALA submitted that the HPL is constantly under threat through non-transparent dealings with the private sector that dilute, delegitimize and delay the increase of the HPL to 20% - an increase that would reap many rewards. It called on the government to wholeheartedly commit to strengthening the HPL, an existing and successful health policy, that benefits both the public’s health and the fiscus. HEALA noted that during the 2022 Budget Speech, the Minister of Finance announced a planned increase to the HPL of 4.5% - raising the levy from 2.21 cents to 2.31 cents per gram of sugar for sugar-sweetened beverages (SSBs) above the threshold of 4 grams of sugar per 100 ml to take effect on 1 April 2022. It said it welcomed this announcement as it would be the first increase since the HPL was enacted in 2018.

### HEALA expressed disappointment that the National Treasury had now postponed the increase to April 2023 to allow for broader consultation on the expansion of the HPL to include fruit juices and lower the 4g threshold of the levy. It said that the National Treasury had not given any explanations on why this postponement was necessary for consultations nor how the decision was made. HEALA said that it had submitted a Promotion of Access to Information Act (PAIA) application to National Treasury to demand records of evidence that informed the decision to delay the increase of the HPL and to share meeting minutes between Treasury, the Sugar Cane Industry and the Consumer Goods Council concerning the HPL. It said that a response was promised by the National Treasury to be sent no later than 10 October 2022, however, that response was had not been given at the time of the MTBPS and the hearings of the fiscal framework in Parliament. HEALA decried lack of transparency and accountability as worrying.

### HEALA submitted that the HPL needs to be increased to the recommended 20% rate and public consultations to decrease the 4g threshold and expansion of the HPL to include fruit juices are needed with urgency. HEALA also submitted that the National Treasury provides transparent information about any correspondence with the food and beverage industry in relation to the HPL

## RESPONSES BY NATIONAL TREASURY TO INPUTS AND SUBMISSIONS

### In its response to inputs from Constitutional and statutory institutions and stakeholders, the National Treasury sought clarify government’s fiscal positions and strategy, the proposed fiscal policy stance, South Africa’s structural growth problem, revenue and tax proposals, expenditure, the financing and debt management strategy, strategy in relation to SOEs, public participation strategy and other matters raised during the public hearings and Committee deliberations.

### The National Treasury stated that the MTBPS does not announce new policy proposals such as tax measures or detailed expenditure allocations, as this is only done in the February budget. It said that the fiscal strategy is not exclusively focused on debt reduction, but on strengthening public finances for sustainable growth and service delivery. It said that in order to ensure sustainable public finances and to achieve long-term intergenerational equity, it is crucial to carefully balance revenue, expenditure and borrowing. It explained that financing and debt management also play an important role.

### The National Treasury explained that government plans to implement its strategy as presented in the 2022 MTBPS. On average, over the 2022 MTEF, the National Treasury explained that government will use 49 per cent of windfall revenue to improve the primary balance and 51 per cent to increase non-interest expenditure. It explained further that government will not rely on transitory revenue gains to fund permanent spending increases but will instead use these funds to reduce some of the risks and contingent liabilities. It said that as the gross debt burden declines, government will repair the broader public-sector balance sheet by reducing risks posed by public entities.

### The National Treasury vehemently disputed assertions that the 2022 MTBPS was austere.  It said that no further budget reductions had been announced in the 2022 MTBPS. Instead, additional spending in critical spending areas were made using a portion of revenue improvements. It added that, excluding the once-off payments in in year (2022/23) adjustments, the main budget non-interest expenditure will grow on average in line with CPI inflation over the 2023 MTEF.

### The National Treasury further clarified that despite projections to reach a primary surplus by 2023/24, government debt was still very high. Each year, a budget deficit adds to debt, increasing debt-service costs, limiting government’s capacity to spend more – and this cannot continue indefinitely.

### The National Treasury explained that over the MTEF, an allocation of R3.56 trillion, or 59.2 per cent of total non‐interest spending is dedicated to the social wage. This aims to alleviate poverty, reduce unemployment and accelerate growth.  It said that despite measures aimed at controlling expenditure growth, the funding for the social wage has been protected to ensure that necessary goods and services are provided to those who are in need.

### The National Treasury further explained that the fiscal strategy in the 2022 MTBPS is directed at reducing fiscal risks in the short-term, narrow the budget deficit and stabilise debt, while proposing measures to enhance economic growth and restore funding for infrastructure and service delivery programmes. It explained further that the National Treasury was implementing this strategy for several reasons including that since 2007/08, South Africa’s public debt had risen sevenfold, from R577 billion to over R4 trillion in 2021/22, thus raising payments on interest which were crowding out spending on essential services. It added that a narrowing budget deficit reduces the need to issue new debt and allows government to better manage the spike in debt redemptions, reduce growth in debt-service costs and gradually restore growth in the baselines of key service delivery and infrastructure programmes.

### Another reason advanced for this stance was that the country’s stock of debt remained high, and prudent public financial management remained essential to reduce the proportion of revenue dedicated to servicing debt over time. The National Treasury explained further that stable public finances will underpin economic growth, maintain government’s commitment to support vulnerable households and help reduce overall risks to the fiscal outlook. It said that this approach avoids the pitfalls of risky fiscal action that has led to currency depreciation and economic instability in several other countries.

### On medium-term spending plans, the National Treasury explained that the 2023/24 financial year is the final year of the fiscal consolidation announced in the 2020 MTBPS. It said that the 2022 MTBPS does not include any new budget reductions. It said that from 2024/25, the main budget non-interest expenditure is expected to grow above CPI inflation. It said that the main budget non-interest expenditure will increase by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25 compared with the 2022 Budget. This includes the following proposed additions over the next two years: R66.9 billion for health, education and provision of free basic services by local government, and a one-year extension of the COVID-19 social relief of distress grant; R8.9 billion for safety and security; R11.3 billion for infrastructure investment, including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.

### On the critique of the revenue forecast that was too optimistic, the National Treasury stated that strong revenue collections were again due to corporate income tax, but this time for improvements in finance and manufacturing sector, not just mining. It explained that the fuel levy relief and increased VAT refunds in 2022/23 masked higher in-year revenue across most major tax categories. It explained that the 2022 MTBPS revenue estimates align with the baseline macroeconomic projections. It explained further that higher inflation leads to higher tax bases and nominal GDP, improving expected revenue. It said that the medium-term tax elasticity assumptions from the 2022 Budget are maintained for the 2022 MTBPS estimates. It explained that the majority of assumed revenue gains from high commodity prices were excluded from the corporate income tax forecasts over the next two years (as the assumed buoyancy of corporate income tax is 0 for 2023/24). The National Treasury argued that the rebuilding of SARS was evident in improved revenue collection and compliance trends. It said that additional revenue gains from SARS efficiency improvements represented an upside risk to the revenue estimates. The National Treasury however noted that there are downside risks if commodity prices fall below forecasted values or if a global recession materialises.

###  The National Treasury assured that it will consider the tax policy issues in the 2023 Budget in February as the MTBPS did not include any announcements on tax policy. It stated that it had responded to HEALA’s PAIA request on minutes of meetings with the sugar cane industry. The National Treasury stated that it had had no such record of meetings taking place.

### On expenditure issues, the National Treasury conceded that effectiveness of the expenditure ceiling, which was introduced in the 2013 Budget, has been limited as fiscal imbalances continued to grow since then. It stated that while fiscal consolidation had achieved some success, debt continued to rise as a share of GDP due to new spending pressures and the declining economic growth. The National Treasury explained that it was considering additional options to protect fiscal sustainability. It said that it had tested the appropriateness of fiscal rules such as a debt ceiling, expenditure or revenue rule, which may assist in limiting excessive deficits.

### The National Treasury explained that spending risks were not allocated in the 2022 MBPS baseline as the: Eskom debt take-over still needed to be quantified and will only be included in the baseline when it materializes; the public sector wage bill is still under negotiation; the unallocated reserve cushions the fiscal framework from fiscal risks that may materialise over the medium term;  permanent extension of the SRD grant, or any replacement thereof, needs to be matched by a corresponding permanent increase in revenue, decrease in spending or combination of the two;  and the findings of some spending reviews are being implemented in the peace and security and general public services functions. The National Treasury stated that in most cases, expenditure review findings remain under discussion or will take longer to implement because they require legislative amendments and political conversations.

### The National Treasury explained that it is regrettable that some policy decisions with financial implications have not been finalized. It said that the inclusion of reserves is meant to protect the integrity of the overall fiscal framework. It said that this strategy has already improved clarity and decision-making during the 2023 budget process.

### On the uncertainty of the public sector wage bill, the National Treasury explained that most of the unions rejected the 3 per cent facilitated offer by the state, which meant the funding allocations for 2022/23 cost-of-living adjustment (COLA) could not be included in the 2022 Adjusted Estimates of National Expenditure (AENE). It said that no resolution was reached in the conciliation process. It said that the unions now have a certificate to embark on an industrial action. Nevertheless, the proposed fiscal framework assumes a broad-based increase in 2022/23 and its carry-through effects over the MTEF. This helps to safeguard the credibility of the fiscal balances.

### The National Treasury explained that over the past 15 years, the consolidated wage bill grew significantly. In the context of slow economic growth, the growing wage bill began crowding out spending in other critical areas, including service delivery. It said that between the 2020 and 2021 Budgets, government reduced the medium-term compensation of employees’ baselines by more than R300 billion in order to stabilise the public finances. It said that in order to avoid pre-empting the wage negotiation process, no provisions have been made for wage increases in 2023/24 although increases will need to remain within the available fiscal resources so as not to compromise other spending priorities.

### The National Treasury pointed out that it was allocating funds to reduce fiscal and economic risks posed by Denel, SANRAL and Transnet, and plans to take over a portion of Eskom’s debt. It said that these actions will help secure the gains of fiscal consolidation by improving economic growth and associated revenue collection and reducing contingent liabilities.

### On the possible grey-listing of South Africa by FATF, the National Treasury explained that over the 2023 MTEF, additional resources to carry out work will be allocated to particularly law enforcement agencies and the Financial Intelligence Centre.

### On climate change issues, the National Treasury stated that in line with South Africa’s global commitments, fiscal policy will continue playing its part to shift economic incentives towards cleaner forms of energy. It said that a paper on the design options for tax free allowances under the carbon tax will be published in 2023 for public comments and consultation

### On public participation, the National Treasury pointed out that South Africa remains among the top 2 countries with the most transparent budget processes in the world. I explained that the global transparency average is 45 out of 100, while South Africa scores the second best with 86 out of 100, a score which reflects South Africa’s commitment to transparency.

## COMMITTEES’ OBSERVATIONS AND RECOMMENDATIONS

### The Committee notes the concern from some stakeholders that the 2022 MTBPS continues with the austerity started in the 2022 Budget. While the National Treasury vehemently rejects this view on the basis that there are no budget reductions over the medium term, and that there was additional spending allocated and government debt levels remain high, the Committee recommends that the National Treasury considers some of the arguments raised by these stakeholders. The Committee understands the arguments by stakeholders on austerity to be informed by the fiscal consolidation path of government of the last few years as headlined by spending cuts or spending increases that are below inflation, with declining headcounts and no credible measures to deal with the rising unemployment, poverty and inequality. The Committee recommends that the National Treasury should report to the Committee the extent to which the previously adopted countercyclical fiscal policy and fiscal consolidation have been effective in stabilising the fiscal framework. The Committee welcomes that the 2023/24 financial year is the final year of the fiscal consolidation announced in the 2020 MTBPS. We also welcome that the 2022 MTBPS does not include any new budget reductions.

### While NT is adamant that the 2022 MTBPS, and the Budget in general, is pro-poor, more and more people are unemployed and are trapped in poverty and inequality. The MTBPS itself reported that 2.3 million people lost their jobs during the Covid-19 pandemic. The 2022 Second Quarterly Labour Force Survey from Statistics South Africa also shows that the number of unemployed persons increased by 684 000 to 15.6 million in that quarter, leading to a rate of unemployment being measured at 33.9 per cent (or over 44 per cent on the expanded unemployment definition) or 8 million persons (or over 12 million on the expanded definition). The Committee remains extremely concerned about this, especially in the light of an economic growth rate that is too low to address poverty, inequality and unemployment challenges. The Committee recommends that the Budget should consider far more the impact of the high cost of living on the economy, particularly on the poor households.

### The Committee notes the submissions made by the stakeholders regarding increasing the social grants and is sympathetic to them. The Committee also welcomes the extension of the SRD grant by another year. Given the consequences of Covid-19, the July 2021 social unrest, the KZN floods and the increased poverty, inequality and job losses, the unemployed and poor need to be cushioned more. The Committee reiterates its previous position that the National Treasury and government should seriously consider a Basic Income Grant (BIG). The Committee’s views on this are not unrealistic or populist. The Committee is acutely aware of the severe constraints on the budget and the reduced fiscal space, and the huge cost that the State will have to bear. But given the conditions in the country at present and the limited growth rates and job-creation, not to provide a BIG could lead to social consequences that will cost the State and society far more. The BIG can be introduced in an incremental, measured way that takes into account the limited fiscal space. The necessary trade-offs will have to be made. The tax proposals made by various stakeholders in the hearings on the funding of the BIG also need to be considered. The Committee will raise this with the Appropriations Committee to consider taking further.

### The Committee notes that the social wage - which is the combined spending on health, education, housing, social protection, employment programmes and local amenities- is protected in the revised and proposed fiscal framework. The Committee welcomes that over the MTEF, an allocation of R3.56 trillion, or 59.2 per cent of the consolidated non‐interest spending is dedicated to the social wage with the aim of alleviating poverty and reducing unemployment and inequality.

### The Committee welcomes the slight improvement to the country’s fiscal framework. Despite the challenging economic environment internationally and domestically, gross government debt is now expected to stabilise at 71.4 per cent of GDP in the current year – two years earlier and at a lower level than was projected in the 2022 Budget.

### The Committee further welcomes that gross tax revenues have been revised up by R85.5 billion in 2022/23, which is attributed to better-than-expected revenue collection in the final quarter of 2021/22, the upward revisions to near-term tax base growth projections and strong corporate income tax collections. The Committee however notes that these revisions may be based on revenue forecasts that are rather optimistic, as argued by some stakeholders in the hearings. The Committee notes the explanations from the National Treasury that the strong revenue collections were due to CIT collection from the finance and manufacturing sectors, rather than mining alone, as was the case in the previous years. The Committee also notes that most assumed revenue gains from high commodity prices were excluded from the CIT forecasts over the next two years (as the assumed buoyancy of CIT is 0 for 2023/24).

### The Committee notes further that the main budget revenue is expected to increase to 25.5 per cent of GDP in 2022/23 (R1 694 trillion) and average 24.9 per cent over the MTEF. Sixty five per cent of this projected additional revenue will be used to improve the primary balance, followed by 45 per cent in 2023/23 and 37 per cent in 2024/25, leading to a primary budget surplus, after a long period of time. The Committee however notes that despite this, South Africa still has high levels of debt.

### While the National Treasury expects gross loan debt to stabilise at 71.4 per cent of GDP in 2022/23, which is two years earlier and at a lower level than projected in the 2022 Budget Review, the Committee remains concerned about the high levels of the debt. The Committee notes that South Africa’s public debt increased sevenfold from R577 billion in 2007/08 to over R4 trillion in 2021/22, with increasing debt service costs to match, which are projected to increase, as a share of the main budget expenditure, from 15.2 per cent in 2022/23 to 16.8 per cent in 2025/26. The Committee reiterates its recommendation that the National Treasury reports quarterly to it on the effectiveness of its debt management strategies that would ensure that the level of debt stabilises over the medium-term as expected and that extra-budgetary costs and contingent liabilities do not increase the debt levels further.

### The Committee notes, with great concern, the significant risks to the fiscal framework and the fact that the National Treasury confirmed that the risks previously identified in the 2022 Budget have already materialised. The continued bailout of SOEs undermines government’s fiscal stabilisation efforts. The Committee recommends that the bailing out of SOEs, which is one of the biggest risks to the fiscus, should be subject to stringent conditions and accountability measures. In this regard, the Committee notes the proposed conditional allocations to public entities such as Denel, SANRAL and Transnet in order to reduce contingent liabilities and enable these entities to continue supporting economic growth. The Committee recommends a similar approach as far as possible be taken on all SOE bail-outs.

### The Committee also notes the Eskom debt relief programme which will result in government taking over a portion of Eskom’s R400 billion debt. It is envisaged that this debt takeover will enable Eskom to implement planned capital investments and critical maintenance. The Committee will await the finalisation of the debt relief programme and more details in the 2023 Budget in February. The Committee however strongly believes that the challenges at Eskom are not only financial, but also about management, leadership, governance and accountability.

### The Committee further recommends that the National Treasury should consider SAICA and FFC recommendations on SOEs, which include a focus on operational deficiencies and proper management of procurement, contracts and payments, a risk-based approach to government guarantees and that a differentiation be made between repair and maintenance spending versus funding for new infrastructure.

### The Committee notes the progress in the implementation of economic reforms that are expected to support investment and job creation under Operation Vulindlela. We note that on the energy space, the National Energy Crisis Committee will focus on improving the performance of existing power stations and adding new generation capacity to the grid, which is estimated at about 14 gigawatts over the next two years. We also note the corporatisation of Transnet National Ports Authority and the gazetting of the National Rail Policy in May 2022, with a focus on raising competitiveness, lower logistics costs and encouraging investments. We note further that the broadband high value spectrum has been auctioned and draft by-laws for redeployment of telecommunications infrastructure have been published for public comments. The Committee continues to urge for speed to the finalisation and implementation of these and other similar reforms in order to enhance growth.

### The Committee notes that the 2022 MTBPS does not adequately focus on the Economic Reconstruction and Recovery Plan (ERRP), particularly on progress. The Committee recommends that a forum should be created consisting of the PBO, FFC, NT and other experts to discuss the economic growth trajectory and strategy that would put South Africa on a sustainable upward growth trajectory, as the current fortunes derived from the commodity price boom are temporary and should not be overly relied upon, as NT itself concedes.

### Since November 2021, the South African Reserve Bank has hiked the repurchase (repo) rate by 275 basis points with the intention of maintaining price stability amid raging inflation. While inflation targeting falls within the ambit of the South African Reserve Bank (SARB), the Committee is concerned about the impact of the continued tightening of monetary policy and the impact of this on the cost of living, particularly for the poor and unemployed. The Committee however understands that there are global pressures as other central banks are tightening their monetary policy in response to inflation in their jurisdictions. The Committee believes that there is however a need for far more effective coordination between the fiscal and monetary policies and recommends that the National Treasury considers the FFC’s view that “if fiscal policy is credible and sustainable, that would remove pressure from the monetary policy or on the SARB to hike interest rates”. The Committee will also engage with SARB in order to understand if there are no other favourable policy alternatives that could be implemented, within the constitutional and legislative mandate of SARB, which would not involve the aggressive hiking of the repo rate.

### In the 2022 Budget Speech in February, the Minister of Finance stated that he had agreed with the Minister of Minerals and Energy to review all aspects of the fuel price. The Committee further notes and welcomes the fuel levy relief announced by the two Ministers in March and May 2022, with the aim of alleviating pressure of the rising fuel costs on households. The Committee requires that the Minister of Finance reports back to it on progress made in reviewing all aspects of the fuel price regime.

### The Committee notes that the 2022 MTBPS does not appear to have explicitly budgeted for fighting corruption and Gender Based Violence (GBV) while the levels of crime in the country are increasing. The Committee also notes concerns from stakeholders in this regard and urges the National Treasury to explicitly consider these issues in the budget and the budget process.

### The Committee reiterates its concerns about NT’s very late introduction of the (anti-money laundering and counter-terrorism financing) bills to Parliament and notes that despite the potential greylisting of South Africa by FATF and the dire impact on the economy that this outcome could have, particularly on foreign direct investment, the exchange rate, access to corresponding banking and cross-border trade, the 2022 MTBPS neither mentions this as a risk to the fiscus in its risk statement nor analyse its potential impact over the medium-term. The Committee urges NT to consider the impact that greylisting may have on the 2022 proposed fiscal framework.

### The Committee is concerned that there appears to be lack of understanding of the future of the Gauteng e-tolls. While the public seems to believe that the e-tolls have been scrapped, clarification was provided that a new funding model was being proposed to fund the e-tolls. The Committee requires the Minister of Finance to provide a written response on this after adoption of this report.

### The Committee recommends, as it has in its previous reports, that the Public Procurement Bill be tabled in Parliament for processing. The Committee believes that delays in tabling and processing this Bill compromises transformation and localisation (procurement of locally produced goods.) In compliance with section 217 of the Constitution, the Committee believes that black economic empowerment, youth, women, and people living with disabilities should be given preference when procuring.

### Participants raised several issues with regards to the risk of unresolved wage bill on the fiscal framework. The Committee notes that while the wage bill has an impact on the fiscal framework, this matter will be referred to the Appropriations Committees for further consideration

### The Committee thanks all those who participated in its processes.

Having considered the 2022 Revised and Proposed Fiscal Framework, the Standing Committee on Finance adopts it.

The Democratic Alliance and the Freedom Front Plus reserve their positions.