## 2024 MTBPS

# ANNEXURES

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National Treasury
REPUBLIC OF SOUTH AFRICA

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2024 MTBPS

# FISCAL RISK STATEMENT

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## INTRODUCTION

Key risks to the fiscal outlook over the medium term and beyond include lower economic growth, challenges in executing government's borrowing strategy and spending pressures, particularly from subnational governments and state-owned companies. While risks are slightly more balanced than at the time of the 2024 Budget, government will continue to manage fiscal policy carefully. Robust implementation of growth-enhancing reforms is critical to mitigate global and domestic risks.

**Figure A.1 Fiscal risk framework**

| Risk category | Major issues |
| --- | --- |
| Macroeconomic risks | ▪ Slow economic growth<br>▪ Higher-for-longer interest rates |
| Expenditure risks | ▪ Higher-than-expected wage agreement<br>▪ Subnational government<br>▪ State-owned companies |
| Long-term sustainability | ▪ Demographic changes<br>▪ Productivity growth |

## MACROECONOMIC RISKS

Weak economic growth is the most significant macroeconomic risk to the fiscus. A prolonged deceleration of global economic growth or a failure to overcome South Africa's persistent logistical constraints would result in additional pressure on revenue collection and the fiscal position.

Domestic and global monetary policies have begun to ease; however, if interest rates were to remain higher than expected, it could negatively affect the country's debt dynamics. Similarly, significant higher-than-expected budget deficits or a failure to stabilise public debt could prompt investors to demand higher interest rates on government bonds to compensate for increased risk. This in turn could place new pressure on government to raise taxes or reduce spending. Conversely, a faster-than-expected easing of policy rates could support a decline in the debt-to-GDP ratio.

The reduction in the fiscal deficit, improvements in investor sentiment and the country's ability to manage political transition in a peaceful and stable manner, exemplified in the recent formation of a government of national unity, should also help to lift economic growth and reduce fiscal risks.

### Fiscal scenarios

The fiscal framework is grounded in the baseline economic forecast presented in Chapter 2. However, deviations from key assumptions – such as GDP growth, inflation, interest rates and exchange rates – can have substantial implications for public finances. To better anticipate and respond to these uncertainties, the 2024 *Medium Term Budget Policy Statement* (MTBPS) models the fiscal impact of two alternative macroeconomic scenarios outlined in Chapter 2.

**Scenario A**: The primary balance improves more rapidly relative to the 2024 MTBPS baseline projection. Debt-service costs fall below 20 per cent of revenue by 2030/31 and the debt-to-GDP ratio stabilises at 74.8 per cent of GDP in 2024/25 and declines thereafter to 60.7 per cent of GDP in 2032/33.

**Scenario B**: The primary balance deteriorates by R78.9 billion over the medium term compared with the baseline forecast. Debt-service costs remain above 20 per cent of revenue for the foreseeable future. By 2027/28, debt stabilises at 77.4 per cent of GDP and then declines to 71.4 per cent of GDP by 2032/33.

## DEBT MANAGEMENT RISKS

Government continues to target lower budget deficits over the medium term. Nevertheless, debt levels and redemptions are expected to remain elevated over the next several years (Figure A.2), increasing the risks posed by fluctuations in interest rates, inflation and exchange rates – all of which affect both the debt burden and debt-service costs. Figure A.3 shows the impact of these fluctuations. A R1 change in the rand/US dollar exchange rate, for example, results in a R29.6 billion change in gross loan debt.

Between 2024/25 and 2032/33, average annual debt redemptions are projected to reach R251.8 billion, compared with an average of R63.6 billion over the prior 10-year period, placing considerable pressure on capital markets and pushing up borrowing costs across the economy. As the scale of debt redemptions grows, so too do refinancing risks.

Effective fiscal consolidation will help mitigate these risks by narrowing the deficit and limiting the growth of debt stock. Government continues to manage debt prudently and sustainably by diversifying its debt portfolio and reducing refinancing risks, all within its strategic risk benchmarks.

**Figure A.2 Long-term government debt redemptions**

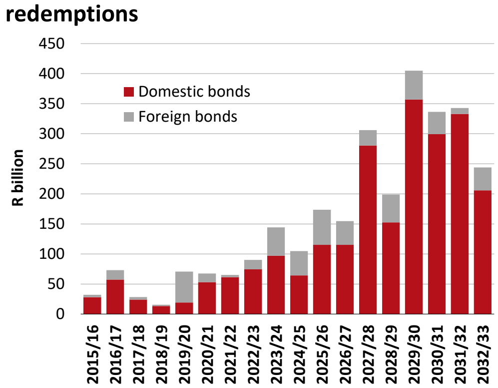
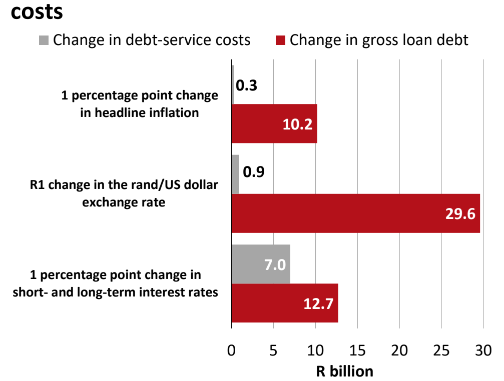



**Figure A.3 Sensitivity of debt and debt-service costs**




*Source: National Treasury*

## EXPENDITURE RISKS

### Compensation spending

The wage bill is the largest expenditure pressure facing government, and the uncertain outcome of the 2025/26 wage agreement on employee compensation baselines poses a significant risk to medium-term fiscal projections. An agreement that exceeds government's expectations would result in structural spending increases. Compensation spending pressures are discussed in Chapter 3.

### Subnational government

Unpaid bills and accruals from provincial and local governments remain significant fiscal risks. For provincial governments, accruals are estimated at R36.3 billion in 2023/24, up from R29.6 billion in the previous year. A failure to manage budget pressures would see an increase in unpaid bills and accruals.

The severity of risks related to provinces' medico-legal contingent liabilities, however, has declined, partly due to improved internal controls. After peaking at R110.4 billion in 2019/20, these liabilities fell to R61.6 billion in 2023/24. Claim payments fell from R1.8 billion in 2019/20 to R1.5 billion in 2023/24. The Department of Health and the National Prosecuting Authority are coordinating efforts to safeguard state healthcare facilities and vulnerable patients, addressing fraud, improving record-keeping and ensuring that all documentation is captured electronically.

Many local governments remain under financial pressure. Municipalities owe creditors R116.5 billion and 75.3 per cent of this debt is more than 90 days overdue. In 2023/24, municipalities were owed R339.9 billion, of which R294.1 billion is debt older than 90 days. Households account for 73 per cent of this debt and businesses make up another 20 per cent. Government's long-term sustainability strategy for municipalities is to raise payment rates and improve credit management.

Government's five-year action plan includes refining the local government funding model by March 2027, as well as exploring alternative municipal revenue sources. Development charges, though not a new revenue source, are being explored to finance infrastructure from land intensification, particularly in cities and large urban municipalities. The recently enacted Municipal Fiscal Powers and Functions Amendment Act (2024) provides legal certainty and a uniform framework for levying these charges, supporting municipalities in mobilising their own revenue for infrastructure. Additionally, municipalities are receiving support through debt relief for arrears to Eskom, contingent on meeting conditions such as improved credit controls and revenue collection performance. The Municipal Finance Improvement Programme is enhancing tariff setting, budget policies and debt management to strengthen municipal revenue systems, while the R2 billion *smart meters grant* aims to improve revenue collection through prepaid solutions.

## CONTINGENT LIABILITIES

Contingent liabilities represent government's potential financial commitments if certain events occur. The bulk of contingent liabilities are associated with the poor financial condition of state-owned companies. In recent years, some of these liabilities have materialised, straining the fiscal framework. In line with government's intent to improve transparency and the management of contingent liabilities, Cabinet members who have requested guarantees for state-owned companies are now required to report those requests to Parliament once they have been considered by the Minister of Finance.

Government's guarantee portfolio decreased from R751.9 billion in March 2022 to R663.9 billion in March 2023. Guarantees to state-owned companies decreased from R543.6 billion in March 2022 to R448.1 billion in March 2023, mostly due to a decline in the Reserve Bank loan guarantee scheme from R100 billion to R20 billion. Eskom constitutes 84 per cent of the exposure, although its guarantee framework agreement expired on 31 March 2023. The guarantee to Denel has also expired and no new guarantees were issued to state-owned companies in the current year.

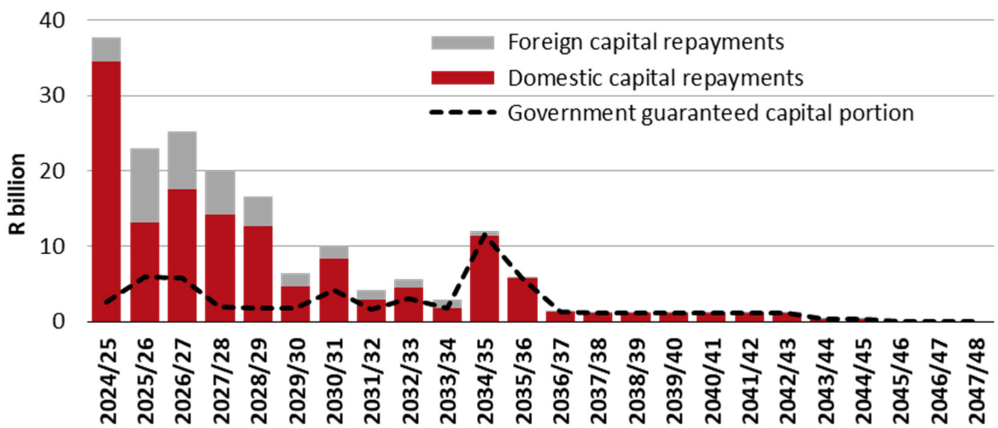
Rapid implementation of the structural reforms outlined in Chapter 2, supported by a strategic approach to state-owned companies, is crucial in managing these contingent liabilities.

## FINANCIAL CONDITION OF STATE-OWNED COMPANIES

The financial position of state-owned companies remains distressed. Despite several notable operational improvements, such as at Eskom, most major state-owned companies continue to post net losses and fall short of performance targets. Many remain unable to fund their operations and debt obligations adequately. They are also unable to optimally invest in infrastructure, with many entities requiring some form of state support to implement their recovery plans.

Government is pursuing a sustainable turnaround at these companies while maintaining service delivery. The intent is to attract private-sector involvement to improve efficiency and increase competition. After a period of little movement, turnaround plans have begun to yield some initial results. Figure A.4 shows the debt maturity profile of selected state-owned companies.

**Figure A.4 Debt maturity profile of selected state-owned companies**




*Source: National Treasury, ACSA, DBSA, Denel, Land Bank, IDC, SANRAL, SAA and TCTA*

State-owned companies are likely to continue to face high borrowing costs as poor governance and operations limit their access to funding. Although global interest rates are expected to decline, those entities with weak and highly leveraged balance sheets, poor cash generation and significant refinancing risks may face difficulty in raising finance until they return to better form.

As shown in Figure A.4, debt amounting to R37.7 billion will mature in 2024/25. Much of this is domestic debt and is expected to be refinanced. Maturing debt between 2024/25 and 2028/29 is expected to total R122.6 billion, of which R18.2 billion (or 15 per cent) is guaranteed by government. Foreign capital repayments are expected to amount to R30.5 billion or 25 per cent of maturities.

### Denel

Denel remains a risk to the fiscus as it is unable to fulfil its financial obligations. As noted in previous budget documents, broader policy decisions are required for Denel to complete its turnaround plan and become sustainable.

## Eskom

Eskom remains highly dependent on government support through the debt-relief arrangement. The utility has begun to strengthen its performance, with no power cuts since the end of March 2024 and improved profitability. Its most recent financial plan also targets profitability from 2026/27 onwards. However, escalating municipal debt arrears continue to negatively affect its financial performance.

The debt-relief arrangement granted to Eskom is intended to strengthen its balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support stable electricity supply aligned with national needs. Given Eskom's failure to dispose of the Eskom Finance Company by 31 March 2024, the National Treasury reduced the debt-relief allocation from R78 billion to R76 billion in 2023/24. This allocation was fully disbursed and converted to equity following Eskom's compliance with all the attached conditions. Eskom's allocation for 2024/25 will be reduced by R2 billion to R64 billion should it fail to dispose of the Eskom Finance Company by 31 March 2025.

In April 2024, the Eskom Debt Relief Act (2023) was amended to ensure that the loan granted under the debt-relief arrangement is correctly classified and that market-related interest is charged. Additionally, in June 2024 the National Treasury disbursed an R8 billion interest-bearing loan as part of the debt-relief allocation for 2024/25. As of 27 September 2024, Eskom had paid R91 million in interest to the National Treasury for the debt-relief loans. The National Treasury is now working with Eskom to finalise government's takeover of R70 billion of Eskom's loan portfolio by 2025/26.

## The Land Bank

The Land Bank has remained in default on its debt obligations since April 2020. On 9 September 2024, the Land Bank reported that an agreement has been reached with all lenders up to September 2028 to cure the default, with the goal of operating as a normal business and growing its loan book. This requires the Land Bank to improve the quality of its lending, strengthen organisational capacity and scale up its developmental lending in a financially sustainable manner.

## Transnet

Transnet's poor performance over the past five years has been characterised by declining freight volumes, underinvestment, inadequate maintenance and shortages of rolling stock, resulting in deteriorating financial performance and a weak balance sheet. The company continues to face significant operational difficulties, with marginal improvements reported since the implementation of the recovery plan in the last quarter of 2023/24. The plan includes an aggressive strategy to curtail declining rail volumes and return operations to financially sustainable levels.

Although Transnet can access capital markets, its ability to raise more funding is constrained by accumulated debt levels. These in turn have led to unsustainable interest costs and refinancing risk, resulting in liquidity pressures. Optimising the entity's capital structure and returning it to profitability will require Transnet to shed non-core assets, reduce its current cost structure and explore alternative funding models for infrastructure and maintenance, such as project finance, third-party access, concessions and joint ventures.

In December 2023, government granted Transnet a R47 billion guarantee facility to secure new funding to implement its recovery plan in line with the Cabinet-approved Roadmap for Freight Logistics. To effect the roadmap, Transnet is working with the National Logistics Crisis Committee, composed of government departments, rail and port users, and independent experts. Key areas identified to improve operational performance in the short term include accelerating capital spending on operational equipment, allocating capital for the rehabilitation of rail infrastructure and returning old locomotives to service.

### South African National Roads Agency Limited

The halt in toll collections on Phase 1 of the Gauteng Freeway Improvement Programme put the South African National Roads Agency Limited (SANRAL) under significant fiscal pressure. To mitigate these pressures, national government and Gauteng Province took over R47 billion of the agency's outstanding liabilities. In 2024/25 and over the medium term, Gauteng's contribution will amount to R13.1 billion, while national government will provide R4.4 billion, with further commitments beyond this period. Gauteng has also agreed to pay R4.1 billion for the maintenance backlog. These measures should bolster SANRAL's ability to enhance, rehabilitate and expand the toll road network, ensuring its long-term sustainability and capacity to meet growing infrastructure demands.

### Road Accident Fund

The Road Accident Fund (RAF) is a significant fiscal risk. Provisions, which account for the bulk of the RAF's liabilities, are expected to grow from R352.8 billion in 2023/24 to R422.6 billion in 2027/28. Although revenue from the RAF levy is projected to increase from R49.1 billion in 2023/24 to R67.6 billion in 2027/28, the Fund's financial position is set to deteriorate over this period. Expenditure is anticipated to rise from R49.5 billion in 2023/24 to R89.7 billion in 2027/28, largely due to an increase in settled claims driven by the Fund's improved operational efficiencies and a growing number of claims requested but not yet paid. Furthermore, the number of future claims is expected to grow as more are lodged based on past accidents, further increasing projected payouts.

## LONG-TERM SUSTAINABILITY

Demographic and productivity trends are critical to assess government's ability to sustain its long-term social commitments. Population growth for this decade is estimated to range between 1 per cent and 1.3 per cent. Labour productivity growth, which averaged 2.7 per cent annually before 2008/09, slowed to about 0.8 per cent following the COVID-19 pandemic. In combination, such long-term shifts will have consequences for economic growth, tax revenue, public healthcare and old-age services. Analysing these trends requires accurate data. A comprehensive update on the long-term fiscal model will be published once more refined data and projections from the 2022 Census is made available.

## CONCLUSION

The public finances remain exposed to various domestic and external risks. The fiscal strategy set out in the 2024 MTBPS enables government to gradually strengthen fiscal buffers to mitigate the risks highlighted in this annexure. Sustained fiscal discipline across the public sector – alongside faster economic growth – is essential to effectively manage and reduce these vulnerabilities.