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2024 MTBPS

BUILDING MOMENTUM FOR INCLUSIVE GROWTH

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Government is pursuing policies to achieve rapid, inclusive and sustainable economic growth.
- The economy is forecast to grow by an annual average of 1.8 per cent over the next three years, underscoring the need for continued implementation of structural reforms.
- The fiscal strategy remains on course. The consolidated budget deficit will narrow from 5 per cent of GDP in 2024/25 to 3.2 per cent of GDP in 2027/28 and debt will stabilise at 75.5 per cent of GDP in 2025/26.
- Economic reforms are beginning to bear fruit: electricity availability has improved, the logistics system is stabilising and the cost of doing business is declining in some areas of the economy.
- Stronger infrastructure investment will underpin the growth agenda.

INTRODUCTION

The 2024 *Medium Term Budget Policy Statement* (MTBPS) sets out a pro-growth agenda to address South Africa's prolonged economic and fiscal weakness. Since the outbreak of the COVID-19 pandemic, government has been working to restore economic growth and the stability of the public finances. This commitment has been strengthened by a more supportive environment and an emphasis on the quality of reforms and delivery.

There is a solid foundation on which to build stronger growth and job creation. The 2024 elections and subsequent formation of a government of national unity, forged in the spirit of unity and cooperation, reflect the effectiveness of the country's Constitution and institutions. The domestic financial market remains strong and macroeconomic policy has achieved important milestones, such as a reduction in inflation during 2024 and a primary budget surplus – meaning revenue exceeds non-interest spending – in the 2023/24 financial year. These gains will be aided by reforms to unlock infrastructure investment and fiscal prudence.

Over the next year, South Africa will use its Presidency of the Group of 20 (G20) to promote an Africa-focused global agenda, which includes encouraging stronger regional trade, reforming multilateral institutions to increase the influence of Sub-Saharan African countries, and attracting more foreign investment into the country and the region.

THE PATH TO STRONGER GROWTH

The economy is forecast to grow by 1.1 per cent in 2024, after expanding by just 0.4 per cent in the first half of 2024, and is projected to grow by an annual average of 1.8 per cent over the next three years. This subdued performance underscores the need for stronger policy measures to accelerate growth, tackle poverty and unemployment and – because economic growth is the source of sustainable government revenues – ensure long-term fiscal stability.

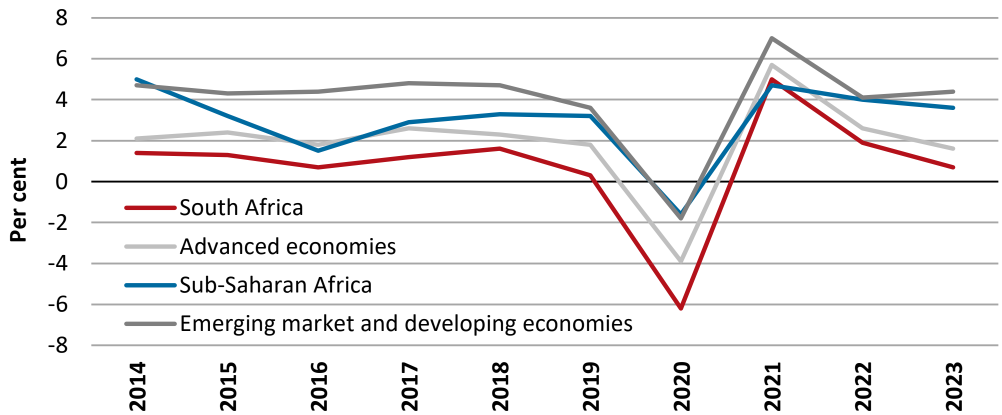
Table 1.1 Macroeconomic projections

	2023	2024	2025	2026	2027
Calendar year	**Actual**	**Estimate**	**Forecast**		
Percentage change unless otherwise indicated					
Household consumption	0.7	1.2	1.8	1.7	1.9
Gross fixed-capital formation	3.9	-2.5	4.7	4.2	3.8
Real GDP growth	**0.7**	**1.1**	**1.7**	**1.7**	**1.9**
GDP at current prices (R billion)	**7 024.0**	**7 396.7**	**7 897.6**	**8 404.1**	**8 953.6**
CPI inflation	5.9	4.6	4.4	4.5	4.5
Current account balance (% of GDP)	-1.6	-1.8	-2.1	-2.2	-2.5

Across all tables in the Medium Term Budget Policy Statement, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available, it is denoted by "N/A"
Source: Reserve Bank and National Treasury

For over a decade, South Africa has significantly underperformed compared with other emerging market and developing countries. The reasons for this divergence include declining capital investment, inadequate energy supply, unreliable logistics, the high cost of doing business, a poor public-sector balance sheet and a weak fiscal position.

Figure 1.1 Growth in South Africa relative to other country groups



Source: Statistics South Africa and IMF World Economic Outlook, October 2024

As a result of government's focus on the constraints impeding growth and stability, the investment climate is showing signs of improvement. As outlined in Chapter 2, reforms are gaining momentum. Electricity availability has improved significantly in 2024, with more than 200 days without large-scale power cuts as of 22 October 2024. A Water Partnerships Office has been established to consolidate the ownership of core infrastructure and establish partnerships with the private sector to invest in the construction and refurbishment of large strategic water projects. It is becoming easier to do business, with the time required by large businesses and farms to obtain a water licence reduced from 300 days to 90 days and the cost of mobile data bundles reduced by up to 51 per cent between 2021 and 2023. The eVisa system is now available to travellers from 34 countries, making it possible to obtain work and holiday visas entirely online, which helps to attract skills and promote tourism.

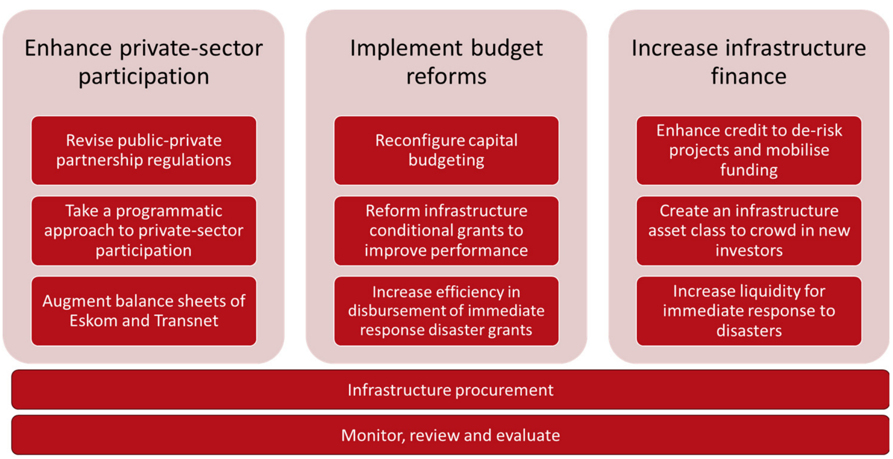
Over the medium term, critical reforms will include strengthening local government, harnessing digital public infrastructure and integrating urban environments to make cities more efficient. A series of reforms is designed to accelerate infrastructure investment.

INFRASTRUCTURE INVESTMENT TO SUPPORT GROWTH

Investment in infrastructure is necessary to support higher levels of growth and expanded access to quality basic services. Yet the quality of public-sector infrastructure spending is suboptimal and the quantity is inadequate. As a result, existing infrastructure is deteriorating, backlogs are growing and the cost of providing infrastructure is high. This represents both a challenge and an opportunity.

The delivery of infrastructure projects is often hampered by a lack of coordination within the public sector, poor cooperation with the private sector and high borrowing costs. To address these problems, government is transforming the way it prepares and delivers infrastructure projects. It is mobilising private-sector resources that will augment public-sector capability and provide new channels for financing. In parallel, work is under way to improve government's capital budgeting process and strengthen institutional arrangements and governance across the ecosystem to facilitate private investment. Chapter 5 outlines the infrastructure reform agenda, which is summarised in Figure 1.2.

Figure 1.2 Improving the management and regulation of infrastructure



FISCAL STABILITY FOR GROWTH AND SERVICE DELIVERY

Budgeting always involves difficult choices, particularly in the context of limited resources. In the short term, government can choose between increasing taxes, cutting spending or continuing to spend without increasing the tax burden. Higher taxes reduce the amount that households and businesses have for their current needs and their ability to build up savings. Spending cuts, if not well targeted, can reduce the quality and quantity of critical public services. Spending that is not matched by increased revenues leads to further increases in debt, resulting in higher interest costs that can crowd out service delivery and increase the cost of doing business.

In light of these trade-offs, government's fiscal strategy aims to balance spending and tax choices while promoting measures that grow the economy. This approach improves the fiscal position and, over the longer term, makes more resources available for social and economic programmes.

Nevertheless, policy reforms are needed to continue rebuilding the public finances and prevent the reoccurrence of an onerous debt burden. The period after the 2008 global financial crisis was characterised by poor economic growth, unaffordable bailouts of state-owned companies, and expanding public debt and deficits. Government increased public spending, and therefore the fiscal deficit, to counter the effects of falling growth and employment. Yet economic growth did not recover, and the adopted spending ceiling was insufficient to prevent an unsustainable increase in the annual deficit.

Between 2008/09 and 2023/24, government debt grew from R627 billion or 23.6 per cent of GDP to R5.26 trillion or 74.1 per cent of GDP, resulting in debt-service costs that now consume 21.6 per cent of revenue. At the same time, economic growth failed to recover to pre-crisis levels, despite an average increase of 8 per cent in consolidated government spending and a steep increase in borrowing. As a percentage of GDP, public debt reached a level that is 18.5 percentage points higher than the median for emerging market economies in 2023.

Figure 1.3 South Africa's debt trajectory compared with peers*

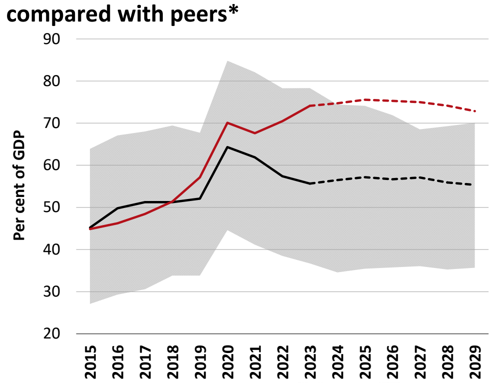
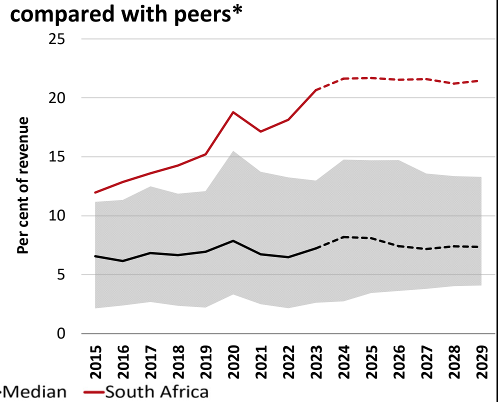


Figure 1.4 South Africa's debt-service costs compared with peers*



**Consists of 94 emerging market economies*
Source: National Treasury and IMF World Economic Outlook, October 2024

The 2024 Budget announced that a debt-stabilising primary budget surplus would anchor fiscal policy over the next three years. Furthermore, technical work and consultation are under way on proposals to ensure that budgets are compiled in such a way that public debt remains sustainable over time. Adopting such an approach would enable government to reduce the likelihood and severity of spending cuts and tax increases to rein in debt.

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome	Revised	Medium-term estimates		
Revenue	**1 941.4**	**2 021.5**	**2 166.6**	**2 314.3**	**2 471.8**
	27.4%	*26.9%*	*27.0%*	*27.1%*	*27.2%*
Expenditure	**2 258.8**	**2 395.0**	**2 510.3**	**2 624.4**	**2 767.1**
	31.8%	*31.8%*	*31.3%*	*30.8%*	*30.4%*
Budget balance	**-317.5**	**-373.5**	**-343.7**	**-310.1**	**-295.3**
	-4.5%	*-5.0%*	*-4.3%*	*-3.6%*	*-3.2%*
Total gross loan debt	**5 259.4**	**5 622.5**	**6 054.7**	**6 424.4**	**6 817.5**
	74.1%	*74.7%*	*75.5%*	*75.3%*	*75.0%*

Source: National Treasury

OTHER PUBLIC POLICY REFORMS

Reforms to the medium-term budgeting process

South Africa's budget process is recognised globally for its institutional strengths and transparency. After 25 years, however, several aspects require renewal. The National Treasury has initiated a comprehensive review of the medium-term budgeting process to bring it in line with current economic realities and ensure it remains fit for purpose. Reforms are being developed to evaluate and strengthen budget structures, enhance coordination and decision-making, manage unanticipated expenditures and improve the use of performance data and technology. The proposed reforms arising from this review will be implemented in 2025/26.

Reducing the cost of public-sector compensation

Improving the structure and organisation of the state is a key policy objective. South Africa's average spending on public-sector salaries is well above that of many countries (Figure 1.5). Cabinet has approved an early retirement programme to reduce government employment costs while retaining critical skills and promoting the entry of younger talent into the public service. Accounting officers and executive authorities will have the authority to approve early retirement applications that do not reduce the pool of highly skilled individuals within government agencies.

Figure 1.5 General government wage bill, 2022

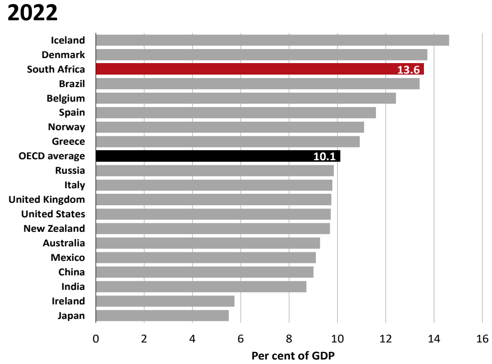
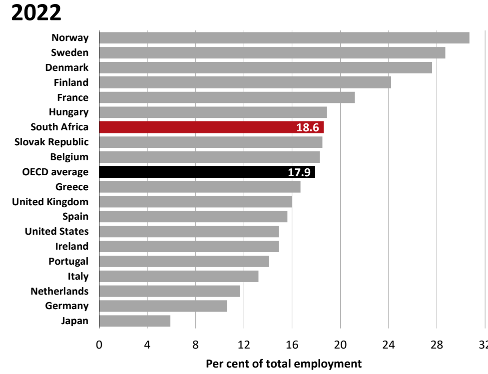


Figure 1.6 General government employment, 2022



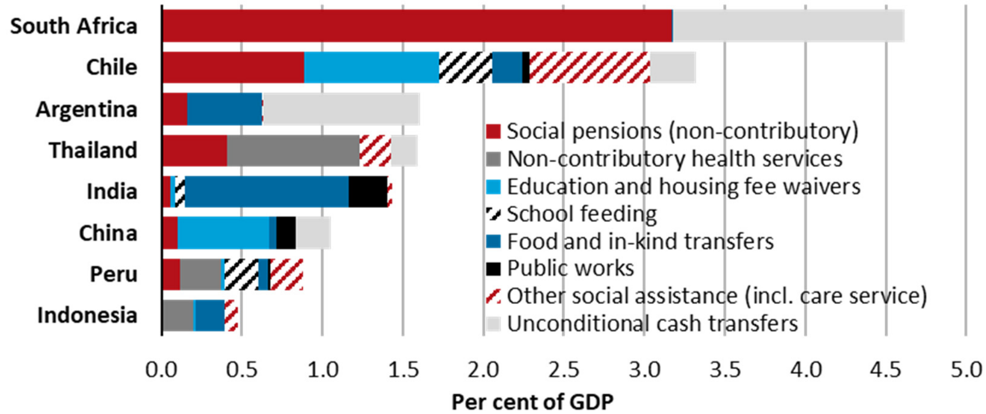
Source: OECD Data Library

Social protection and employment-related support

South Africa's comprehensive social security system is among the largest within emerging markets. Between 2015 and 2020, spending on social protection averaged 4.6 per cent of GDP compared with 1.6 per cent for developing-country peers (Figure 1.7). Over the next three years, 30.6 per cent of the population will receive some form of social grant, excluding the *COVID-19 social relief of distress grant*. Government will also spend R3.4 billion on job creation initiatives in 2024/25.

Following the outbreak of COVID-19 in 2020, government introduced the *COVID-19 social relief of distress grant* for six months to support workers displaced by pandemic lockdowns. This temporary grant has been extended several times. A sustainable fiscal approach requires that any permanent addition to spending must be funded through permanent revenue sources or reprioritisation from within the existing fiscal envelope.

Figure 1.7 Social assistance spending*



**Estimates are sourced from the World Bank and therefore not directly comparable to the National Treasury's figures. Calculated using data for the most recent available years between 2015 and 2020*
Source: National Treasury

A wide range of financial support is provided to unemployed persons. However, these interventions are split across agencies and do not function as a cohesive, integrated system. Moreover, there is little to no linkage between the social security system and the policy goal of increasing employment. Government is considering ways to reform the grant system and consolidate public employment initiatives. This includes a review of the impact of the skills development funding system, where the levy collected averaged R20.9 billion over the past three years. Proposals will be presented in the 2025 Budget.

South Africa's G20 Presidency: Advancing an agenda for developing countries

South Africa will hold the Presidency of the G20 from 1 December 2024 to 30 November 2025. Government will use this platform to focus global attention on challenges facing developing countries, particularly in Africa.

Various working groups, comprised of technical experts from South Africa and other member countries, will produce policy proposals, guidelines, frameworks and tools on a variety of issues. Examples of key topics already selected include accelerating human capital development in the context of artificial intelligence, migration, technology, education and skills gaps; strengthening multilateral development banks to support the development of poorer countries; and financing climate-resilient infrastructure. These and other priorities will anchor South Africa's contribution to the global policy agenda.

CONCLUSION

Government's pro-growth agenda aims to create jobs, reduce inequality and improve the fiscal position. The path to higher growth requires an increase in energy production; more reliable transport, logistics and water supply; and stronger investment. In this regard, reforms will promote partnerships between the public and private sectors, lower the cost of doing business and introduce an infrastructure delivery model that will improve implementation and create jobs.