3

2024 MTBPS

FISCAL POLICY

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Government's fiscal strategy is on track, with debt expected to peak at 75.5 per cent of GDP in 2025/26.
- In the context of limited resources, government will continue to prioritise the social wage for South Africa's most vulnerable.
- Despite the near-term slowing of revenue collection, medium-term revenues are projected to remain resilient, with the tax-to-GDP ratio averaging 24.7 per cent.
- Payments for capital assets will increase by an average of 10.6 per cent per year over the next three years, as infrastructure development is prioritised to support economic growth and job creation.
- The sovereign risk premium, and consequently the outlook for ease of borrowing, has improved marginally in the current financial year.

INTRODUCTION

The 2024 *Medium Term Budget Policy Statement* (MTBPS) outlines a path to stronger economic growth, supported by accelerated structural reforms and increased infrastructure investment. Government's fiscal strategy complements these objectives by supporting a stable and transparent macroeconomic environment. Despite significant fiscal risks, the balanced fiscal strategy first outlined in the 2023 MTBPS is registering progress. Higher economic growth, if sustained, will improve the fiscal position.

Over the past 15 years, public debt has accumulated, driven by a wide gap between spending and revenue. This led to increasing debt-service costs consuming resources that could have been used for priorities such as education, healthcare and infrastructure.

As outlined in Chapter 2, after a decade of weak economic performance, more positive signs are now emerging. The economy is beginning to benefit from structural reforms and stable electricity supply, and the formation of the government of national unity has boosted investor confidence. Fiscal outcomes have also improved. In 2023/24, government achieved its first main budget primary surplus in 15 years.

Despite slower-than-expected revenue growth, the state is on track to achieve primary surpluses in 2024/25 and over the medium term. Debt is expected to stabilise at 75.5 per cent of GDP next year. In turn, this will enable government to arrest the trend of mounting debt-service costs, which will peak as a proportion of revenue at 21.7 per cent in 2025/26 and decline thereafter.

Although there are significant external and domestic risks to the fiscal strategy, government is determined to maintain a prudent, disciplined approach to ensure sustainable public finances.

Figure 3.1 Main budget balance*

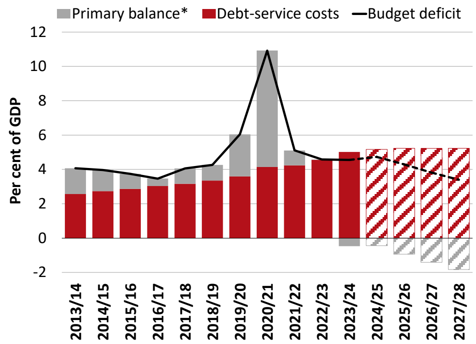


Figure 3.2 Total consolidated government expenditure, 2025/26 – 2027/28

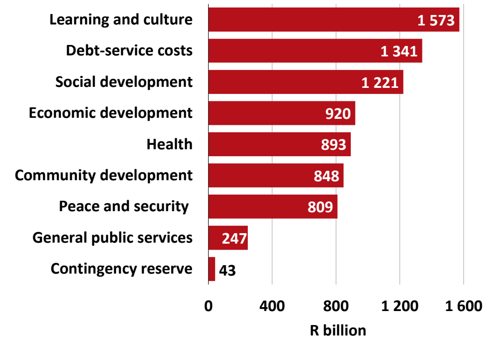


Figure 3.3 Gross debt-to-GDP outlook

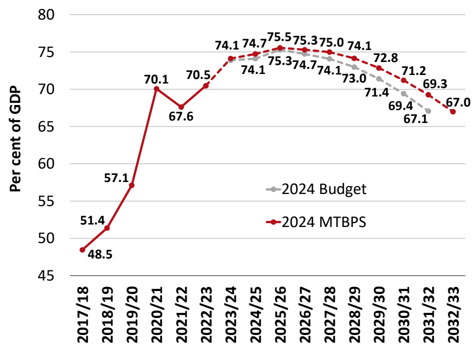
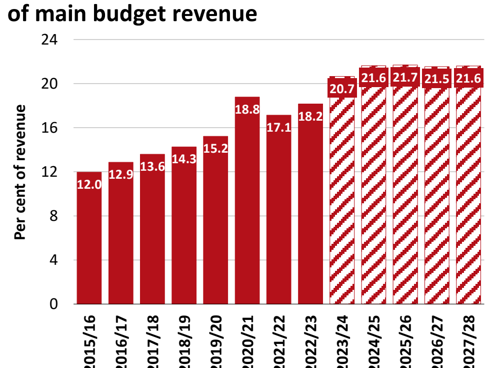


Figure 3.4 Debt-service costs as a share of main budget revenue



**A positive figure represents a deficit and a negative figure a surplus*
Source: National Treasury

MEDIUM-TERM FISCAL STRATEGY

Government's medium-term strategy remains focused on achieving fiscal sustainability, supporting economic growth and critical social services, and addressing significant fiscal and economic risks. The strategy prioritises:

- Stabilising government debt by maintaining sufficiently large primary surpluses over the rest of the decade. As announced in the 2024 Budget, a debt-stabilising primary surplus will continue to anchor fiscal policy over the next three years.
- Ensuring higher levels of capital investment by stabilising and reducing borrowing costs, directing a growing share of public spending towards capital projects and initiating wide-ranging infrastructure reforms, as outlined in Chapter 5.
- Protecting critical services in the context of limited budget resources. The social wage – which supports the most vulnerable through spending on health, education, social protection, community development and employment programmes – averages 59.9 per cent of consolidated non-interest spending over the medium term.
- Controlling growth in the public-service wage bill by ensuring that public servants are compensated fairly while implementing measures to contain overall costs.

- Limiting further financial support to state-owned companies, while completing the resolution of the debt obligations of Eskom and the South African National Roads Agency Limited (SANRAL), enabling them to make critical investments in electricity supply and road infrastructure respectively.
- Technical work on permanent measures to anchor fiscal policy and ensure debt sustainability continues, with updates to be presented in the 2025 Budget.

Figure 3.5 Growth in consolidated government expenditure components, 2024/25 – 2027/28

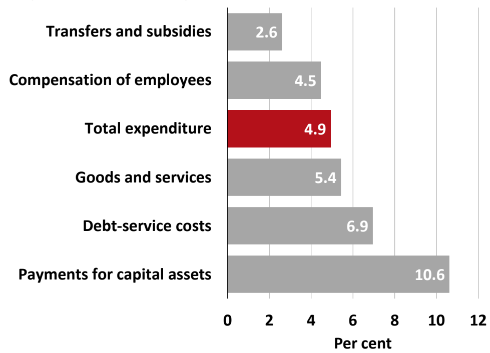
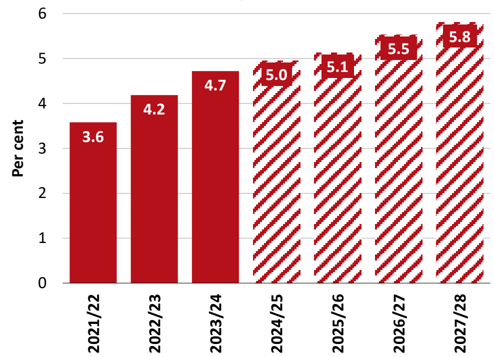


Figure 3.6 Payments for capital assets as a share of consolidated government expenditure



Source: National Treasury

Managing the public-service wage bill

Over the past decade, the wage bill has decreased as a share of consolidated spending, falling from 35.7 per cent in 2013/14 to 32.1 per cent in 2023/24. By 2027/28, the wage bill is projected to decrease to 31.4 per cent of consolidated spending. Annexure B provides detailed trends in compensation and wage rates. To further contain public-service wage costs, government is proposing to reactivate early retirement without penalties. To support this initiative, an additional R11 billion will be allocated over the next two fiscal years. Details will be set out in the 2025 Budget.

Negotiations for a wage agreement set to begin in 2025/26 are under way and expected to conclude by the time of the 2025 Budget. Government is committed to a fair and respectful collective bargaining and negotiation process in determining remuneration levels and conditions of service, while meeting its constitutional obligation to respect the budget process and deliver responsible and affordable fiscal policy.

A policy reform to improve fiscal policy outcomes

South Africa's fiscal position has deteriorated over time. Fiscal consolidation measures have limited, but not prevented, the widening of budget deficits and debt. More permanent measures are now under consideration. These include the following:

- A long-term debt sustainability framework has been developed. It will be used as a mechanism to strengthen transparency and responsibility in managing the public finances, and ensure that all spending and borrowing decisions are guided by a need to maintain sustainable finances over the long term.

- The National Treasury has brought in academics, international experts and other stakeholders to make inputs on fiscal anchor policy options. A discussion document will be released by end-March 2025.
- Proposals are under consideration for legislative changes to ensure that debt sustainability is embedded in the planning and budgeting processes of government.

IN-YEAR REVENUE AND EXPENDITURE OUTLOOK

In-year revenue projections

The in-year revenue outlook is weaker than expected as a result of declining fuel levy and import value-added tax (VAT) collections. Compared with the 2024 Budget, the gross tax revenue estimate for 2024/25 is revised down by R22.3 billion.

Table 3.1 Gross tax revenue

	2023/24			2024/25		
R billion	Budget[1]	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	649.8	648.9	-0.9	738.7	729.0	-9.7
Companies	301.4	313.1	11.7	302.7	314.4	11.7
Value-added tax	445.3	447.6	2.2	476.7	463.8	-13.0
Dividends tax	39.7	39.2	-0.5	36.1	39.5	3.4
Specific excise duties	53.9	53.5	-0.4	58.2	57.6	-0.6
Fuel levy	93.4	91.5	-1.9	95.8	82.4	-13.4
Customs duties	72.5	70.5	-1.9	76.8	73.9	-3.0
Ad valorem excise duties	7.8	7.3	-0.4	6.8	6.8	-0.0
Other	67.6	69.2	1.6	71.1	73.4	2.4
Gross tax revenue	**1 731.4**	**1 740.9**	**9.5**	**1 863.0**	**1 840.8**	**-22.3**

1. 2024 Budget
Source: National Treasury

Factors affecting in-year revenue collection to date include the following:

- Import VAT collections contracted by 4.5 per cent relative to the same period in 2023/24 as stabilising power supply led to lower imports of energy-related components. Customs duty collections grew moderately but are expected to fall short of 2024 Budget estimates in line with weaker import growth.
- Net fuel levy collections contracted by 3.9 per cent compared to the same period in 2023/24 as fuel demand fell sharply. Lower projected fuel levy collections are also affected by a large once-off diesel refund payment expected to be settled this year.
- Personal income tax collections are expected to underperform, with private-sector employment and wage rates weaker than projected in the 2024 Budget.
- Conversely, corporate tax and domestic VAT collections are expected to exceed 2024 Budget projections. The outlook for corporate profitability has improved amid easing supply-side constraints. Improved sentiment and reduced inflation and borrowing costs augur well for consumers’ purchasing power.

The tax-to-GDP ratio is expected to remain at 24.5 per cent in 2024/25 (Figure 3.7). An increase in this ratio depends on higher and sustained economic growth. Additional information, including changes in tax buoyancies, appears in Table C.8 of Annexure C.

Main budget revenue estimates for 2024/25 have been lowered by R17.7 billion compared with the 2024 Budget, mainly owing to lower tax revenue projections. National Revenue Fund receipts have been revised up by R3.2 billion on the strength of revaluation profits from foreign-currency transactions and provincial conditional grant surrenders from 2023/24.

In-year spending adjustments

Relative to the 2024 Budget, main budget non-interest expenditure increases by a net R10.4 billion in 2024/25.

Table 3.2 Revisions to non-interest expenditure for 2024/25

R million	2024/25
Non-interest expenditure (2024 Budget Review)	**1 753 784**
Upward expenditure adjustments	**19 090**
Rollovers	2 051
SANRAL GFIP phase 1 debt repayment	5 021
National government portion	*1 215*
Provincial government portion [1]	*3 806*
SANDF troop deployment in DRC	2 100
Unforeseeable and unavoidable expenditure	2 133
Announced in the 2024 Budget	2 661
Other allocations in the AENE[2]	5 124
Downward expenditure adjustments	**-8 726**
Drawdown on contingency reserve	-5 000
Provisional allocations not assigned to votes	-570
Projected underspending	-2 914
Declared unspent funds	-242
Revised non-interest expenditure (2024 MTBPS)	**1 764 148**
Change in non-interest expenditure from 2024 Budget	10 364

1. Includes R546 million for maintenance backlog
2. 2024 Adjusted Estimates of National Expenditure
Source: National Treasury

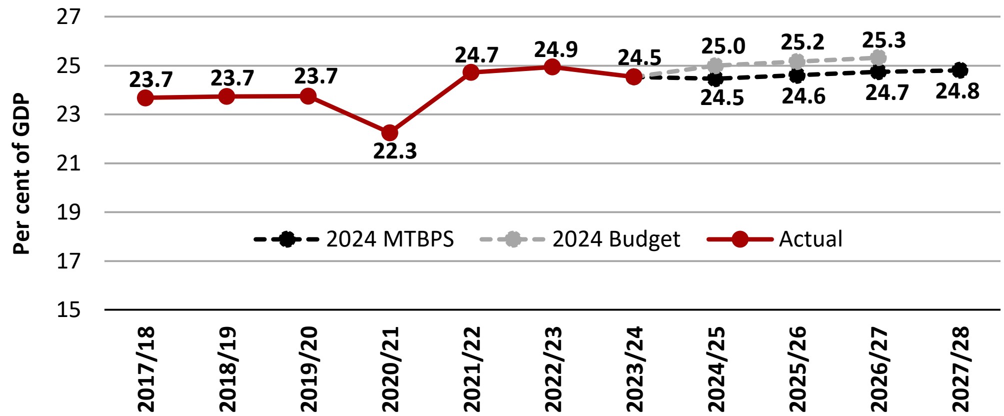
Higher expenditure reflects proposed spending additions for rollovers, the South African National Defence Force (SANDF) troop deployment in the Democratic Republic of the Congo, unforeseeable and unavoidable expenditure, the repayment of SANRAL debt relating to the Gauteng Freeway Improvement Project (GFIP) and spending announced in the 2024 Budget, which includes an increase in the *COVID-19 social relief of distress grant* from R350 to R370 per month. These increases are partially offset by declared unspent funds, projected underspending, contingency reserve drawdowns and provisional allocations not assigned to votes. Relative to the 2024 Budget, debt-service costs are revised up by R6.7 billion.

MEDIUM-TERM REVENUE AND EXPENDITURE OUTLOOK

Revenue

The tax-to-GDP ratio remains resilient and tax collections are expected to remain buoyant over the medium term. Tax revenues are projected to increase to R2.3 trillion, or 24.8 per cent of GDP, by 2027/28. Tax buoyancy increases to average 1.08 over the medium term, up from 0.95 in the current year.

Figure 3.7 Tax-to-GDP ratio



Source: National Treasury

However, compared with the estimates set out in the 2024 *Budget Review*, which reflected a high level of energy imports, gross revenue collection is projected to fall short by R41.4 billion in 2025/26 and 2026/27. Improved tax revenues will require more sustainable economic growth and further gains in tax compliance and tax administration.

Table 3.3 Revised gross tax revenue projections

R billion	2024/25	2025/26	2026/27	2027/28
2024 Budget	**1 863.0**	**1 991.2**	**2 133.0**	
Buoyancy	*1.33*	*1.11*	*1.11*	
Revised estimates	**1 840.8**	**1 971.8**	**2 111.1**	**2 255.2**
Buoyancy	*0.95*	*1.09*	*1.09*	*1.04*
Change since 2024 Budget	**-22.3**	**-19.4**	**-21.9**	

Source: National Treasury

Export commodity prices are set to increase moderately over the next three years following a contraction in 2023/24. Given an improved profitability outlook, expectations for corporate tax collections are revised upwards. However, slower renewable energy-related imports associated with stabilising power supply have weakened import growth, resulting in lower import VAT collections. Together with continued strong growth in VAT refund payments, net VAT collections are projected to fall short of 2024 Budget estimates. Under-collections in fuel levy receipts relative to 2024 Budget estimates flow through to the outer years.

Relative to the 2024 Budget, main budget revenue estimates for the next two years have been lowered by R31.2 billion, mainly driven by downward revisions to tax revenue projections. Payments to the Southern African Customs Union (SACU) are revised down. Details appear in Annexure C.

Table 3.4 Medium-term revenue framework

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R billion	Outcome			Revised	Medium-term estimates		
Gross tax revenue	**1 563.8**	**1 686.7**	**1 740.9**	**1 840.8**	**1 971.8**	**2 111.1**	**2 255.2**
Gross tax revenue growth	25.1%	7.9%	3.2%	5.7%	7.1%	7.1%	6.8%
Nominal GDP growth	12.6%	6.9%	4.9%	6.1%	6.5%	6.5%	6.6%
Buoyancy	*1.99*	*1.14*	*0.66*	*0.95*	*1.09*	*1.09*	*1.04*
Non-tax revenue	40.4	51.0	43.9	36.0	34.0	33.2	33.4
Southern African Customs Union[1]	-46.0	-43.7	-79.8	-89.9	-73.5	-75.5	-86.4
National Revenue Fund receipts[2]	6.1	5.2	19.0	10.5	0.4	0.8	0.6
Main budget revenue	**1 564.3**	**1 699.2**	**1 724.0**	**1 797.4**	**1 932.6**	**2 069.6**	**2 202.8**

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
Source: National Treasury

Expenditure

Table C.2 in Annexure C presents changes to main budget non-interest expenditure since the 2024 Budget. Main budget non-interest expenditure will increase by a net R32.4 billion over the next two years compared with the 2024 Budget, including proposed increases of:

- R11 billion to implement early retirement measures over 2025/26 and 2026/27 to manage the public-service wage bill.
- R3.2 billion for the contribution from national government to the repayment of SANRAL GFIP debt in 2025/26.
- R10.1 billion for the provincial portion of SANRAL debt repayment relating to the GFIP and the maintenance backlog, which will be transferred to SANRAL. This amount will be paid to the National Revenue Fund by Gauteng Province.
- R3.5 billion for carry-through costs for the deployment of SANDF troops in the Democratic Republic of the Congo.

Compared with the 2024 Budget, the expenditure ceiling has increased by R16.8 billion per year in 2025/26 and 2026/27. Most of this increase is due to a repayment of SANRAL debt relating to the GFIP and early retirement costs. Additional information, including the calculation of the expenditure ceiling, appears in Tables C.3 and C.4 of Annexure C.

FISCAL FRAMEWORK

The MTBPS revises the 2024 Budget fiscal framework based on in-year revenue collections and monitoring, unforeseeable and unavoidable spending decisions related to 2024/25, proposed spending adjustments for the medium-term expenditure framework (MTEF) period and the updated macroeconomic, revenue, debt and debt-service costs forecasts.

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue as a proportion of GDP is expected to decrease from 24.3 per cent in 2023/24 to 23.9 per cent in 2024/25. This is a result of tax revenue growing slower than GDP, lower projected non-tax revenue and National Revenue Fund receipts, and higher SACU payments.

Main budget expenditure is expected to moderate from 28.6 per cent of GDP in 2024/25 to 27.6 per cent of GDP by 2027/28. This largely reflects fiscal consolidation measures implemented in recent years and slower growth projected in non-interest expenditure relative to GDP. Debt-service costs are projected to rise at a nominal annual average rate of 6.9 per cent over the MTEF period.

The main budget primary surplus is projected to increase over the medium term to ensure debt stabilisation in 2025/26. The budget deficit is projected to narrow from 4.7 per cent of GDP in 2024/25 to 3.4 per cent of GDP by 2027/28.

Table 3.5 Main budget framework

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R billion/percentage of GDP	**Outcome**			**Revised**	**Medium-term estimates**		
Main budget revenue	**1 564.3**	**1 699.2**	**1 724.0**	**1 797.4**	**1 932.6**	**2 069.6**	**2 202.8**
	24.7%	*25.1%*	*24.3%*	*23.9%*	*24.1%*	*24.3%*	*24.2%*
Main budget expenditure	**1 887.3**	**2 009.2**	**2 046.9**	**2 153.0**	**2 276.4**	**2 394.7**	**2 511.8**
	29.8%	*29.7%*	*28.9%*	*28.6%*	*28.4%*	*28.1%*	*27.6%*
Non-interest expenditure[1]	1 619.2	1 700.7	1 690.8	1 764.1	1 857.3	1 949.0	2 036.1
	25.6%	*25.1%*	*23.8%*	*23.4%*	*23.2%*	*22.8%*	*22.4%*
Debt-service costs	268.1	308.5	356.1	388.9	419.1	445.7	475.7
	4.2%	*4.6%*	*5.0%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*
Main budget balance	**-323.0**	**-309.9**	**-322.9**	**-355.6**	**-343.8**	**-325.2**	**-309.0**
	-5.1%	*-4.6%*	*-4.6%*	*-4.7%*	*-4.3%*	*-3.8%*	*-3.4%*
Primary balance	**-54.9**	**-1.5**	**33.2**	**33.2**	**75.3**	**120.6**	**166.7**
	-0.9%	*-0.0%*	*0.5%*	*0.4%*	*0.9%*	*1.4%*	*1.8%*

1. This includes contingency reserve
Source: National Treasury

Consolidated budget framework

The consolidated budget consists of the main budget and spending financed from revenues raised by provinces, social security funds and public entities. The consolidated budget deficit is projected to narrow from 5 per cent of GDP in 2024/25 to 3.2 per cent of GDP in 2027/28.

In 2025/26, public entities, social security funds and provinces are expected to have a small combined cash deficit, which adds to the main budget deficit. The combined cash surplus projected for these entities in 2026/27 and 2027/28 will help to reduce the overall budget deficit, supporting government's fiscal strategy.

Table 3.6 Consolidated budget balance

R billion	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Revised	Medium-term estimates		
Main budget	-323.0	-309.9	-322.9	-355.6	-343.8	-325.2	-309.0
Social security funds	-6.2	8.4	10.8	-6.8	16.0	24.5	25.8
Public entities	35.1	43.2	3.0	-6.1	-16.2	-13.5	-16.2
Provinces	2.1	13.4	-8.4	-5.1	-0.1	3.5	3.4
RDP Fund	-0.6	0.2	0.0	0.2	0.4	0.5	0.7
Consolidated budget balance	**-292.6**	**-244.7**	**-317.5**	**-373.5**	**-343.7**	**-310.1**	**-295.3**
Percentage of GDP	*-4.6%*	*-3.6%*	*-4.5%*	*-5.0%*	*-4.3%*	*-3.6%*	*-3.2%*

Source: National Treasury

FINANCING AND DEBT MANAGEMENT STRATEGY

Government's debt portfolio is structured to accommodate changes in the fiscal stance and minimise debt-service costs and refinancing risks. Debt management is informed by strategic portfolio risk benchmarks for interest, inflation, currency and refinancing. Government remains within all its portfolio risk benchmarks.

The funding environment has improved steadily in recent months. Following the formation of the government of national unity, demand has increased, aided by global interest rate reductions. The sovereign risk premium, which reflects investor concerns about economic and fiscal risks, has improved significantly between end-February and end-September 2024, from 327 basis points to 240 basis points. Over the same period, the generic 10-year bond yield declined by 153 basis points, indicating improved investor sentiment.

The budget deficit for 2024/25 increased by R34.7 billion compared with the 2024 Budget mainly due to weaker revenue performance. This increase was, however, offset by a decrease of R67.6 billion in redemptions due to the bond-switch programme for the bond maturing on 31 January 2025. Overall, the gross borrowing requirement for 2024/25 – the sum of the budget deficit, maturing loans, the Eskom debt-relief arrangement and the Gold and Foreign Exchange Contingency Reserve Account settlement – decreased by R32.9 billion to R424.7 billion. The higher cash balances accumulated this year will be used to partially finance the higher gross borrowing requirement in 2025/26.

Debt redemptions will increase from R173.7 billion in 2025/26 to R306 billion in 2027/28, averaging R211.5 billion over the medium term. To manage these redemptions, government will exchange some shorter-dated bonds for longer-dated bonds.

Over the medium term, the gross borrowing requirement will average R557.5 billion or 6.5 per cent of GDP. Domestic long-term borrowing is expected to increase to R330.7 billion in 2025/26 (excluding the R70 billion Eskom debt takeover in the same year) and decline to R320.4 billion in 2026/27 before increasing to R472.2 billion in 2027/28.

Table 3.7 National government gross borrowing requirement and financing

R billion	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome	Revised	Medium-term estimates		
Gross borrowing					
Main budget balance	**-322.9**	**-355.6**	**-343.8**	**-325.2**	**-309.0**
Redemptions	**-144.4**	**-105.0**	**-173.7**	**-154.8**	**-306.0**
Domestic long-term loans	-97.3	-64.3	-115.3	-115.3	-280.4
Foreign loans	-47.1	-40.6	-58.4	-39.5	-25.6
Eskom debt-relief arrangement	**-76.0**	**-64.2**	**-110.2**	**–**	**–**
GFECRA settlement (net)	**–**	**100.0**	**25.0**	**25.0**	**–**
Total	**-543.3**	**-424.7**	**-602.7**	**-455.0**	**-614.9**
Financing					
Domestic short-term loans (net)	88.7	33.0	45.0	36.0	53.0
Domestic long-term loans	336.2	305.1	400.7	320.4	472.2
Foreign loans	45.7	53.8	90.3	92.0	93.2
Change in cash and other balances	72.7	32.8	66.6	6.6	-3.4
Total	**543.3**	**424.7**	**602.7**	**455.0**	**614.9**

Source: National Treasury

In 2024/25, government will raise US$3 billion from international financial institutions and capital markets to meet its foreign-currency commitments. To help manage liquidity, government will draw down on its foreign exchange balances. Over the medium term, government will raise approximately US$15 billion from international financial institutions and capital markets.

As Table 3.8 shows, gross loan debt is expected to increase from R5.62 trillion in 2024/25 to R6.82 trillion in 2027/28, driven by the budget deficit and fluctuations in interest, inflation and exchange rates. Gross loan debt as a share of GDP is projected to stabilise at 75.5 per cent in 2025/26. Compared with the 2024 Budget estimate, debt-service costs will increase by R6.7 billion, reaching R388.9 billion in 2024/25 and R475.7 billion, or 21.6 per cent of revenue, by 2027/28.

Table 3.8 Total national government debt

End of period R billion	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome	Revised	Medium-term estimates		
Domestic loans[1]	**4 667.8**	**5 045.3**	**5 440.2**	**5 745.8**	**6 063.1**
Short-term	511.2	543.6	588.6	624.6	677.6
Long-term	4 156.6	4 501.7	4 851.7	5 121.3	5 385.5
Foreign loans[1]	**591.6**	**577.2**	**614.4**	**678.5**	**754.4**
Gross loan debt	**5 259.4**	**5 622.5**	**6 054.7**	**6 424.4**	**6 817.5**
Less: National Revenue Fund	-195.7	-156.9	-96.3	-95.0	-103.8
Net loan debt[2]	**5 063.7**	**5 465.6**	**5 958.3**	**6 329.4**	**6 713.7**
As percentage of GDP:					
Gross loan debt	*74.1%*	*74.7%*	*75.5%*	*75.3%*	*75.0%*
Net loan debt	*71.4%*	*72.6%*	*74.3%*	*74.2%*	*73.8%*

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund
Source: National Treasury

RISKS TO THE FISCAL OUTLOOK

Risks to the fiscal outlook remain elevated in the near to medium term. Key risks include:

- Lower revenue growth due to an unexpected global or domestic slowdown.
- A higher-than-anticipated public-service wage settlement.
- Higher borrowing costs driven by a prolonged elevation of the risk premium and a slower-than-expected reduction in global interest rates.
- Persistent deficits and the accumulation of liabilities in other areas of the public sector, such as state-owned companies, potentially leading to increased demands for budgetary support.

The fiscal risk statement (Annexure A) presents more detail. Over the next several years the National Treasury will enhance its comprehensiveness.

CONCLUSION

Government continues to execute and make progress on the balanced fiscal strategy, which stabilises debt next year and complements government's economic growth reforms.

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