2024 BUDGET

BALANCING DEVELOPMENT AND FISCAL SUSTAINABILITY

February 2024

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

30 YEARS OF FREEDOM

Overview

The economy needs massive investment to grow and create more jobs. The 2024 Budget prioritises macroeconomic stability, structural reforms and improved state capacity – all of which should improve the environment for public and private investment. Broad reforms are under way in energy, freight, water, and telecommunications. Yet it will take time to reverse the consequences of operational, maintenance and governance failures at state-owned companies responsible for electricity, rail and ports.

The 2024 Budget ensures development through sustainable public finances. In the context of persistently low economic growth, government will protect critical services, support economic growth through reforms and public investment, and stabilise public debt.

The budget allocates six of every 10 rands to the social wage. The social wage includes spending on health, education, social protection, community development and employment programmes. Staff levels in critical services – education, health, police, justice and defence – are protected.

Government is staying the course to narrow the budget deficit and stabilise debt. This year, for the first time since 2008/09, government will achieve a primary budget surplus, meaning that revenue will exceed non-interest expenditure. Over time, as the debt burden decreases, maintaining this critical benchmark will create fiscal space. A consolidated deficit of 4.9 per cent of GDP is expected in the current year, narrowing to 3.3 per cent of GDP by 2026/27.

Rapid growth in debt-service costs chokes the economy and the public finances. Debt-service costs now consume one of every five rands of government revenue and absorb a larger share of the budget than basic education, social protection or health. South Africa's government gross loan debt-to-GDP trajectory is about 16 percentage points higher than the median emerging market level. Reducing debt-service costs is critical for growth and development.

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Global growth is forecast at 3.1 per cent in 2024 and 3.2 per cent in 2025

Economic growth in selected countries

Region/country	2022	2023	2024	2025
Percentage	Actual	Estimate	Forecast	
World	**3.5**	**3.1**	**3.1**	**3.2**
Advanced economies	**2.6**	**1.6**	**1.5**	**1.8**
United States	1.9	2.5	2.1	1.7
Euro area	3.4	0.5	0.9	1.7
United Kingdom	4.3	0.5	0.6	1.6
Japan	1.0	1.9	0.9	0.8
Emerging and developing countries	**4.1**	**4.1**	**4.1**	**4.2**
Brazil	3.0	3.1	1.7	1.9
Russia	-1.2	3.0	2.6	1.1
India	7.2	6.7	6.5	6.5
China	3.0	5.2	4.6	4.1
Sub-Saharan Africa	**4.0**	**3.3**	**3.8**	**4.1**
Nigeria	3.3	2.8	3.0	3.1
South Africa[1]	1.9	0.6	1.3	1.6
World trade volumes	**5.2**	**0.4**	**3.3**	**3.6**

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2024

- Following growth of 3.5 per cent in 2022, global growth is forecast to remain flat at 3.1 per cent in 2023 and 2024, reaching a modest 3.2 per cent by 2025.
- Global inflation is expected to continue declining due to restrictive monetary policy, softening labour markets, and easing supply-side constraints.
- The pace of disinflation has raised expectations that central banks in advanced economies will begin cutting interest rates in 2024 and well into 2025.
- South Africa's near-to-medium term growth prospects remain hamstrung by subdued prices for key export commodities and a subdued global demand.

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Real GDP growth is projected to rebound to 1.3 per cent in 2024 after slowing to an estimated 0.6 per cent in 2023

Macroeconomic performance and projections

Percentage change	2020	2021	2022	2023	2024	2025	2026
	Actual			Estimate	Forecast		
Final household consumption	-6.1	5.8	2.5	0.7	1.3	1.8	1.7
Final government consumption	0.9	0.5	1.0	1.8	-0.7	-0.2	-0.2
Gross fixed-capital formation	-14.6	0.6	4.8	4.2	3.7	4.0	3.6
Gross domestic expenditure	-7.6	4.8	3.9	1.1	1.2	1.7	1.7
Exports	-12.0	9.1	7.4	3.2	2.1	2.5	3.2
Imports	-17.6	9.6	14.9	4.8	1.9	2.6	2.6
Real GDP growth	**-6.0**	**4.7**	**1.9**	**0.6**	**1.3**	**1.6**	**1.8**
GDP inflation	5.3	6.5	4.8	4.6	4.0	4.5	4.5
GDP at current prices (R billion)	**5 568**	**6 209**	**6 629**	**6 972**	**7 346**	**7 801**	**8 298**
CPI inflation	3.3	4.6	6.9	6.0	4.9	4.6	4.6
Current account balance (% of GDP)	1.9	3.7	-0.5	-1.8	-2.8	-3.0	-3.0

Sources: National Treasury, Reserve Bank and Statistics South Africa

- South Africa's 2023 GDP growth forecast has been lowered to 0.6 per cent due to weaker-than-expected 2023Q3 outcomes.
- SA's economy has been subject to several headwinds, including persistent power cuts, operational and maintenance failures in freight rail and at ports, and high living costs.
- The medium-term outlook is forecast to average growth of 1.6 per cent.
- Medium-to-longer-term growth is dependent on improving capacity in energy, freight rail and ports, and on continuing to reduce barriers to economic activity.
- The economic growth strategy prioritises macroeconomic stability, structural reforms and improvements in state capability to raise growth.

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Operation Vulindlela has accelerated implementation of reforms in electricity, rail, water and telecommunication

Key achievements in Economic Reforms to date

- ✓ The Electricity Regulation Amendment Bill is advancing in the National Assembly, aiming to create a competitive electricity market for better energy security.
- ✓ The National Transmission Company board was appointed in January 2024, marking a significant step in separating Eskom into generation, transmission, and distribution units.
- ✓ Regulatory changes have led to over R100 billion investment in 6,000 MW of large-scale energy projects, set to become operational in the medium term.
- ✓ The Freight Logistics Roadmap, approved in December 2023, outlines measures to improve freight logistics performance and required structural reforms.
- ✓ The Economic Regulation of Transport Bill, expected to pass in Q1 2024, will promote a competitive logistics system and establish the Transport Economic Regulator.
- ✓ All reform milestones in the telecommunications sector have been achieved. The high-demand spectrum auctioned in March 2022 has been made available to licensees and is expected to attract over R40 billion in investment. These investments have enhanced network quality and reduced data costs – where from 2021, 100-megabyte data bundle prices have dropped by 25 per cent.
- ✓ The National Water Infrastructure Agency Bill was introduced to Parliament in June 2023. The Bill was consulted on in NEDLAC and proceeds from the National Assembly to the National Council of Provinces; and is currently being reviewed by the Portfolio Committee on Water and Sanitation. The NWRIA is planned to be established by 2025.

Risks to the economic outlook remain elevated

Risks to the global outlook are assessed to be balanced, but uncertainty prevails:

- Potential spikes in the global oil price if the conflict in the Middle East escalates.
- Growth falters in China (SA's largest trade partner).
- On the upside: global inflation could fall faster than currently assumed as supply side constraints and input costs abate

Risks to the domestic outlook include:

- Continued operational and maintenance failures in electricity, freight rail and ports remain a persistent and binding constraint on output in the near term.
- A longer-than-expected period of high sovereign credit risks could increase borrowing costs further, weighing on investment and growth.
- Persistently high domestic interest rates could further erode consumption spending, alongside the risk of continued food inflation.
- Conversely, the domestic growth outlook may improve if there is less load-shedding than expected in the near term, coupled with a faster-than-expected resolution of the rail and port infrastructure constraints.

Government remains on course with the medium-term fiscal strategy outlined in the 2023 MTBPS

- The balanced approach to fiscal consolidation includes expenditure restraint and moderate revenue increases, while continuing to support the social wage and ensuring additional funding for critical services.
  - As indicated in the 2023 MTBPS, fiscal consolidation includes tax policy measures of R15 billion in 2024/25.
  - Compared with 2023 Budget estimates, net reductions to main budget non-interest expenditure of R80.6 billion over the medium term are proposed.
  - Over the medium term, proposed additional spending of R57.6 billion since the 2023 MTBPS will ensure that the salaries of teachers, nurses, doctors and many other public servants are catered for.
  - Over the 2024 MTEF period, 60.2 per cent of consolidated non-interest spending goes to the social wage.
- A key objective of the strategy is to achieve a primary budget surplus in the current year. The surplus will grow over the medium term, narrowing the budget deficit and allowing debt to stabilise at 75.3 per cent of GDP in 2025/26.
- This will enable government to curb the trend of rising debt-service costs, which are expected to reach a peak of 21.3 per cent of revenue in 2025/26 and decline thereafter.
- Government has decided to further mitigate fiscal risks by reducing borrowing over the medium term using a portion of valuation gains in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA).
- Over the medium term, the debt-stabilising primary budget surplus will anchor fiscal policy.
- To chart a sustainable long-term path for the public finances, government will, after consultation, propose a binding fiscal anchor.

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Tax revenue projections revised slightly in 2023/24 but more significantly over the 2024 MTEF

Revised gross tax revenue projections

R billion	2022/23[1]	2023/24	2024/25	2025/26	2026/27
Revised estimate	**1,686.7**	**1,731.4**	**1,863.0**	**1,991.2**	**2,133.0**
Buoyancy	*1.21*	*0.54*	*1.33*	*1.11*	*1.11*
2023 MTBPS	**1,686.7**	**1,730.7**	**1,854.0**	**1,975.8**	**2,111.9**
Buoyancy	*1.21*	*0.61*	*1.15*	*1.07*	*1.05*
2023 Budget	**1,692.2**	**1,787.5**	**1,907.7**	**2,043.5**	
Buoyancy	*1.42*	*1.06*	*1.06*	*1.09*	
Projected improvement against 2023 MTBPS	0.0	0.7	9.1	15.4	21.1
Projected shortfall against 2023 Budget	-5.5	-56.1	-44.7	-52.2	

1. Actual outcome
Source: National Treasury

- 2023/24 tax revenue is expected to be R1.73 trillion, R56.1 billion below the 2023 Budget expectations, reflecting economic downturns.
- Improved medium-term revenues are due to increased personal income tax collections and additional medium-term revenue proposals.
- As a result, the buoyancy of tax revenue for a given level of economic growth is expected to be slightly higher over the medium term.

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Tax increases of R15 billion in 2024/25 are proposed to alleviate fiscal pressures, and have permanent revenue effects

Impact of tax proposals on medium-term revenue[1]

R million	2024/25	2025/26	2026/27
	Effect of tax proposals		
Gross tax revenue (before 2024 Budget tax proposals)	**1 848 035**	**1 975 277**	**2 108 458**
2024 Budget proposals[2]	**15 000**		**7 500**
Direct taxes[3]	**18 200**	**19 330**	**28 182**
Personal income tax			
No inflationary adjustment to tax brackets and rebates	16 300	17 342	18 603
No inflationary adjustment to medical tax credits	1 900	1 989	2 079
Corporate income tax			
Global minimum corporate tax			8 000
Electric vehicles tax incentive			-500
Indirect taxes	**-3 200**	**-3 397**	**-3 617**
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 248	-4 521
Specific excise duties			
Above-inflation increase in excise duties on alcohol	800	851	904
Net impact of tax proposals	**15 000**	**15 933**	**24 565**
Gross tax revenue (after tax proposals)	**1 863 035**	**1 991 210**	**2 133 023**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. In-year tax increase with no carry through
3. Includes carry-through effect of tax policy proposals
Source: National Treasury

- In line with the 2023 MTBPS announcement, tax increases of R15 billion in 2024/25 are proposed to alleviate fiscal pressures. They include:
  - no inflation adjustments to personal income tax tables and medical tax credits,
  - above-inflation increases in excise duties on alcohol and tobacco,
  - as in the 2022 and 2023 Budgets, the general fuel levy and RAF levy are not increased – costing an initial R4 billion.
- These measures have permanent revenue effects, the net result of which is improved revenue collection.
- Introducing global minimum tax rules seeks to protect the corporate tax base and limit tax competition and is expected to increase corporate tax collection by R8 billion in 2026/27.
- Partially offset by the initial cost of providing investment incentives to produce electric vehicles.

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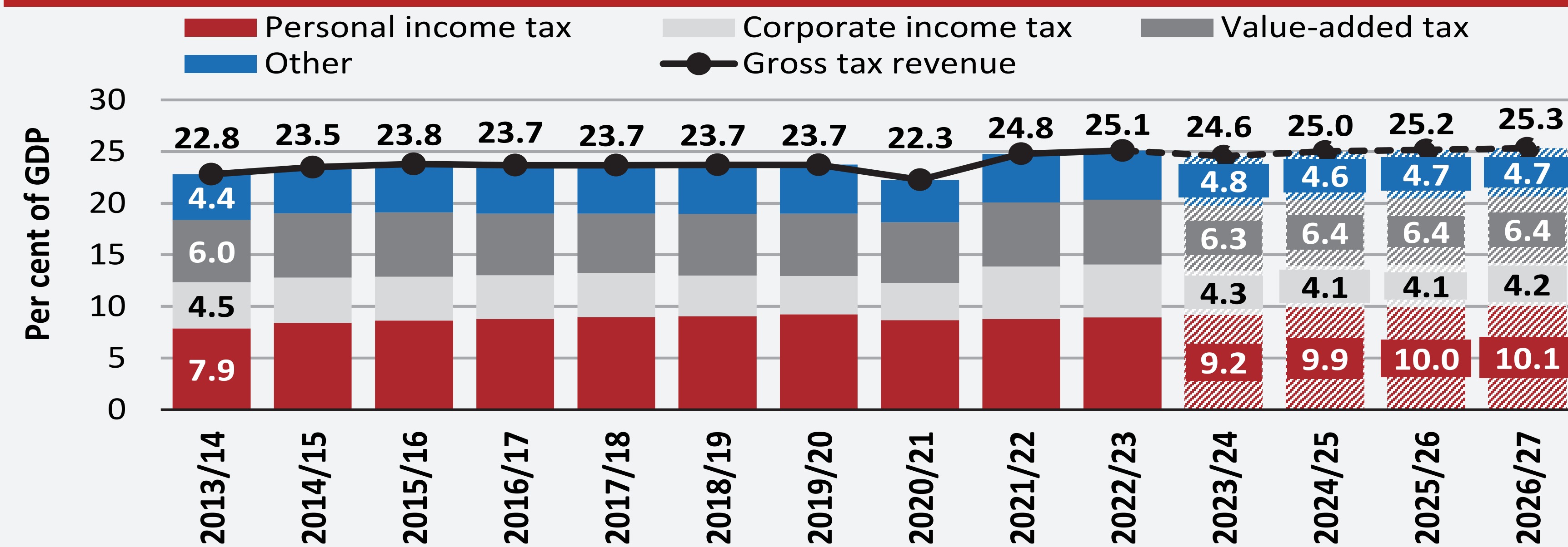
The tax-to-GDP ratio stabilises over the medium term, reaching 25.3 per cent by 2026/27

Tax-to-GDP ratio



- The tax-to-GDP ratio is expected to decline to 24.6 per cent in 2023/24. While earnings have remained resilient, corporate profits have declined.
- This reflects the end of the windfall tax gains from high commodity prices over the last two years.
- Higher revenue collection requires sustained investment and economic growth, supported by continued improvements in tax administration.

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Changes to 2023/24 main budget non-interest expenditure

Revisions to non-interest expenditure for 2023/24

R million	2023/24
Non-interest expenditure (2023 Budget)	**1 694 120**
Upward expenditure adjustments	**30 221**
2023 MTBPS	
Allocation for the 2023/24 wage increase	23 558
Provincial departments[1]	*17 558*
National departments[2]	*6 000*
Other allocations in the AENE[3]	5 864
Second adjustments appropriation: shifts to votes	470
National Revenue Fund payments adjustments in 2024 Budget	329
Downward expenditure adjustments	**-36 260**
Downward revisions to baselines[4]	-21 726
Projected underspending	-5 600
Drawdown on contingency reserve	-5 000
Net other downward adjustments[5]	-3 464
Second adjustments appropriation: shifts from votes	-470
Revised non-interest expenditure (2024 Budget)	**1 688 081**
Change in non-interest expenditure from 2023 Budget	-6 039

1. Mainly for departments of education and health
2. Departments of Police, Defence and Correctional Services
3. 2023 Adjusted Estimates of National Expenditure
4. National government, and provincial and local government conditional grants
5. Declared unspent funds and drawdown to provisional allocations not assigned to votes
Source: National Treasury

- Non-interest expenditure decreases by a net R6 billion since the 2023 Budget mainly as a result of:
  - the proposed reductions to baselines,
  - declared unspent funds
  - projected underspending
  - drawdowns of the contingency reserve
  - provisional allocations not assigned to votes.
- Funds are provided for the 2023/24 wage increase in labour-intensive departments.

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Medium-term adjustments to main budget non-interest expenditure

- Compared with 2023 Budget estimates, net reductions to main budget non-interest expenditure amount to R80.6 billion over the medium term. This consists of:
  - Proposed reductions of R206 billion to departmental baselines and provisional allocations not assigned to votes.
  - A drawdown of the 2023 Budget unallocated reserve, partially offset by an increase in the contingency reserve.
  - Spending additions of R251.3 billion, mainly for the carry-through costs of the 2023/24 wage increase and wage bill pressures in labour-intensive departments, including basic education, health and police.

Changes to main budget non-interest expenditure over MTEF period

R million	2024/25	2025/26	2026/27	MTEF total
Non-interest expenditure (2023 Budget)	**1 775 105**	**1 869 432**	**1 963 716**	**5 608 253**
Additions to baselines and provisional allocations	**80 436**	**83 641**	**87 252**	**251 330**
Additions for wage pressures and 2023/24 wage increase carry-through costs	46 299	48 263	50 277	144 839
Provincial departments [1]	*33 803*	*35 089*	*36 577*	*105 469*
National departments [2]	*12 496*	*13 174*	*13 700*	*39 369*
Implementation of the recommendations of the State Capture Commission and FATF [3]	200	209	219	628
COVID-19 social relief of distress grant	33 587	–	–	33 587
Provisional allocation for social protection	–	35 169	36 756	71 926
Additional funding for elections (police and defence)	350	–	–	350
Change in reserves and other adjustments [4]	**-38 505**	**-42 538**	**-44 882**	**-125 925**
Reductions to baselines and provisional allocations	**-63 252**	**-69 623**	**-73 104**	**-205 979**
Revised non-interest expenditure (2024 Budget)	**1 753 784**	**1 840 913**	**1 932 982**	**5 527 679**
Change in non-interest expenditure from 2023 Budget	-21 321	-28 519	-30 734	-80 574

1. Mainly for departments of education and health
2. Departments of Police, Defence, Correctional Services, Justice and Constitutional Development and Home Affairs
3. Financial Action Task Force
4. Includes drawdown of 2023 Budget unallocated reserves, increase in contingency reserve in 2025/26 and 2026/27, revisions to skills development levy projections, and rescheduling of capital projects
Source: National Treasury

- Most other departments are expected to absorb the wage increase within their baselines.
- This will include managing headcounts, such as by implementing controls on payroll systems to ensure departments operate within their budgets.
- Government is exploring other measures, which will be tabled for discussion in the Public Service Co-ordinating Bargaining Council as part of a broader discussion on containing wage bill growth.

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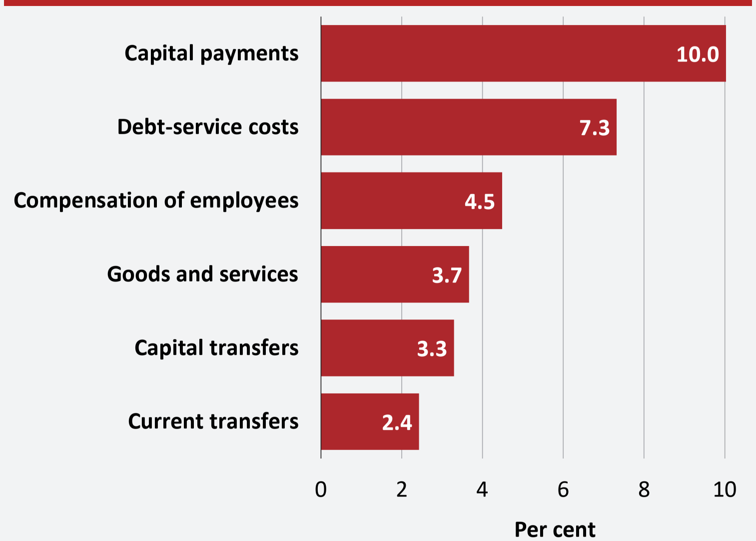
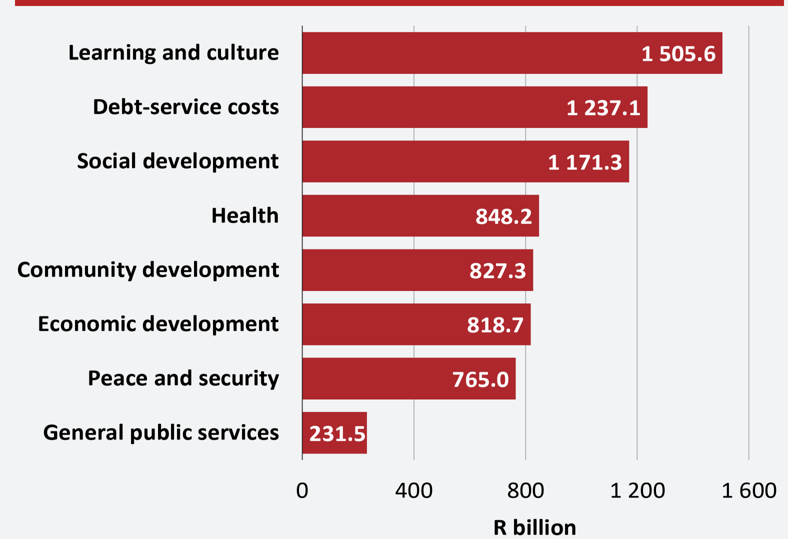
Total consolidated spending is expected to increase from R2.37 trillion in 2024/25 to R2.6 trillion in 2026/27

- By economic classification, payments for capital assets, debt-service costs and compensation of employees are the fastest-growing spending items over the MTEF period, with an average annual growth rate of 10 per cent, 7.3 per cent and 4.5 per cent, respectively.
- Debt-service costs consume a greater share of the budget than social development, health, community development, economic development or peace and security.
- Spending across functions supports the implementation of new and existing policy priorities. Learning and culture receives 24.4 per cent (R1.51 trillion) of the total function budgets, while general public services receives the smallest share at 3.7 per cent (R231.5 billion).

Average spending growth over the MTEF by economic classification, 2024/25 — 2026/27



Total consolidated government expenditure, 2024/25 – 2026/27



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For the 2024 MTEF period, provinces and municipalities are allocated R2.8 trillion of total non-interest spending

Division of revenue

R billion	2023/24	2024/25	2025/26	2026/27
	Revised estimate	Medium-term estimates		
National allocations	823.9	848.5	853.7	890.5
Provincial allocations	706.4	729.5	760.9	790.8
Equitable share	*585.1*	*600.5*	*627.4*	*655.7*
Conditional grants	*121.3*	*129.0*	*133.4*	*135.1*
Local government allocations	157.8	170.3	177.7	183.8
Provisional allocations not assigned to votes	–	0.6	41.1	53.5
Total allocations	**1 688.1**	**1 748.8**	**1 833.3**	**1 918.5**
Percentage shares				
National	*48.8%*	*48.5%*	*47.6%*	*47.7%*
Provincial	*41.8%*	*41.7%*	*42.5%*	*42.4%*
Local government	*9.3%*	*9.7%*	*9.9%*	*9.9%*

Source: National Treasury

- National government transfers more than half of nationally raised revenues to the nine provinces and 257 municipalities, empowering them to fulfil their mandated functions.
- For the 2024 MTEF period, provinces and municipalities are allocated 51.1 per cent of total non-interest spending.
- Transfers to both provinces and municipalities will differ somewhat from the 2023 Budget, due to a combination of consolidation measures and the impact of the 2023 public-service wage agreement.

- Provinces will be able to fund the wages of teachers, nurses, doctors and other critical skills that are essential for service delivery.
- Over the 2024 MTEF period, after payments for debt-service costs, the contingency reserve and provisional allocation, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provinces and 9.8 per cent to local government.

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Government’s gross borrowing requirement is projected to decrease over the 2024 MTEF

Financing of national government gross borrowing requirement[1]

R million	2022/23	2023/24		2024/25	2025/26	2026/27
	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	**-309 938**	**-275 351**	**-331 386**	**-320 946**	**-308 151**	**-287 218**
Redemptions	**-90 324**	**-162 232**	**-145 759**	**-172 568**	**-185 598**	**-166 295**
Domestic long-term loans	-74 562	-117 865	-98 614	-132 087	-126 730	-126 730
Foreign loans	-15 762	-44 367	-47 145	-40 481	-58 868	-39 565
Eskom debt-relief arrangement	–	**-78 000**	**-76 000**	**-64 154**	**-110 223**	–
GFECRA settlement (net)[4]	–	–	–	**100 000**	**25 000**	**25 000**
Total	**-400 262**	**-515 583**	**-553 145**	**-457 669**	**-578 972**	**-428 513**
Financing						
Domestic short-term loans	**-25 577**	**48 000**	**88 000**	**33 000**	**47 000**	**34 000**
Treasury bills (net)	-25 493	48 000	88 000	33 000	47 000	34 000
Corporation for Public Deposits	-84	–	–	–	–	–
Domestic long-term loans	**322 420**	**329 900**	**327 900**	**328 100**	**422 200**	**303 200**
Market loans	321 669	329 900	328 032	328 100	352 200	303 200
Loans issued for switches	87	–	532	–	–	–
Loans issued for repos (net)	664	–	-664	–	–	–
Eskom debt-relief arrangement	–	–	–	–	70 000	–
Foreign loans	**64 466**	**44 360**	**45 166**	**36 700**	**82 163**	**92 195**
Market loans	64 466	44 360	45 166	36 700	82 163	92 195
Change in cash and other balances[2]	**38 954**	**93 323**	**92 079**	**59 869**	**27 609**	**-882**
Cash balances	29 332	86 321	83 649	53 112	21 753	-5 866
Other balances[3]	9 622	7 002	8 430	6 757	5 856	4 984
Total	**400 262**	**515 583**	**553 145**	**457 669**	**578 972**	**428 513**
Percentage of GDP	*6.0%*	*7.4%*	*7.8%*	*6.1%*	*7.3%*	*5.1%*

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments
4. In 2024/25, the Reserve Bank will pay R200 billion to government in partial settlement of the GFECRA balances. Of this amount government will pay the Reserve Bank R100 billion towards the contingency reserve
Source: National Treasury

- The gross borrowing requirement, impacted by a R56 billion deficit increase, will rise to R553.1 billion for 2023/24, or 7.8 per cent of GDP.
- Eskom transfers are set for R76 billion in 2023/24 and R64.2 billion in 2024/25, with a R40.2 billion transfer and a R70 billion debt switch in 2025/26.
- Implementation of the GFECRA settlement reduces borrowing needs over three years with R100 billion in 2024/25 and R25 billion in 2025/26 and 2026/27.
- Average net Treasury bill issuance will be R38 billion over three years, with long-term borrowing averaging R327.8 billion, of which R282.4 billion has been raised.
- International borrowing to include US$2.4 billion from global institutions in 2023/24, with cash balances estimated at R150.3 billion by the end of 2023/24.
- Yield curve increase by 37 basis points since 2023 Budget due to investor concerns over economic impact of power cuts and rising debt levels.

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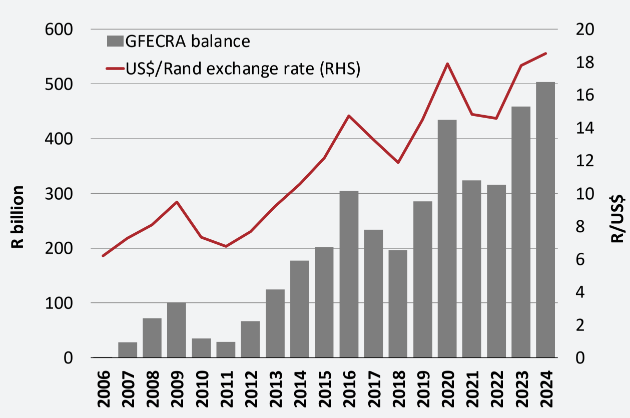
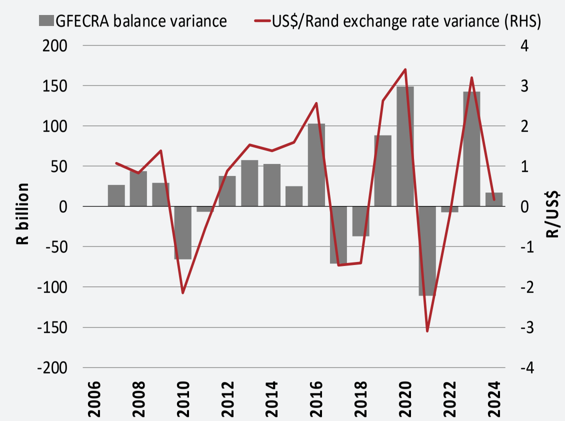
Government will undertake a R150 billion settlement of GFECRA over the next 3 years guided by several principles

Outstanding GFECRA balance



Fluctuations in GFECRA balances



- Current accounting practice is that Gains and losses are recorded but not settled, making the Reserve Bank's liability to the government unusually large.
- Proposed settlement agreement aims to establish a new framework to reduce government borrowing and align the Reserve Bank's practices with international norms.
- Funds Allocation Strategy:
  - First Bucket (GFECRA): Retains funds to cover potential exchange rate fluctuations.
  - Second Bucket (Reserve Bank Contingency Reserve): Ensures central bank solvency and covers costs of interest rate impact neutralisation.
  - Third Bucket (National Treasury): Receives funds after fulfilling the first two obligations.

- The Reserve Bank’s policy solvency should not be undermined by any GFECRA distribution. In practical terms, this means the central bank should not suffer sustained negative equity.
- There should be no sales of foreign exchange reserves to realise GFECRA gains if such reserves are below estimated adequacy levels.
- There should be no distribution of unrealised GFECRA balances that could plausibly be unwound by future rand appreciation.
- Any GFECRA distributions should be governed by a framework that rules out ad hoc decisions; should be public to ensure transparency; and should be used to reduce government borrowing.

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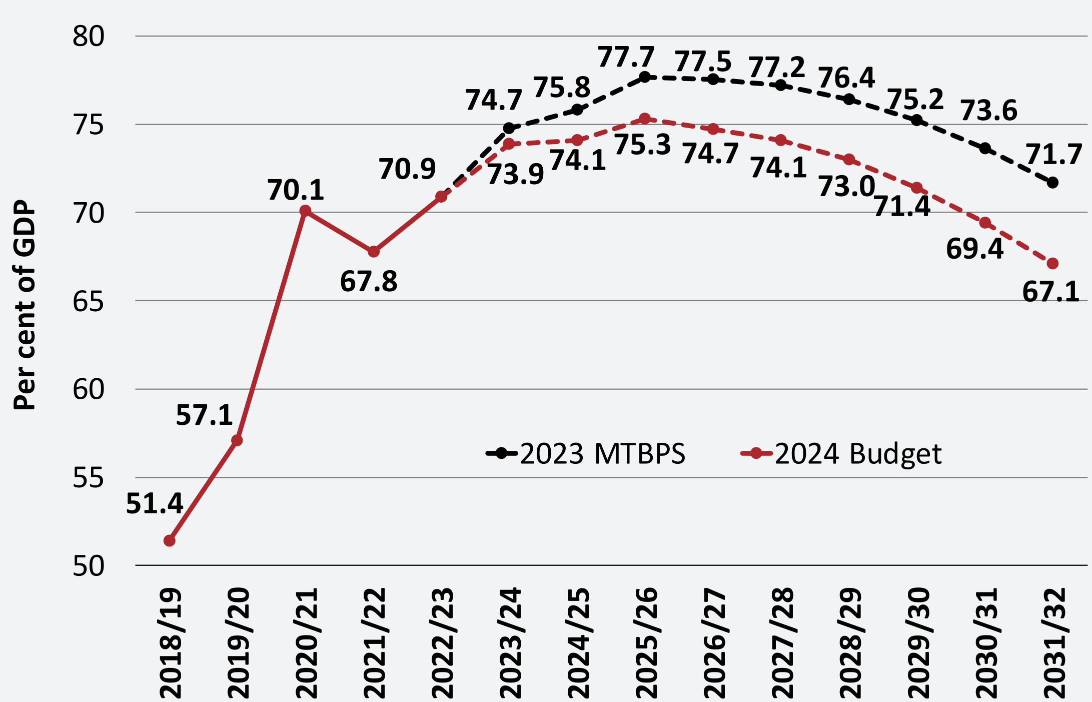
Government debt is expected to peak at 75.3 per cent of GDP in 2025/26 and decline thereafter

Gross loan debt outlook



- In line with government's fiscal strategy, gross loan debt is expected to stabilise at 75.3 per cent of GDP in 2025/26 – lower than the 77.7 per cent projected in the 2023 MTBPS – and to decline thereafter.
- The medium-term gross borrowing requirement will be R196 billion lower than projected in the 2023 MTBPS, mainly due to a change in the arrangements governing the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) between the National Treasury and the Reserve Bank.
- Accordingly, government will receive distributions of R100 billion in 2024/25, R25 billion in 2025/26 and R25 billion in 2026/27 from the Reserve Bank.
- This will reduce domestic market financing requirements, as well as the growth of debt stock and debt-service costs.

2024 BUDGET

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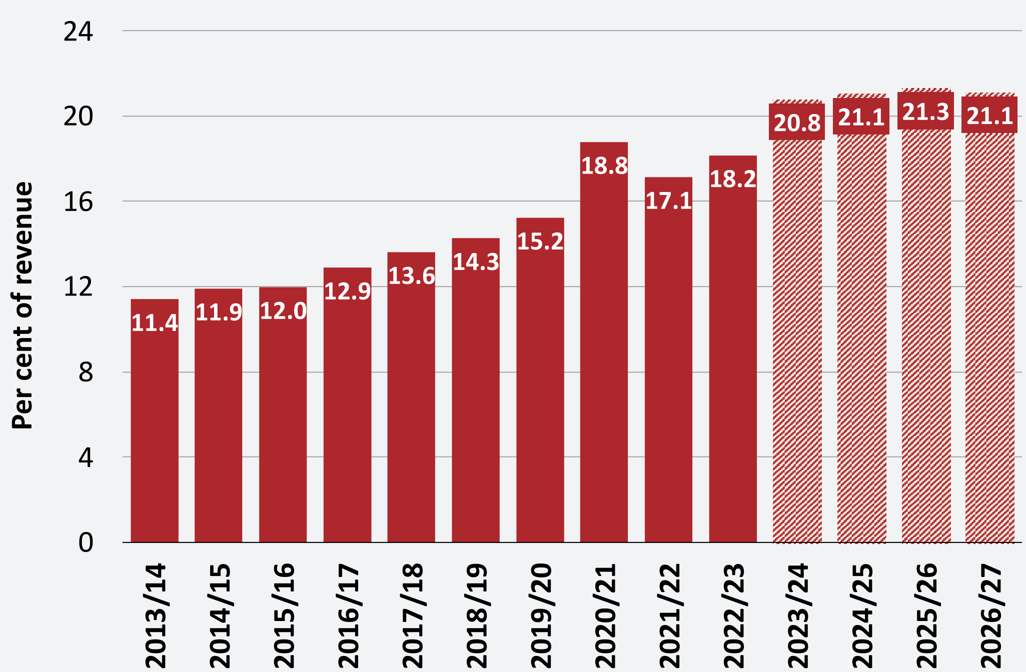
In 2023/24, for the first time since 2000/01, debt-service costs absorb more than 20 cents of every rand collected in revenue

Debt-service costs as a share of main budget revenue



- In 2023/24, debt-service costs were revised upwards by R15.7 billion compared with the 2023 Budget estimate, mainly due to the higher budget deficit.
- As a share of GDP, debt-service costs are projected to average 5.2 per cent over the medium term; as a share of revenue, they are expected to increase from 20.8 per cent in 2023/24 to 21.1 per cent in 2026/27
- A 1 percentage point increase in inflation and interest rates, together with a R1 depreciation of the rand against the dollar, results in a R50.7 billion increase in gross loan debt and a R7.9 billion increase in debt-service costs.

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2024 BUDGET

The consolidated budget deficit is projected to narrow from 4.9 per cent of GDP in 2023/24 to 3.3 per cent by the end of the MTEF period

Consolidated fiscal framework

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 409.9**	**1 751.7**	**1 896.4**	**1 921.4**	**2 036.6**	**2 176.4**	**2 323.6**
	25.1%	*27.8%*	*28.2%*	*27.3%*	*27.3%*	*27.5%*	*27.6%*
Expenditure	**1 965.1**	**2 043.9**	**2 141.1**	**2 268.9**	**2 369.0**	**2 471.4**	**2 597.8**
	35.0%	*32.4%*	*31.9%*	*32.2%*	*31.8%*	*31.2%*	*30.8%*
Non-interest expenditure	*1 724.2*	*1 767.9*	*1 825.3*	*1 904.9*	*1 978.1*	*2 048.1*	*2 149.3*
	30.7%	*28.0%*	*27.2%*	*27.0%*	*26.5%*	*25.9%*	*25.5%*
Budget balance	**-555.2**	**-292.2**	**-244.7**	**-347.4**	**-332.4**	**-295.0**	**-274.2**
	-9.9%	*-4.6%*	*-3.6%*	*-4.9%*	*-4.5%*	*-3.7%*	*-3.3%*

Source: National Treasury

- Between the 2023 Budget and the 2024 Budget, the estimated consolidated budget deficit for 2023/24 grew from 4 per cent to 4.9 per cent of GDP.
- The deficit is projected to decline to 3.3 per cent of GDP in 2026/27 as the main budget deficit narrows and social security funds, provinces and public entities move into a combined cash surplus in 2025/26.
- Over the next three years, consolidated non-interest expenditure will contract at an annual average rate of 0.5 per cent in real terms. However, the budget limits potentially damaging reductions to key services.
  - The budgets for basic education, health and the police are projected to grow in nominal annual average terms at 4.7 per cent, 3.4 per cent and 5.4 per cent, respectively, over the 2024 MTEF period.
  - Spending on the community and economic development functions will grow by 4.5 per cent and 6.3 per cent respectively. In contrast, spending on general public services grows marginally over the medium term.

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2024 BUDGET

Public investment is being prioritised through upscaling the use of public-private partnerships and new institutional arrangements

- The 2024 Budget prioritises capital budgets, with a 7.3 per cent increase in capital investment over the medium term.
- Total infrastructure investment planned by the state (inclusive of SOEs and municipalities) over the next three years amounts to R943.8 billion.
- Government is implementing reforms to reduce waste, improve quality of public investment . The key elements of the reforms are :
  - Consolidate the financing, preparation and planning arrangements for large projects in a single entity to crowd in private-sector finance and expertise.
  - Increase the use of PPPs to deliver infrastructure projects.
  - Reduce fragmentation and duplication across spheres of government.
- During 2024/25, an infrastructure finance and implementation support agency will be established to coordinate the planning and preparation of large projects, engaging directly with private financial institutions. The agency will incorporate the functions of project preparation, PPP technical support and data management. Departments, public entities and municipalities will be able to use its services to prepare, plan and execute projects.
- Proposed amendments out for public comment are intended to encourage more regular use of PPPs and revive the pipeline, harnessing private financing and capitalising on private-sector efficiencies.
- Red tape will be reduced by granting exemptions for projects valued below R2 billion from obtaining multiple approvals.
- Limits on the ability of accounting officers to cancel key projects that have passed the feasibility stage will provide greater security to investors.

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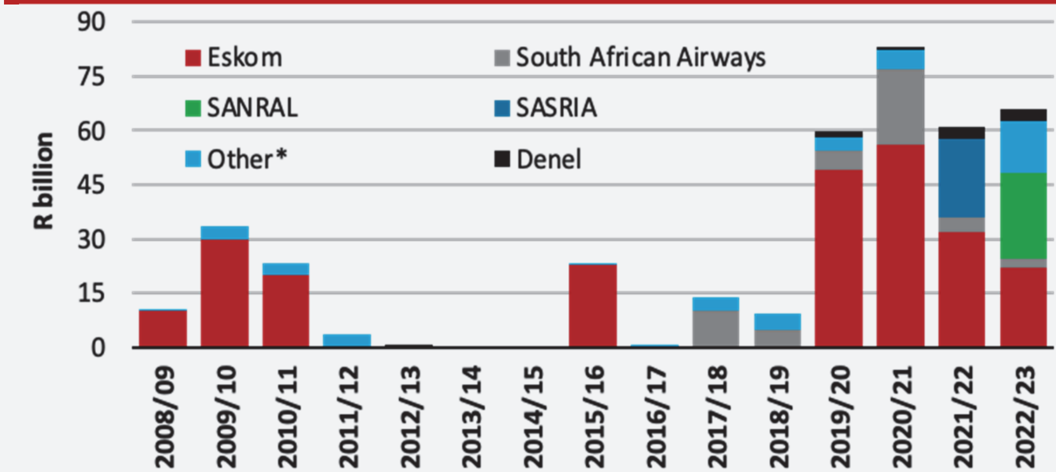
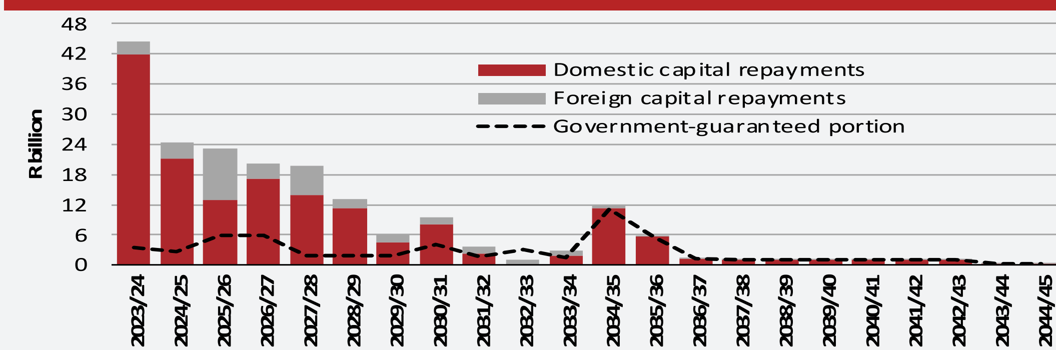
Most state-owned companies remain in distress due to weak governance, financial strain and poor operational performance

Recapitalisation of state-owned companies



Debt maturity profile of major state-owned companies



- Most SOCs are poorly managed, have insufficient revenue collection and high operating costs.
- Net cash available after interest, debt service and capital expenditure declined by 39.1 per cent to -R119 billion in 2022/23.
- State-owned companies are struggling to access capital markets without government guarantees and, increasingly, request bailouts to service debt and fund turnaround plans – which is unsustainable.
- A key driver of South Africa's increasingly constrained fiscal position is the expansion of financial support to state-owned companies. Eskom has dominated these bailouts.
- Injection through the budget had little to no impact on the service offering. For example, South African Airways (SAA) received a total of R48.2 billion over six years and still went into business rescue.

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Conclusion: The 2024 Budget ensures development through sustainable public finances

- In the context of persistently low economic growth, government will protect critical services, support economic growth through reforms and public investment, and stabilise public debt.
- The economy is estimated to have grown by only 0.6 per cent in real terms in 2023, largely as a result of intensive and persistent power cuts. Real GDP growth has been revised to 1.3 per cent for 2024. Over the next three years, growth will average 1.6 per cent. Broad reforms are under way in energy, freight, water, and telecommunications.
- The consolidated budget deficit is projected to continue declining over the MTEF period, narrowing to 3.3 per cent of GDP in 2026/27. Gross loan debt will stabilise at 75.3 per cent of GDP in 2025/26. As a result of the fiscal strategy, debt-service costs will peak at 21.3 per cent of revenue in 2025/26 and decline thereafter.
- Gross tax revenue for 2023/24 is expected to be R1.73 trillion, which is R56.1 billion lower than expected in the 2023 Budget. As indicated in the 2023 MTBPS, fiscal consolidation includes tax policy measures of R15 billion in 2024/25 to alleviate immediate fiscal pressure and support debt stabilisation.
- Excluding debt-service costs, the largest components of the R2.37 trillion consolidated budget for 2024/25 are basic education, social protection and health.
- Compared with estimates outlined in the 2023 MTBPS, additional resources of R57.6 billion are provided mainly to preserve staffing levels in the health and education functions and to protect the peace and security function from deeper reductions.
- The major risks to the fiscal position are largely unchanged since the 2023 MTBPS. They include:
  - Weaker-than-expected economic growth, which would slow revenue growth and widen the budget deficit.
  - Higher borrowing costs.
  - An unaffordable wage increase in the second year of the MTEF period.
  - Further deterioration in the balance sheet of major public-sector institutions which could result in bailout demands.

THANK YOU

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