2023

MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

national treasury
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National Treasury
REPUBLIC OF SOUTH AFRICA

Medium Term
Budget Policy Statement
2023

National Treasury

Republic of South Africa

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FOREWORD

This *Medium Term Budget Policy Statement* (MTBPS) focuses on the hard work needed to address some of our most pressing challenges. It aims to strengthen economic growth so that the economy creates more jobs and generates higher tax revenue. It takes a balanced approach to fiscal consolidation to stabilise debt and debt-service costs. It protects vulnerable households. And it signals plans to reconfigure the state for greater efficiency, with zero tolerance for waste or corruption.

Between 2008/09 and 2022/23, annual government spending has grown from R713 billion to R2.1 trillion. After adjusting for inflation, this means public spending for each person living in South Africa has grown from R27 629 to R33 390. To date, however, this large spending increase has had little impact on economic growth. At the same time, public debt has grown exponentially to finance the budget deficit.

The MTBPS focuses on strengthening economic growth by improving electricity and rail operations, building investor confidence, attracting new infrastructure investment and speeding up delivery, and reconfiguring the state for efficiency.

Over the next three years, government will continue rebuilding the public finances by narrowing the budget deficit and stabilising debt, while maintaining the social wage. Fiscal consolidation will be implemented through spending reductions, efficiency measures across government and moderate tax revenue measures. Government remains on course to stabilise debt in 2025/26, but at a higher level than projected in the 2023 Budget.

To ensure national development, we must reduce debt-service costs. As a percentage of GDP, gross loan debt increased by 47.2 percentage points between 2008/09 and 2022/23, and new debt is more expensive. Out of every R5 collected in main budget revenue, R1 is paid to lenders. These rising debt-service costs now take a bigger share of the budget than basic education, social protection or health.

At the same time, South Africa needs to get better value for money from its R2 trillion budget. Over the medium term, government will begin reconfiguring the state to improve efficiency. The 2024 Budget will propose measures based on spending reviews, and a joint team is preparing recommendations, including closing or merging non-performing entities.

I would like to thank the President, my colleagues in Cabinet and the Ministers' Committee on the Budget, and the Deputy Minister for their support during this process. I also extend my appreciation to the new Director-General and the National Treasury staff for their hard work and dedication. And finally, I would like to recognise the sterling contribution of Ismail Momoniat, who has served the National Treasury for nearly 29 years in many roles, most recently as Acting Director-General. His commitment to sustainable, transparent and accountable public finances, and the values of our Constitution, is an example for us all.

Enoch Godongwana
Minister of Finance

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2023 MTBPS

STAYING THE COURSE FOR GROWTH AND SOUND PUBLIC FINANCES

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CHAPTER 1

STAYING THE COURSE FOR GROWTH AND SOUND PUBLIC FINANCES

In brief

- Over the medium term, government will support the economy, stabilise the public finances and protect the social wage.
- The fiscal strategy aims to continue rebuilding the public finances by narrowing the budget deficit and stabilising debt. Government remains on course to stabilise debt in 2025/26, but at a higher level than previously projected.
- Government must reduce debt-service costs to ensure national development. As a percentage of GDP, gross loan debt increased by 47.2 percentage points between 2008/09 and 2022/23, and new debt is more expensive. Rising debt-service costs now absorb a larger share of the budget than basic education, social protection or health.
- Reconfiguration of the state will commence over the medium term. The 2024 Budget will propose measures to reconfigure government programmes based on the outcome of previous spending reviews.
- Reforms are under way to improve energy security and rail transport efficiency. Private investment in renewable power is gathering pace and the separation of Eskom into three entities is under way. A significant improvement in electricity generation is expected over the medium term.

INTRODUCTION

The 2023 *Medium Term Budget Policy Statement* (MTBPS) strikes a careful balance between supporting a growth-enhancing agenda and stabilising the public finances, while maintaining support for the most vulnerable. Over the next three years, government will focus on raising GDP growth by improving the provision of electricity and logistics, enhancing the delivery of infrastructure and restructuring the state to be efficient and fit-for-purpose. Fiscal policy continues to support this approach by stabilising debt and debt-service costs.

Government faces difficult choices. The central problem is low economic growth. Frequent power cuts make it hard for firms to do business, while deteriorating rail freight and slow port operations mean fewer goods are transported to markets here and abroad. At the global level, slower growth in China, elevated inflation, higher interest rates and geopolitical tensions suggest a weaker outlook for domestic economic growth and tax revenues.

South Africa has become more vulnerable to external shocks, which makes major reforms critical and unavoidable. At present, capital investment is too low; too many government activities are inefficient, overlapping and non-critical; and the economy does not generate sufficient revenue to service government debt over the long term. These are the key shortcomings that government proposes to address over the next three years.

Over the medium term there are important opportunities for deeper reforms. The 2024 *Budget Review* will propose to scale down outdated and unproductive programmes and entities. A new mechanism will be created to crowd in financing from the private sector and international finance institutions for large infrastructure projects. And government will propose new fiscal anchors to ensure a sustainable long-term path for the public finances.

The medium-term fiscal framework includes a combination of small revenue increases, spending revisions and increased borrowing. Government will support social protection and wage bill costs for critical functions and keep the fiscal deficit within a reasonable range, while maintaining the progressive character of the tax system. Debt as a percentage of GDP will still stabilise in 2025/26 and a rising primary budget surplus – where revenue exceeds non-interest expenditure – is projected over the next three years.

RAISING ECONOMIC GROWTH OVER THE MEDIUM TERM

GDP growth is projected to slow from 1.9 per cent in 2022 to 0.8 per cent in 2023. Since the 2023 Budget, the economic growth outlook has weakened in line with changes in the world economy, and continued energy and logistics constraints. At the same time, concerns over the country's fiscal position and its growth outlook have increased the risk premium – the additional return investors require to compensate for country-specific risk – attached to South African bonds. This makes it more expensive for government to borrow in line with its spending plans.

Economic activity remains severely limited by continued shortages of electricity, deteriorating freight rail performance and slow port operations. Government is addressing these constraints through reforms outlined in Chapter 2. Energy reforms have mainly focused on making it easier for private companies and households to generate their own electricity through renewable technologies, such as the purchase of solar panels. Power plants previously affected by unplanned maintenance or breakdowns are starting to return to operation. Equally important is the continuing unbundling of Eskom and revised regulations that will de-monopolise the power grid. Fiscal policy has also played its part through Eskom debt relief announced in the 2023 Budget.

The Eskom debt-relief arrangement contains strict conditions. If Eskom does not meet these conditions, the loan will not be converted into equity at the end of the financial year. In addition, the Minister of Finance may reduce the amount of debt relief available to Eskom going forward. Government has also decided to convert the loan from interest-free to interest-bearing to better reflect the cost of this arrangement. Amendments to the Eskom Debt Relief Act (2023) will be tabled to provide for the interest condition outlined above, and to empower the Minister to reduce amounts from future allocations.

While debate continues over the role of macroeconomic policy settings in achieving higher economic performance, evidence from 2008/09 to 2019/20 – before the onset of COVID-19 – shows that higher public spending and persistent budget deficits failed to bolster economic growth in South Africa. This poor multiplier effect is related to the accumulation of debt financing, bailouts of state-owned enterprises and the funding of ineffective programmes. The increase in debt stock also makes South Africa more vulnerable to changes in global conditions. Any changes affecting borrowing costs – including increases in global interest rates – have a relatively greater impact on debt-service costs.

Under these conditions, fiscal policy can best support growth by maintaining a disciplined approach that mitigates borrowing costs and risks, thereby promoting investment. At the same time, this fiscal stance will reorient government spending in ways that enhance growth while continuing to support developmental goals. One example is the effort discussed later in this chapter to improve infrastructure delivery, which will support growth and employment.

Table 1.1 Macroeconomic projections

Calendar year	2022	2023	2024	2025	2026
	Actual	Estimate	Forecast		
Percentage change unless otherwise indicated					
Household consumption	2.5	0.8	1.4	1.5	1.7
Gross fixed-capital formation	4.8	6.2	3.6	4.6	3.4
Real GDP growth	**1.9**	**0.8**	**1.0**	**1.6**	**1.8**
GDP at current prices (R billion)	**6 628.6**	**6 947.3**	**7 321.4**	**7 786.8**	**8 288.7**
CPI inflation	6.9	6.0	4.9	4.6	4.5
Current account balance (% of GDP)	-0.5	-2.4	-3.0	-3.0	-3.1

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

FISCAL POLICY

Government's medium-term fiscal policy remains unchanged: achieve fiscal sustainability, support economic growth and reduce fiscal and economic risks.

Since the 2023 Budget, several fiscal risks have materialised. Corporate tax collections – primarily mining sector revenue – underperformed and the revenue outlook weakened. The 2023 public-service wage agreement increased the cost of compensation of employees. And, as discussed above, borrowing costs increased, pushing up the costs of servicing government debt. In this context, government will continue to take a sound and balanced approach to fiscal policy. The proposed fiscal framework for the medium term includes targeted spending revisions that contain overall expenditure while directing resources to core functions. Additional allocations will cover wage increases for employees in labour-intensive sectors and support social protection. Deeper reforms to improve the efficiency and effectiveness of spending will complement these changes.

In line with this stance, over the next three years government will borrow an average of R553.7 billion per year. This borrowing will be used for three purposes: first, to finance the gap between what government spends and the revenues it collects; second, to refinance the redemption of maturing debt; and third, to finance the Eskom debt-relief arrangement. From the current year and over the medium term, a significant increase in maturing debt requires a large increase in debt redemptions, as shown in Chapter 3.

The consolidated budget deficit is projected to reach 4.9 per cent in 2023/24, narrowing to 3.6 per cent by 2026/27. Gross loan debt will stabilise at 77.7 per cent of GDP in 2025/26, relative to 73.6 per cent of GDP in the same year projected in the 2023 Budget.

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome	Revised	Medium-term estimates		
Revenue	**1 898.2**	**1 915.5**	**2 012.6**	**2 139.3**	**2 286.5**
	28.2%	*27.3%*	*27.0%*	*27.1%*	*27.2%*
Expenditure	**2 145.2**	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**
	31.9%	*32.3%*	*31.6%*	*31.3%*	*30.8%*
Budget balance	**-247.0**	**-346.5**	**-339.9**	**-334.0**	**-302.0**
	-3.7%	*-4.9%*	*-4.6%*	*-4.2%*	*-3.6%*
Total gross loan debt	**4 765.4**	**5 238.0**	**5 641.3**	**6 133.4**	**6 524.9**
	70.9%	*74.7%*	*75.8%*	*77.7%*	*77.5%*

Source: National Treasury

Government debt dynamics

Although many countries are contending with rising debt levels in the wake of the pandemic, over the past 15 years South Africa has had one of the largest increases in government debt as a share of GDP. This debt accumulation has led to a rapid increase in debt-service costs, which now consume more than 20 per cent of main budget revenue. For every R5 collected in revenue, government pays R1 to lenders instead of funding education, policing, health and other critical services.

Figure 1.1 Change in gross debt as a share of GDP, 2008–2022

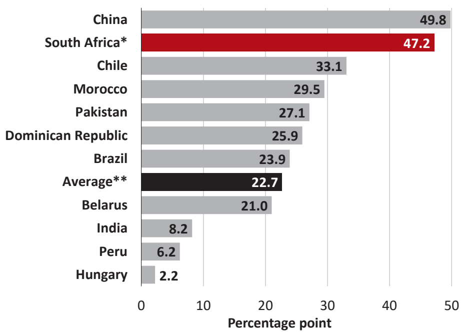
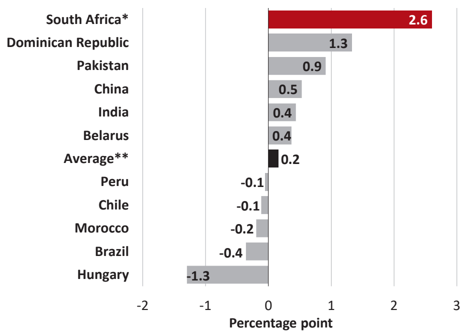


Figure 1.2 Change in debt-service costs as a share of GDP, 2008–2022

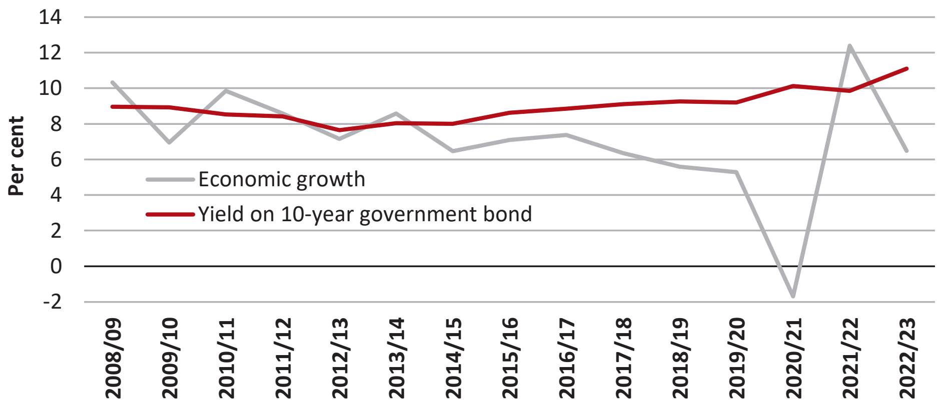


**National Treasury data*
***Excludes South Africa*
Source: National Treasury and IMF World Economic Outlook (October 2023)

As the stock of debt grows, any change affecting the cost of borrowing is magnified. Debt-service costs are now estimated to reach R385.9 billion in 2024/25 and R455.9 billion in 2026/27. Borrowing costs have risen across the yield curve, meaning that regardless of the maturity profile of loans and bonds, investors are demanding a premium to compensate them for the risks of investing in South Africa. Since 2013/14, South Africa's interest on debt has exceeded the rate of economic growth, implying that the economy is not able to generate enough revenue to pay the additional interest costs, resulting in the crowding out of service delivery expenditure.

The scale and duration of South Africa's debt accumulation, alongside the slow rate of economic growth, means that a primary budget surplus is needed to stabilise debt as a percentage of GDP and arrest the escalation in interest costs. The current estimate of the primary surplus required to stabilise debt is 1.3 per cent of GDP.

Figure 1.3 Nominal economic growth and bond yields



Source: National Treasury and Reserve Bank

EXPENDITURE PRIORITIES

Table 1.3 Consolidated government expenditure

	2023/24	2024/25	2025/26	2026/27	Average annual growth
R billion	**Revised**	**Medium-term estimates**			**2023/24 – 2026/27**
Learning and culture	464.9	474.2	492.1	515.4	3.5%
Health	264.5	268.4	277.6	290.0	3.1%
Social development	369.7	387.5	385.1	398.8	2.6%
Community development	251.9	265.6	278.4	287.5	4.5%
Economic development	239.6	254.7	281.7	287.4	6.2%
Peace and security	234.9	234.9	246.0	256.6	3.0%
General public services	77.6	72.9	75.3	78.3	0.3%
Payments for financial assets	3.9	3.4	3.9	4.3	
Total expenditure by function	**1 907.1**	**1 961.7**	**2 040.2**	**2 118.2**	**3.6%**
Debt-service costs	354.5	385.9	425.5	455.9	8.7%
Contingency reserve	0.4	5.0	7.6	14.5	
Total expenditure	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**	**4.6%**

Source: National Treasury

Over the next two years, main budget non-interest expenditure will decrease by R85 billion compared with 2023 Budget projections. Targeted revisions to spending include additional allocations to labour-intensive sectors to support implementation of the 2023 public-service wage agreement.

ADDRESSING KEY CHALLENGES

Infrastructure delivery

Investment in infrastructure is central to promoting economic growth and job creation. Government seeks to shift the quantity and quality of delivery by significantly increasing the extent to which the private sector is involved in funding infrastructure and providing technical expertise. Government will also widen the scope for concessional borrowing – that is, where interest rates are lower than average market rates.

The 2024 Budget will provide details on a new mechanism through which private-sector investors and multilateral institutions can co-invest with government for selected infrastructure projects. Government is also exploring the creation of alternative financing instruments for priority projects.

As announced in the 2023 Budget, the National Treasury has made progress on reviewing the framework for public-private partnerships. This process has recently been completed with concrete recommendations. The 2024 Budget will outline amendments to Treasury Regulations and key elements of municipal legislation.

Reconfiguration of the state

Over the last three years the National Treasury has conducted a series of spending reviews. In many cases, these reviews have highlighted deficiencies in policy choices and programme design, scale and cost. They have also revealed shortcomings in planning and implementation, which result in overlapping mandates and functions, and duplication of effort. Government considers these inefficiencies to place a further drag on the economy.

In the 2023 State of the Nation Address, the President announced plans to review and reconfigure the structure and size of the state. In this regard, a joint plan to rationalise government departments, entities and programmes over the next three years is being prepared. The following criteria will be used to determine whether a department or entity should be closed or merged:

- The performance and size of the entity or department, especially if it is no longer fulfilling its mandate or does not have capacity to fulfil its mandate.
- The ability of a larger department to absorb the function(s) of a small department.
- The duplication and overlap of functions across departments and entities.
- The clarity and execution of the legislative mandate.

High-level recommendations on programme and entity closures are being formulated by the Presidency, the National Treasury, the Department of Public Service and Administration and the Department of Planning, Monitoring and Evaluation. A dedicated technical team, consisting of the appropriate legal, financial and human resource expertise, has been created to facilitate implementation.

The public-service wage bill

The 2023 public-service wage agreement included higher-than-budgeted remuneration increases. Significant trade-offs and claw-back mechanisms are being implemented to mitigate the impact of these higher costs on the fiscal framework and to contain the budget for compensation of employees.

Government has issued a directive to national and provincial departments to implement control measures for creating and filling vacant posts, including restrictions on recruitment for less-critical posts. Government is assessing further controls on personnel budgets, including by providing incentives for early retirement.

STRENGTHENING FISCAL CREDIBILITY

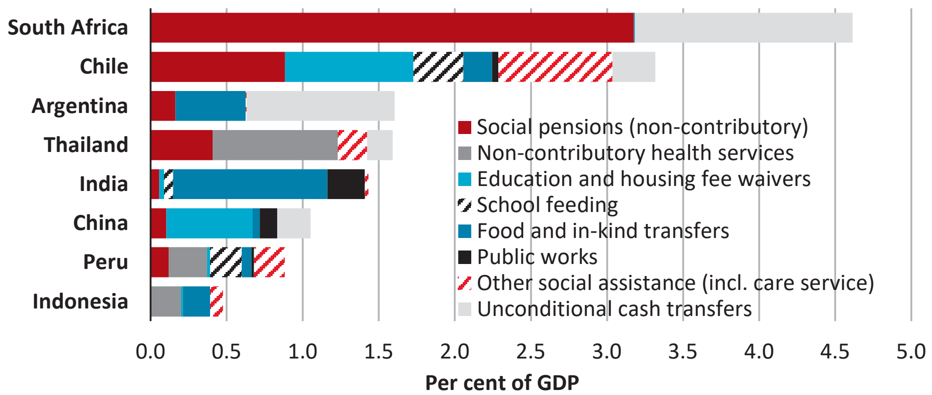
In 2012, government introduced a ceiling on non-interest expenditure to anchor fiscal policy. However, budget deficits and debt have continued to grow, in part because the ceiling was not binding. The target of reducing and stabilising debt has been persistently shifted out, largely because of lower-than-expected economic and revenue growth, and large spending pressures such as state-owned company bailouts and compensation costs. As a result, main budget expenditure has remained relatively high at over 29 per cent of GDP over the past two years.

This has led government to consider additional rules to provide an anchor for fiscal sustainability. Further details will be provided in the 2024 Budget.

SOCIAL PROTECTION AND PUBLIC EMPLOYMENT

Over the 2024 medium-term expenditure framework (MTEF) period, 61 per cent of consolidated non-interest spending goes to the social wage — combined public spending on health, education, housing, social protection, transport, employment and local amenities. Of this amount, R945.9 billion will be spent on social protection transfers, including the *old age grant*, the *child support grant*, the *disability grant* and the *COVID-19 social relief of distress grant*. South Africa's social protection expenditure programme, measured as a percentage of GDP, is one of the largest among developing countries.

Figure 1.4 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 year(s) between 2015 and 2020*
Source: World Bank ASPIRE dataset

The 2023 Budget indicated that the *COVID-19 social relief of distress grant* was only funded until March 2024. The grant was introduced to support low-income individuals affected by the lockdowns during the COVID-19 pandemic. No policy decisions have yet been made on the grant and no funding solution has been agreed to. For this reason, the 2023 Budget reiterated that any extension of the grant, or any replacement thereof, needs to be funded by a new revenue source or reprioritisation of other spending items. Since then, fiscal space has declined markedly, reducing the scope for an extension without additional financing. Government proposes that the fiscal framework make provision for funding for the grant for 2024/25. Beyond this, a comprehensive review of the entire social grant system by the Department of Social Development and the National Treasury is required.

Apart from social protection spending, government maintains a comprehensive public employment programme, including the Expanded Public Works Programme and its associated components, such as the Community Works Programme. The MTBPS proposes that government should coordinate its approach to employment support. In this regard, significant portions of the Expanded Public Works Programme and the Community Works Programme will be repurposed into the presidential employment initiative.

CONCLUSION

South Africa urgently needs higher economic growth. The country's national development fortunes rest largely on lifting energy and logistics constraints and executing reforms that increase investment and reduce vulnerabilities arising from fiscal imbalances. Over the 2024 MTEF period, government will focus on increasing infrastructure investment, reconfiguring the operations of the state to ensure greater efficiency, and maintaining a prudent fiscal stance that stabilises debt and debt-service costs.

2

2023 MTBPS

ECONOMIC OUTLOOK

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

ECONOMIC OUTLOOK

In brief

- Economic growth is projected to moderate from 1.9 per cent in 2022 to 0.8 per cent in 2023. GDP growth is forecast to average 1.4 per cent over the period 2024–2026.
- The global outlook has weakened and risks remain elevated. The weaker outlook for China, lower commodity prices and the risk that US interest rates will remain higher for longer have made the global environment less supportive of South Africa's growth path.
- Government's macroeconomic framework supports the economy by mitigating fiscal risks, building buffers against economic shocks, stabilising debt and reducing the degree to which servicing debt crowds out development priorities.
- Medium-term reforms focus on strengthening the performance of electricity, rail transport and logistics, and improving the functioning of the state. Efforts by government and the private sector to rebuild electricity generation capacity are bearing fruit, and are expected to gain traction over the medium term.

INTRODUCTION

The medium-term economic growth outlook remains constrained by inadequate electricity supply and freight rail capacity and a weaker global outlook that is less supportive of South Africa's growth prospects.

Longstanding structural constraints continue to limit economic performance. In recent years, freight rail capacity and throughput have declined, constraining growth and exports, while large-scale and prolonged power cuts have plagued mines, factories, farms and households. Despite a recent improvement, private investment growth has declined over the past decade (Figure 2.1). GDP growth is expected to average only 1.4 per cent between 2024 and 2026.

South Africa's debt-to-GDP ratio continues to rise and the sovereign risk premium has increased during the course of 2023, reflecting concerns over materialising economic and fiscal risks (Figure 2.2). The resulting increase in government's borrowing costs has pushed up long-term lending rates in the economy. This in turn stifles demand and reduces economic growth. Elevated uncertainty and low levels of business confidence are likely to result in delays to investment and employment decisions. These conditions have led to a decline in international appetite for government bonds. The rand has also weakened sharply relative to other emerging market currencies (Figure 2.3), contributing to inflationary pressures that disproportionately affect poor households (Figure 2.4).

Government's clear and stable macroeconomic framework includes a prudent fiscal policy, an inflation-targeting framework and a flexible exchange rate. It is designed to support investment and employment while protecting the most vulnerable members of society. The fiscal policy stance set out in Chapter 3 will support medium-term economic growth by mitigating fiscal and economic risks, building buffers against economic shocks, stabilising debt and reducing the degree to which servicing debt crowds out expenditure on development priorities. This approach supports investor certainty. In contrast, in a low-growth environment, the failure to adopt a prudent fiscal stance would undermine confidence and growth, weakening the economy's ability to withstand external shocks.

As the National Treasury has highlighted for several years, lifting the economy's growth potential requires substantial structural reforms, as well as steps to reduce near-term risks and increase government efficiency.

In partnership with the private sector, government is tackling energy and logistics challenges. The Presidency and the National Treasury are coordinating government's wide-ranging economic reform programme through Operation Vulindlela. Reforms will be complemented by efforts to reconfigure the state.

Figure 2.1 Growth in investment

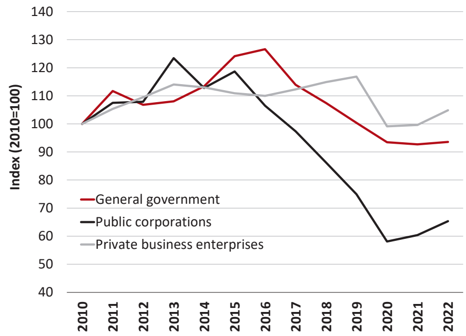


Figure 2.2 Debt forecasts for emerging markets vs change in CDS spreads*

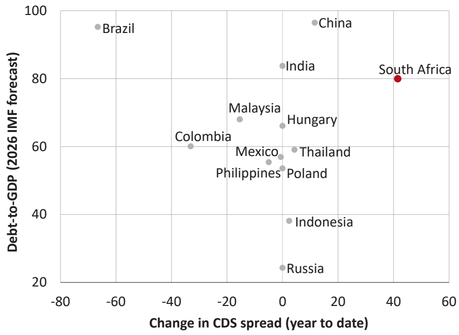


Figure 2.3 Year-to-date emerging market currency performance against the US dollar

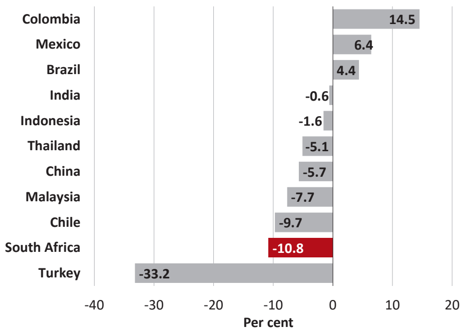
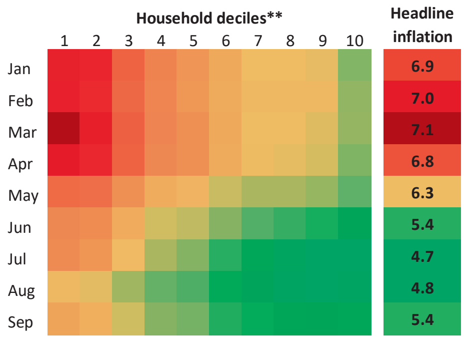


Figure 2.4 CPI by household decile in 2023



**IMF debt covers general government as defined in the national accounts: national, provincial and local government, as well as central agencies and social security funds. CDS spread is the credit default swap spread, which is a proxy for the sovereign credit risk premium*
***Green indicates lower rates of inflation and red indicates higher rates of inflation*
Source: National Treasury, Bloomberg, Statistics South Africa and IMF

REFORMS TO DELIVER GROWTH OVER THE MEDIUM TERM

Operation Vulindlela supports coordinating mechanisms such as the National Logistics Crisis Commitee to accelerate economic reforms by streamlining bureaucracy, reducing red tape and implementing policy changes to promote investment and growth. A comprehensive report will soon be published by Operation Vulindlela covering its work over the past three years.

This chapter focuses on reforms under way in electricity and rail. Chapter 1 sets out government's medium-term view on reconfiguring the state.

New electricity generation capacity and energy reforms

Although total Eskom power cuts to end-September 2023 already exceed the figure for all of 2022, load-shedding hours have declined quarter by quarter this year due to improved plant performance. Eskom recently returned two units to service at Kusile (1 600 MW) and is expected to return two more by the end of the year, adding another 1 600 MW of capacity to the grid. The energy availability factor has risen from an average of 53 per cent in the first quarter of 2023 to nearly 60 per cent at the beginning of the fourth quarter.

Additional capacity of over 11 000 MW from renewable sources is expected over the next three years (Figure 2.6), and this should sharply curtail power cuts. The pipeline of private energy investments, which is critical to progress, continues to grow. Over the past two years, private-sector energy investments capable of generating over 5 600 MW have been registered with the National Energy Regulator of South Africa (NERSA).

Figure 2.5 Load-shedding by stages*

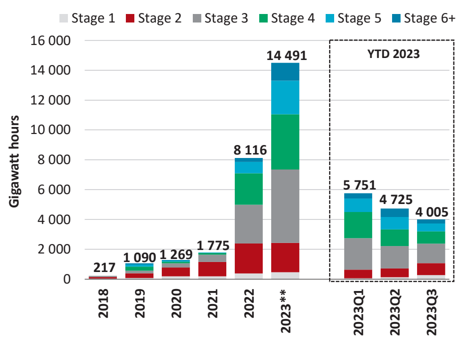
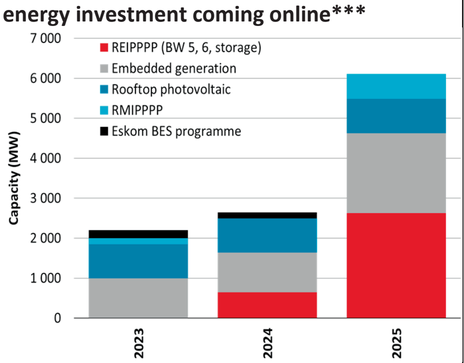


Figure 2.6 Capacity from expected renewable energy investment coming online***



**Stage 6+ includes incidences where manual load reduction exceeded 5 000 MW*
***Includes data until 30 September 2023*
****REIPPPP: Renewable Energy Independent Power Producer Procurement Programme, RMIPPPP: Risk Mitigation Independent Power Producer Procurement Programme, BES: battery energy storage*
Source: Eskom, National Energy Crisis Committee interventions and National Treasury calculations

Since the 2023 Budget, several other energy reforms have progressed:

- Three projects under the Risk Mitigation Independent Power Producer Procurement Programme, with capacity totalling 150 MW, will be ready for connection to the grid in November 2023.
- By 2025, nine projects with a total capacity of over 1 000 MW will be connected to the grid under the Renewable Energy Independent Power Producer Procurement Programme, with a further 1 000 MW expected in the next phase.
- In June, Eskom released interim rules to ensure fair and transparent allocation of limited grid capacity.

Deeper reforms to reshape the industry are under way to ensure the country's energy security. In August, Cabinet approved an amendment to the Electricity Regulation Act (2006) for public comment. The amendment aims to establish an independent transmission system operator and a competitive electricity market. NERSA has granted licences for transmission, trading and importing electricity to the National Transmission Company of South Africa. And the debt-relief arrangement announced in the 2023 Budget is expected to position Eskom for a financially sustainable future, while allowing Eskom to undertake critical plant maintenance.

Rail and ports reforms

Transnet's deteriorating rail performance threatens the economy, and the country's ports are inefficient and uncompetitive.

Since 2018, Transnet Freight Rail has consistently transported fewer volumes than targeted or contracted (Figure 2.7). This collapse stems from operational failures, increased theft and vandalism, reduced locomotive availability and the poor condition of infrastructure resulting from underinvestment. Coal and iron ore exports forfeited as a result of operational failures could have added 1.3 percentage points to the current account balance in 2022, resulting in a current account surplus. The cost of rail inefficiencies last year is estimated at R411 billion (Figure 2.8). This performance has also reduced tax revenue.

Figure 2.7 Transnet Freight Rail performance

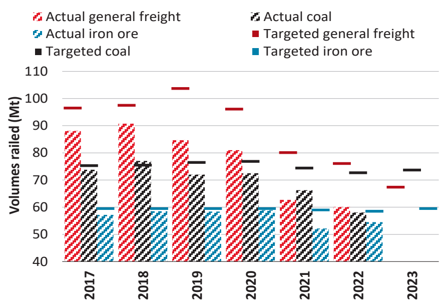
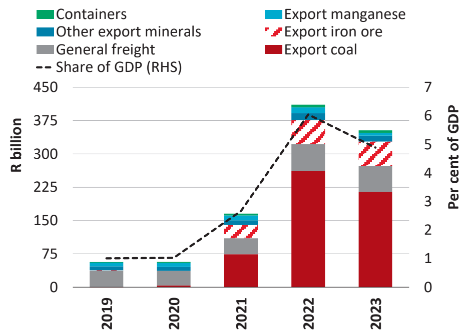


Figure 2.8 Economic cost of rail inefficiencies



Source: Transnet Freight Rail and Operation Vulindlela using GAIN Group data

Earlier this year, government established the National Logistics Crisis Committee. It aims to improve the operational performance of freight rail and ports, restructure Transnet to ensure it is financially sustainable and implement reforms to create an efficient, competitive and modern freight logistics system.

This work will be integrated with interventions under way within Transnet, including rehabilitating the rail network to improve service delivery, deploying digital solutions to improve efficiency and responsiveness, improving security and reviewing cost allocations to improve returns. Transnet Freight Rail has taken the first step in separating its operations and infrastructure management functions. When complete, separation is expected to facilitate competition. The Transport Economic Regulator will be established in early 2024, which will ensure fair access and transparent pricing on the rail network.

GLOBAL OUTLOOK

The International Monetary Fund (IMF) has lowered its global economic growth forecast for 2024 to 2.9 per cent, down from 3.1 per cent at the time of the 2023 Budget, with risks tilted to the downside. The expected slowdown is mainly due to lower manufacturing activity in major advanced economies. Near-term growth in emerging markets is expected to be more resilient owing to buoyant industrial activity in Brazil and India. The weaker outlook for Chinese growth has also weakened the outlook for mineral commodity prices.

Table 2.1 Economic growth in selected countries

Region/country	2021	2022	2023	2024	2025
Percentage	Actual		Forecast		
World	**6.3**	**3.5**	**3.0**	**2.9**	**3.2**
Advanced economies	**5.6**	**2.6**	**1.5**	**1.4**	**1.8**
United States	5.9	2.1	2.1	1.5	1.8
Euro area	5.6	3.3	0.7	1.2	1.8
United Kingdom	7.6	4.1	0.5	0.6	2.0
Japan	2.2	1.0	2.0	1.0	0.7
Emerging and developing countries	**6.9**	**4.1**	**4.0**	**4.0**	**4.1**
China	8.5	3.0	5.0	4.2	4.1
India	9.1	7.2	6.3	6.3	6.3
Brazil	5.0	2.9	3.1	1.5	1.9
Russia	5.6	-2.1	2.2	1.1	1.0
Sub-Saharan Africa	**4.7**	**4.0**	**3.3**	**4.0**	**4.1**
Nigeria	3.6	3.3	2.9	3.1	3.1
South Africa[1]	4.7	1.9	0.8	1.0	1.6
World trade volumes	**10.9**	**5.1**	**0.9**	**3.5**	**3.7**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2023

Global monetary conditions are expected to loosen from 2024 as central banks in major advanced economies slowly reduce interest rates. Inflation in advanced economies is projected to ease from 7.3 per cent in 2022 to 3 per cent in 2024 due to lower energy and food prices. Higher-than-anticipated international oil prices and wage price increases pose upside risks to inflation. In this context, US dollar strength is expected to be sustained into 2024, with consequences for the rand, domestic inflation and fiscal risks.

The combination of weaker growth prospects for China – which is South Africa's largest trading partner – lower commodity export prices and the likely slow pace of US interest rate cuts makes the global economic environment less supportive to domestic growth over the medium term.

DOMESTIC OUTLOOK

The National Treasury forecasts real GDP growth of 0.8 per cent in 2023, compared with 0.9 per cent projected in the 2023 *Budget Review*. Growth is projected to average 1.4 per cent from 2024 to 2026. Relative to the 2023 Budget, the weaker projection for 2023 mainly reflects lower household consumption expenditure due to higher inflation and interest rates, and lower net exports. Power cuts are expected to continue for the remainder of this year and to gradually ease in 2024. Faster, determined implementation of energy and logistics reforms remains critical to boosting economic growth.

Table 2.2 Macroeconomic performance and projections

Calendar year	2020	2021	2022	2023	2024	2025	2026
Percentage change	Actual			Estimate	Forecast		
Final household consumption	-6.1	5.8	2.5	0.8	1.4	1.5	1.7
Final government consumption	0.9	0.5	1.0	0.6	-3.2	-0.5	0.2
Gross fixed-capital formation	-14.6	0.6	4.8	6.2	3.6	4.6	3.4
Gross domestic expenditure	-7.6	4.8	3.9	1.6	1.0	1.6	1.7
Exports	-12.0	9.1	7.4	4.2	2.1	2.6	3.1
Imports	-17.6	9.6	14.9	7.1	2.1	2.7	2.9
Real GDP growth	**-6.0**	**4.7**	**1.9**	**0.8**	**1.0**	**1.6**	**1.8**
GDP inflation	5.3	6.5	4.8	4.0	4.3	4.7	4.6
GDP at current prices (R billion)	**5 568.0**	**6 208.8**	**6 628.6**	**6 947.3**	**7 321.4**	**7 786.8**	**8 288.7**
CPI inflation	3.3	4.6	6.9	6.0	4.9	4.6	4.5
Current account balance (% of GDP)	1.9	3.7	-0.5	-2.4	-3.0	-3.0	-3.1

Source: National Treasury, Reserve Bank and Statistics South Africa

Employment

Although employment growth has moderately outpaced labour supply growth over the last two years, joblessness remains extremely high. The unemployment rate declined marginally from 32.9 per cent in the third quarter of 2022 to 32.6 per cent in the second quarter of 2023. Employment growth continues to lag South Africa's post-COVID-19 economic recovery, with 74 000 fewer people in employment in the second quarter of 2023 than in the fourth quarter of 2019. Improving employment growth sustainably over the long term requires faster GDP growth and improved education and skills development.

Inflation

Headline inflation is expected to decelerate as the energy and food price shocks associated with global supply chain disruptions and the war in Ukraine dissipate. Headline consumer prices are expected to fall from an expected 6 per cent in 2023 to 4.9 per cent in 2024. Fuel prices have fallen since June 2023, largely reflecting base effects. Food price inflation, which peaked at 14.4 per cent in March 2023, slowed to 8.2 per cent by August 2023. However, the pace of deceleration has been slow relative to global food prices. This can be attributed to a weaker rand exchange rate and elevated production costs. Core inflation has remained near 5 per cent for most of 2023 due mainly to higher insurance and vehicle price inflation.

Headline inflation is projected to return towards the mid-point of the 3–6 per cent target range in 2025. Upside risks to the medium-term outlook include rising oil prices, a weakening rand exchange rate, the avian influenza outbreak and elevated administered price inflation for services, including electricity and water.

Household consumption

Household consumption expenditure is expected to slow from 2.5 per cent in 2022 to 0.8 per cent in 2023 due to the cumulative effect of interest rate increases, elevated inflation and falling real disposable income, and generally weak consumer confidence. Growth in credit extended to households continues to decelerate for both secured and unsecured credit. National Credit Regulator data shows that in the first quarter of 2023, banks rejected 70 per cent of credit applications – the highest rate on record – reflecting concerns over households' ability to repay loans. Household consumption expenditure is expected to average 1.6 per cent from 2024 to 2026.

Investment

Gross fixed-capital formation is expected to reach 6.2 per cent in 2023, up from 4.8 per cent in 2022. Investment remains below pre-pandemic levels – particularly in the private sector – due to structural constraints, higher interest rates, global demand moderation and weak domestic demand. Although business confidence improved in the third quarter of 2023 for the first time since the first quarter of 2022, it remains low. Gross fixed-capital formation is expected to decline to 3.6 per cent in 2024 as a result of challenging domestic business conditions, sluggish global economic growth and elevated borrowing costs.

Strategic steps towards a clean energy transition

Government is committed to a just transition to cleaner energy, ensuring that workers and communities in affected industries are not left behind in the pursuit of climate goals.

South Africa's just transition initiatives will be supported by financing from international sources. Over the next five years, this funding will be used to improve electricity infrastructure, transition retiring coal plants, address regional energy transitions, promote new energy vehicles, support green hydrogen, develop skills and empower municipalities. These goals are supported by policies such as the Green Hydrogen Commercialisation Strategy, approved by Cabinet in October 2023.

In addition to decarbonising the electricity system, government will also propose measures to help the automotive industry transition to new energy vehicle production, with details to be announced in the 2024 Budget.

The private sector plays a major role in supporting South Africa's clean-energy transition. As reported earlier in this chapter, renewable energy investments are gathering pace. According to Eskom data published in July 2023, households and businesses have installed 4 412 MW of rooftop solar capacity – twice the capacity installed to date under the Renewable Energy Independent Power Producer Procurement Programme.

Balance of payments

The deficit on the current account is expected to widen from 0.5 per cent in 2022 to 2.4 per cent in 2023 and to 3 per cent in 2024 as imports grow faster than exports. This reflects increased import volumes for renewable energy investments as firms and households mitigate frequent power cuts, as well as higher oil prices. Relatively low export values reflect lower commodity export prices, while electricity and logistical constraints limit export volumes.

Risks to the domestic growth outlook

Risks to the domestic outlook remain elevated, despite progress in addressing constraints in electricity and rail. Other domestic risks include higher-than-anticipated inflation and high household indebtedness. Uncertainty in the global economy is high and the major risks to South Africa are illustrated in the scenarios.

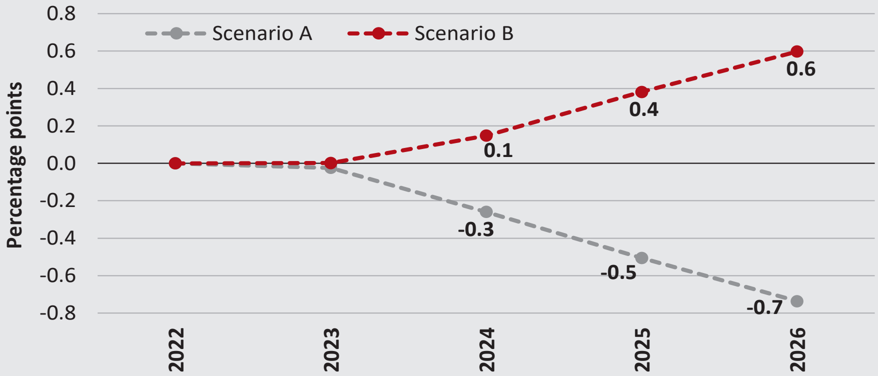
Alternative scenarios

The National Treasury has modelled two alternatives to the baseline forecast.

Scenario A assumes economic growth in China slows significantly, causing the terms of trade to deteriorate due to lower export commodity prices and elevated oil prices. Imported inflation pressure triggers further monetary policy tightening, which lowers consumer purchasing power and raises borrowing costs. The risk premium rises, further weakening the rand exchange rate. GDP growth stalls in 2024 before rising gradually thereafter. Meanwhile, inflation remains elevated in 2024 and 2025, converging to the baseline by the end of 2026.

Scenario B assumes a further easing of global supply chain disruptions, which reduces inflationary pressure and triggers a reduction in interest rates, lowering borrowing costs. Risk aversion declines, with a lower risk premium and stronger rand exchange rate. The purchasing power of consumers rises, while the cost of investment is reduced for firms. Consumer prices ease towards the mid-point of the inflation target range much quicker than the baseline, while growth exceeds the baseline over the next three years.

Figure 2.9 Deviation from baseline GDP forecast



Source: National Treasury

Table 2.3 Assumptions informing the macroeconomic forecast

Percentage change	2020	2021	2022	2023	2024	2025	2026
	Actual			Estimate	Forecast		
Global demand[1]	**-3.5**	**6.5**	**3.7**	**3.3**	**3.1**	**3.3**	**3.3**
International commodity prices[2]							
Brent crude oil (US$ per barrel)	41.8	70.7	100.7	84.2	84.8	79.3	75.7
Gold (US$ per ounce)	1 769.5	1 799.8	1 801.5	1 923.8	1 974.7	2 077.8	2 143.2
Platinum (US$ per ounce)	883.2	1 090.8	960.9	966.7	931.9	974.4	1 000.3
Coal (US$ per ton)	65.2	125.2	271.1	121.0	118.5	117.3	115.4
Iron ore (US$ per ton)	108.1	158.2	120.7	115.0	99.7	91.2	85.2
Palladium (US$ per ounce)	2 192.7	2 398.2	2 107.4	1 375.3	1 263.0	1 312.6	1 362.0
Food inflation	**4.5**	**6.1**	**9.2**	**10.4**	**4.5**	**4.6**	**4.4**
Electricity inflation	**8.9**	**10.1**	**11.1**	**11.7**	**13.9**	**12.7**	**10.5**
Sovereign risk premium	**4.9**	**3.5**	**4.1**	**3.9**	**4.1**	**4.0**	**3.9**

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2023)
2. Bloomberg futures prices as at 9 October 2023
Source: National Treasury

SECTOR PERFORMANCE

Agriculture

The agriculture sector grew by 7.8 per cent in the first half of 2023 compared with the first half of 2022. Despite strong field crop production, low growth is anticipated for the remainder of 2023 given declining commodity prices and market access concerns associated with the European Union's imposition of stricter phytosanitary regulations. The sector also faces downside risks due to continued power cuts, rail and port inefficiencies, higher fuel and input prices, recent flooding in the Western Cape and damage to the poultry industry following the outbreak of avian influenza.

Mining

Gross value added in the mining sector contracted by 1.1 per cent in the six months to June 2023 compared with the same period in 2022. Mining sales declined by 11.8 per cent over the same period, reflecting lower global demand and weaker export prices. Production continues to be suppressed by severe power outages and poor rail operations, which curtail export capacity. Community unrest, illegal mining and violent crime pose further risks. Weaker demand from China may dampen export prices.

Manufacturing

Gross value added in the manufacturing sector was 0.1 per cent lower in the six months to June 2023 compared with the same period in 2022. Manufacturing exports increased by 6.8 per cent over the same period, supported by food and beverages and vehicle exports. Production remains below pre-pandemic levels, owing to ongoing power cuts and rail constraints, as well as weak domestic demand. The outlook for the sector remains constrained by electricity outages.

Construction

The construction sector grew by 4.2 per cent in the first half of 2023 compared with the first half of 2022, due to expansion in residential and non-residential buildings and construction works. After contracting for six consecutive years, the sector is showing signs of recovery, yet activity remains well below pre-pandemic levels. A sustained improvement in construction activity will require private- and public-sector projects to move from the tender phase to adjudication and commencement.

Utilities

Gross value added in the electricity, gas and water sector contracted by 6.5 per cent in the first half of 2023 compared with the same period in 2022. Low generating capacity, high tariffs, illegal connections and ageing infrastructure – including at the distribution level – weighed on sectoral output. Unplanned outages remained elevated at about 30 per cent, signalling the poor performance of the coal generation fleet.

Transport and communications

Despite ongoing challenges with rail services, the transport, storage and communications sector grew by 5.6 per cent in the first six months of the year compared with the same period in 2022. Road freight remains critical for the economy: trucks carry the bulk of goods in South Africa. The communications sector should benefit in the medium term from the rollout of telecommunications infrastructure for newly licensed spectrum, which will facilitate wider and lower-cost coverage.

Finance and business services

The finance, real estate and business services sector grew by 1.5 per cent in the first six months of the year compared with the same period in 2022. Risks are building for consumers and large companies as economic growth remains subdued. Non-financial sector debt remains a key vulnerability that may be triggered by shocks to economic growth, spending or borrowing costs.

CONCLUSION

In the context of weaker global growth and risks to the domestic outlook, government is working to position the economy for sustained growth and resilience to shocks. A combination of a stable macroeconomic framework, the rapid implementation of economic and structural reforms, and improvements in state capability remains central to achieving higher growth, employment and competitiveness.

3

2023 MTBPS

FISCAL POLICY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- In the context of persistently low economic growth, government's fiscal strategy remains focused on consolidating the public finances to narrow the budget deficit, stabilise public debt and ensure fiscal sustainability.
- Fiscal policy will pursue a balanced approach that includes spending restraint, revenue measures and additional borrowing.
- Gross loan debt is projected to stabilise in 2025/26 at a higher level (77.7 per cent of GDP) than projected in the 2023 Budget. This is mainly due to an increase in the main budget deficit.
- The consolidated budget deficit has risen to 4.9 per cent of GDP in 2023/24 compared with the estimate of 4 per cent of GDP in the 2023 Budget.

INTRODUCTION

South Africa's economic growth outlook remains precarious. The cumulative effect of power cuts, poor rail transport performance, high inflation, rising borrowing costs and a weaker global environment are forecast to limit economic growth over the medium term. Low growth constrains government's ability to raise the revenue needed to sustainably fund the provision of essential services in line with policy priorities.

In recent years, revenue collection has benefited from a pattern of high prices for South Africa's commodity exports. In the current year, commodity prices have fallen faster than expected and value-added tax (VAT) refund claims have risen, resulting in revenue collections projected to be R56.8 billion below 2023 Budget estimates. The moderate revenue outlook is limited by the domestic economic outlook and negative shifts in the global economy.

South Africa's deep and longstanding fiscal challenges are rooted in a long-term pattern of low economic growth. Government spending has exceeded revenue since the 2008 global financial crisis, resulting in persistent large budget deficits. Moderate budget deficits are not cause for concern. The difficulty arises when deficits are too large for too long, requiring ever-higher levels of borrowing that are unmatched by improvements in public services. This is the problem facing South Africa, and it is reflected in debt-service costs that consume an ever-larger share of public resources and shrinking fiscal space to respond to shocks.

As a percentage of GDP, gross loan debt increased by 47.2 percentage points between 2008/09 and 2022/23. Debt has grown much faster than the economy, and newly issued debt has become more expensive to service. Rising debt-service costs push up the cost of borrowing across the economy. Critically, the rising cost of servicing government debt reduces the amount of money available for meeting national development objectives. This "crowding out" effect means that debt-service costs consume a greater share of the budget than social development, health, community development, economic development or peace and security (Figure 3.2). Government's borrowing is not financing investments that support faster, job-creating growth. Changing this pattern is a key fiscal objective.

Figure 3.1 Main budget revenue and expenditure

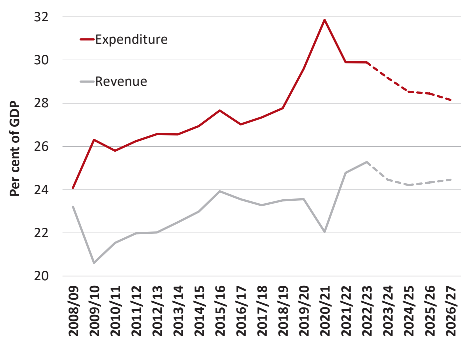


Figure 3.2 Total consolidated government expenditure, 2024/25 — 2026/27

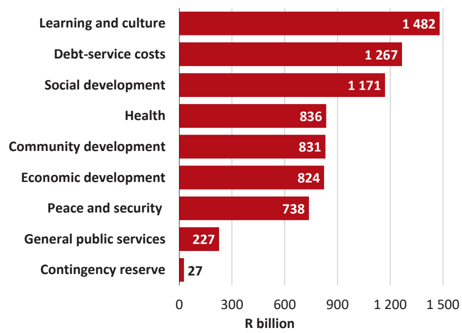


Figure 3.3 Gross debt-to-GDP outlook

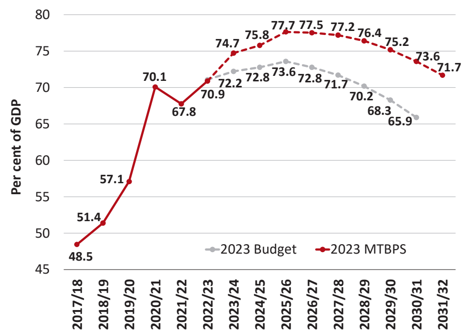
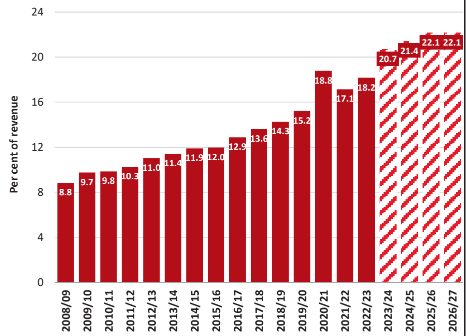


Figure 3.4 Debt-service costs as a share of main budget revenue



Source: National Treasury

A balanced fiscal stance will promote economic growth and support the most vulnerable members of society, while stabilising the public finances and reducing fiscal and economic risks. It will also support higher levels of private-sector investment and employment. In the context of limited resources, this requires prioritisation. Over the next three years, the fiscal framework supports strong control of the public-service wage bill, protecting crucial frontline services and implementing efficiency measures.

Government's commitment to restoring the health of the public finances means that the debt-to-GDP ratio is still forecast to stabilise in 2025/26 – although at a higher level than projected in the 2023 Budget.

MEDIUM-TERM FISCAL STRATEGY

Key elements of the medium-term fiscal strategy include the following:

- Realising a primary budget surplus in the current year, meaning that revenue will exceed non-interest spending for the first time since 2008/09. The surplus will grow over the medium term, narrowing the budget deficit and allowing debt to stabilise by 2025/26.

- Stabilising debt to enable government to arrest the trend of rising debt-service costs. Debt-service costs will peak as a proportion of revenue in 2026/27.
- Targeting spending revisions to protect critical frontline services. Baseline budgets for basic education, health and the police are projected to grow in nominal annual average terms, although below consumer price index (CPI) inflation, over the 2024 medium-term expenditure framework (MTEF) period. Spending on the community and economic development functions will grow by 4.5 per cent and 6.2 per cent, respectively. In contrast, spending on general public services grows marginally over the medium term.
- Implementing a reconfiguration of government functions, as outlined in Chapter 1, in line with the President's commitment during the 2023 State of the Nation Address.
- Keeping the composition of spending broadly in line with existing policy. Over the medium term, the wage bill continues to grow on average below CPI inflation. Over the next three years, capital payments and transfers will grow by a nominal annual average of 8.4 per cent, while consolidated spending on the wage bill, goods and services, and current transfers and subsidies grows by 3 per cent. Government is implementing measures to improve the financing and execution of infrastructure projects.
- Introducing moderate revenue increases to support fiscal consolidation, while limiting the negative effects on the economy.
- Developing new fiscal anchors to ensure sustainable public finances. Work on these is under way, and an update will be provided in the 2024 Budget.

Impact of proposed fiscal consolidation measures

The balanced approach to fiscal consolidation includes spending reductions, efficiency measures across government and moderate revenue increases. The proposed fiscal consolidation measures will be targeted, leaving some functions with funding levels similar to the 2023 Budget, and will also maintain the social wage. Over the medium term, these measures will include the reconfiguration of government, with the merging or closure of public entities resulting in a reduction in transfers to such entities.

Together, these targeted measures are expected to result in savings and long-term gains from improvements in the efficiency of public spending and budget allocations. This is key to managing the public finances in a prudent and responsible way, and will also support longer-term economic growth.

Over the 2024 MTEF period, 61 per cent of consolidated non-interest spending goes to the social wage. In this regard, vulnerable households continue to receive support. Details on the impact of proposed spending adjustments are provided in Chapter 4.

Figure 3.5 Consolidated government expenditure components

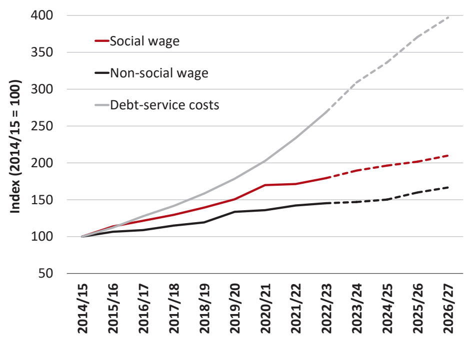
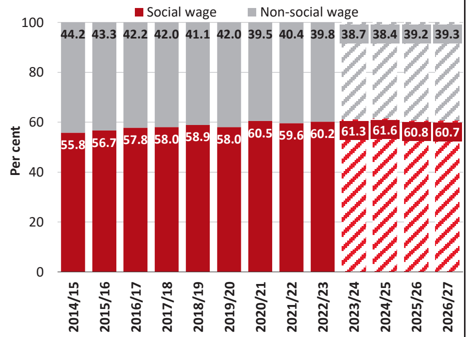


Figure 3.6 Composition of consolidated non-interest expenditure



Source: National Treasury

IN-YEAR REVENUE AND EXPENDITURE OUTLOOK

In-year revenue projections

The in-year revenue outlook is substantially weaker than previously projected, given a sharp fall in corporate tax collections and stronger-than-expected VAT refund payments. In the context of a weak domestic outlook, future revenue collection remains susceptible to negative shifts in the global economy.

Compared with the 2023 Budget, the gross tax revenue estimate for 2023/24 has been revised down by R56.8 billion. The lower estimate is largely due to downward revisions to near-term tax base growth projections, falling corporate tax collections and lower net VAT collections.

Table 3.1 Gross tax revenue

	2022/23			2023/24		
R billion	Budget[1]	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	601.6	600.4	-1.3	640.3	646.7	6.4
Companies	344.9	344.7	-0.3	336.1	300.3	-35.8
Value-added tax	426.3	422.4	-3.9	471.5	445.8	-25.6
Dividends tax	38.5	38.1	-0.4	39.8	36.2	-3.6
Specific excise duties	55.2	55.2	-0.1	59.0	55.3	-3.7
Fuel levy	79.1	80.5	1.3	90.4	92.0	1.6
Customs duties	74.2	73.9	-0.2	74.2	77.7	3.5
Ad valorem excise duties	4.5	5.5	1.1	4.7	6.6	1.9
Other	67.8	66.0	-1.7	71.5	69.9	-1.5
Gross tax revenue	**1 692.2**	**1 686.7**	**-5.5**	**1 787.5**	**1 730.7**	**-56.8**

1. 2023 Budget
Source: National Treasury

Key factors affecting in-year revenue collection in the first half of 2023/24 include:

- Significantly reduced mining sector profitability. Mining provisional corporate tax collections fell by R24.6 billion or 55.4 per cent relative to the same period in 2022/23. Lower commodity prices, weaker global growth, increased incidence of power cuts and logistical constraints have weighed heavily on the sector.
- VAT refund payments are R21.5 billion higher relative to the same period last year due to stronger-than-expected exports; increased investments in embedded generation; and higher costs of doing business, including the use of more expensive road rather than rail transport. Stronger import VAT collections partially offset robust VAT refund payments.
- A sustained recovery in earnings and higher bonus payments have benefited personal income tax collections, with employees' tax from the finance sector driving the strong year-to-date growth.

Figure 3.7 VAT refund payments by sector*

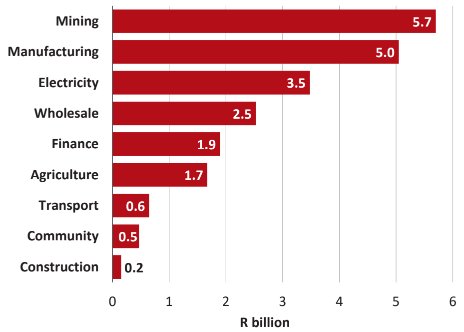
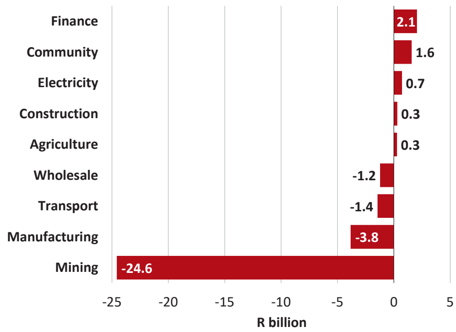


Figure 3.8 Provisional corporate income tax collections by sector*



**First six months of 2023/24 relative to same period in prior year*
Source: National Treasury and SARS

The tax-to-GDP ratio is expected to decline to 24.7 per cent in 2023/24 from 25.1 per cent in 2022/23. A recovery in this ratio depends on more sustainable economic growth. Additional information, including changes in tax buoyancies, appears in Table C.8 of Annexure C.

Main budget revenue estimates for 2023/24 have been lowered by R44.4 billion compared with the 2023 Budget, mainly driven by lower estimates for tax revenue, while National Revenue Fund receipts have been revised up by R11.3 billion mainly due to higher expected revaluation profits from foreign-currency transactions.

In-year spending adjustments

Relative to the 2023 Budget, main budget non-interest expenditure decreases by R3.7 billion in the current fiscal year. This mainly reflects the proposed reductions to baselines, as well as declared unspent funds, projected underspending, drawdowns of the contingency reserve and provisional allocations not assigned to votes. Funds are provided for the 2023/24 wage increase in labour-intensive sectors. 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 executive authorities operate within their budgets when creating and filling vacant posts.

Table 3.2 Revisions to non-interest expenditure for 2023/24

R million	2023/24
Non-interest expenditure (2023 Budget Review)	**1 694 120**
Upward expenditure adjustments	**29 422**
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
Downward expenditure adjustments	**-33 130**
Downward revisions to baselines[4]	-21 726
Projected underspending	-3 297
Drawdown on contingency reserve	-4 642
Net other downward adjustments[5]	-3 464
Revised non-interest expenditure (2023 MTBPS)	**1 690 412**
Change in non-interest expenditure from 2023 Budget	-3 707

1. 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

Relative to the 2023 Budget, debt-service costs are revised up by R14.1 billion due to higher interest rates, exchange rate depreciation and a wider budget deficit. As a result, expenditure increases by R10.3 billion as higher debt-service costs are partially offset by lower projected non-interest spending. The main budget deficit has increased by R54.7 billion compared with the 2023 Budget estimates.

As proposed in the 2023 Budget, Eskom debt relief amounting to R254 billion from 2023/24 to 2025/26 is incorporated on the balance sheets of both government and Eskom, implying an increase in government debt. As at 30 September 2023, government has disbursed R16 billion of the R78 billion debt relief for 2023/24. A task team has been established with officials from the National Treasury, the Department of Public Enterprises and Eskom to monitor compliance with the conditions and report quarterly on whether Eskom qualifies for the conversion of the loan to equity. Additional details appear in Annexure A.

MEDIUM-TERM REVENUE AND EXPENDITURE OUTLOOK

Revenue

Given the extent of fiscal consolidation required, the Minister of Finance will propose tax measures to raise additional revenue of R15 billion in 2024/25 in the 2024 Budget.

Table 3.3 Revised gross tax revenue projections

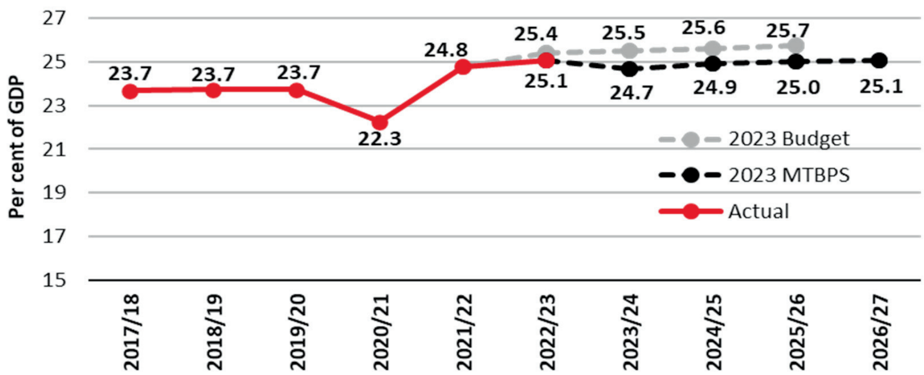
R billion	2023/24	2024/25	2025/26	2026/27
2023 Budget	**1 787.5**	**1 907.7**	**2 043.5**	
Buoyancy	*1.06*	*1.06*	*1.09*	
Revised estimates	**1 730.7**	**1 854.0**	**1 975.8**	**2 111.9**
Buoyancy	*0.61*	*1.15*	*1.07*	*1.05*
Change since 2023 Budget	**-56.8**	**-53.7**	**-67.6**	

Source: National Treasury

Tax revenues are expected to increase to R2.1 trillion, or 25.1 per cent of GDP, by 2026/27. Revenue collection, however, is projected to fall short of 2023 Budget estimates by R121.4 billion between 2024/25 and 2025/26, with tax buoyancies generally lower over the medium term.

The sharp contraction in commodity prices now under way suggests that the windfall tax receipts that South Africa enjoyed in recent years have come to an end. Under-collections in corporate income tax receipts relative to 2023 Budget estimates flow through to the outer years. Stronger VAT refund payments over the medium term partly reflect higher renewable energy investments and responses to structural constraints in logistics and fuel refinery capacity. The outlook for most major tax bases has also been revised lower relative to the 2023 Budget. Personal income tax collections are marginally better than expected due to near-term gains; however, medium-term prospects for employment growth remain muted. Although South Africa's tax-to-GDP ratio remains relatively resilient, stronger economic growth and further gains in tax administration are needed to improve tax revenues over the medium to long term.

Figure 3.9 Tax-to-GDP ratio



Source: National Treasury and SARS

Relative to the 2023 Budget, main budget revenue estimates for the next two years have been lowered by R152 billion, mainly driven by downward revisions to tax revenue projections. Non-tax revenue estimates for the next two years have also been reduced by R24.4 billion due to lower mineral and petroleum royalties and departmental receipts. Payments to the Southern African Customs Union (SACU) are revised up. Details appear in Annexure C.

Table 3.4 Medium-term revenue framework

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Gross tax revenue	**1 249.7**	**1 563.8**	**1 686.7**	**1 730.7**	**1 854.0**	**1 975.8**	**2 111.9**
Gross tax revenue growth	-7.8%	25.1%	7.9%	2.6%	7.1%	6.6%	6.9%
Nominal GDP growth	-1.7%	12.4%	6.5%	4.3%	6.2%	6.1%	6.5%
Buoyancy	*4.62*	*2.03*	*1.21*	*0.61*	*1.15*	*1.07*	*1.05*
Non-tax revenue	26.3	40.4	51.0	41.6	29.2	31.1	30.1
Southern African Customs Union[1]	-63.4	-46.0	-43.7	-79.8	-89.9	-85.6	-84.0
National Revenue Fund receipts[2]	25.8	6.1	5.2	22.4	8.8	0.4	0.6
Main budget revenue	**1 238.4**	**1 564.3**	**1 699.2**	**1 714.8**	**1 802.1**	**1 921.7**	**2 058.5**

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 2023 Budget. Over the next two years, main budget non-interest expenditure will decrease by a net R85 billion compared with the 2023 Budget. This consists of:

- Proposed reductions of R213.3 billion, including R133.6 billion from reducing department baselines and provisional allocations not assigned to votes. The other reductions are mainly from a drawdown of the 2023 Budget unallocated reserves, partially offset by the R2.6 billion increase in the contingency reserve in 2025/26.
- Spending additions of R128.4 billion, including R57.2 billion for the carry-through costs of the 2023/24 wage increase in labour-intensive sectors and R33.6 billion to extend the *COVID-19 social relief of distress grant* by another year. A provisional allocation of R35.2 billion is set aside for 2025/26 to preserve the credibility of the fiscal framework.

Compared with the 2023 Budget, the expenditure ceiling has decreased by R36.9 billion in 2024/25 and R47.3 billion in 2025/26. Additional information, including the calculation of the expenditure ceiling, appears in tables C.3 and C.4 of Annexure C.

Debt-service cost estimates for the next two years have been revised up by R51.5 billion compared with the 2023 Budget, mainly reflecting higher interest rates, a larger budget deficit and exchange rate depreciation.

FISCAL FRAMEWORK

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. As a proportion of GDP, main budget revenue is expected to decrease to 24.5 per cent of GDP in the current year and 24.2 per cent in 2024/25. This is a result of revenue projections growing slower than GDP, given low non-tax revenue and National Revenue Fund receipts in 2024/25 as well as high SACU payments.

Table 3.5 Main budget framework

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Main budget revenue	**1 238.4**	**1 564.3**	**1 699.2**	**1 714.8**	**1 802.1**	**1 921.7**	**2 058.5**
	22.1%	*24.8%*	*25.3%*	*24.5%*	*24.2%*	*24.3%*	*24.5%*
Main budget expenditure	**1 789.0**	**1 887.3**	**2 009.2**	**2 044.9**	**2 123.7**	**2 247.2**	**2 369.2**
	31.9%	*29.9%*	*29.9%*	*29.2%*	*28.5%*	*28.5%*	*28.2%*
Non-interest expenditure[1]	1 556.4	1 619.2	1 700.7	1 690.4	1 737.8	1 821.7	1 913.3
	27.7%	*25.7%*	*25.3%*	*24.1%*	*23.3%*	*23.1%*	*22.7%*
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
	4.1%	*4.2%*	*4.6%*	*5.1%*	*5.2%*	*5.4%*	*5.4%*
Main budget balance	**-550.6**	**-323.0**	**-309.9**	**-330.1**	**-321.6**	**-325.5**	**-310.7**
	-9.8%	*-5.1%*	*-4.6%*	*-4.7%*	*-4.3%*	*-4.1%*	*-3.7%*
Primary balance	**-318.1**	**-54.9**	**-1.5**	**24.4**	**64.2**	**100.0**	**145.2**
	-5.7%	*-0.9%*	*-0.0%*	*0.3%*	*0.9%*	*1.3%*	*1.7%*

1. This includes contingency reserve
Source: National Treasury

Main budget expenditure reaches 29.2 per cent of GDP in 2023/24, moderating to 28.2 per cent of GDP by 2026/27. This largely reflects fiscal consolidation measures implemented over the past few years and proposed over the MTEF period. Debt-service costs continue to rise.

The main budget deficit is expected to moderate from 4.7 per cent of GDP in the current year to 3.7 per cent of GDP by 2026/27. A primary budget surplus is projected from 2023/24 and increases over the medium term to ensure debt stabilisation in 2025/26. Compared with the 2023 Budget estimates, both metrics have worsened. Changes to the main budget framework are presented in Annexure C.

Consolidated budget framework

The consolidated budget includes 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 4.9 per cent of GDP in 2023/24 to 3.6 per cent of GDP in 2026/27. Public entities, social security funds and provinces are projected to have a combined cash deficit over the next two years, adding to the main budget deficit. A small combined cash surplus is projected for public entities, social security funds and provinces in 2026/27.

Table 3.6 Consolidated budget balance

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Main budget	-550.5	-323.0	-309.9	-330.1	-321.6	-325.5	-310.7
Social security funds	-46.7	-3.4	3.4	-0.9	-2.3	21.1	24.7
Public entities	39.8	37.6	48.2	-5.5	-13.1	-32.4	-16.5
Provinces	3.0	2.1	12.0	-9.2	-2.1	3.6	1.3
RDP Fund	-0.5	-1.0	-0.7	-0.8	-0.8	-0.8	-0.9
Consolidated budget balance	**-555.1**	**-287.6**	**-247.0**	**-346.5**	**-339.9**	**-334.0**	**-302.0**
Percentage of GDP	*-9.9%*	*-4.6%*	*-3.7%*	*-4.9%*	*-4.6%*	*-4.2%*	*-3.6%*

Source: National Treasury

FINANCING AND DEBT MANAGEMENT STRATEGY

Government continues to finance its borrowing requirement in a prudent and sustainable manner within its strategic risk benchmarks, despite a more challenging environment.

Since the 2023 Budget, South Africa's sovereign risk premium has increased, reflecting investor concerns about economic and fiscal risks. The weaker economic and fiscal outlook has also led to a higher budget deficit, resulting in an increase in debt levels. In addition to large redemptions of maturing debt factored into the 2023 Budget, the higher budget deficit puts pressure on the gross borrowing requirement – the sum of the budget deficit, maturing loans and the Eskom debt-relief arrangement – over the medium term.

The gross borrowing requirement for 2023/24 has increased from R515.6 billion to R563.6 billion, relative to the 2023 Budget. Higher global monetary policy rates and inflationary pressures have led to an increase in the weighted cost of funding – the average funding cost weighted proportionally by each funding instrument – from 8.3 per cent in February 2023 to 9.5 per cent in October 2023.

Debt redemptions will increase from R155.5 billion in 2023/24 to R187.7 billion in 2025/26, averaging R175.7 billion over the medium term. To manage these redemptions, government will exchange some of the redemptions expected in the current year and over the medium term for longer-dated bonds as part of the ongoing bond switch programme.

Over the medium term, the gross borrowing requirement will average R553.7 billion. Long-term borrowing in the domestic bond market is expected to increase to R463.6 billion in 2025/26 and then decline to R349.1 billion in 2026/27.

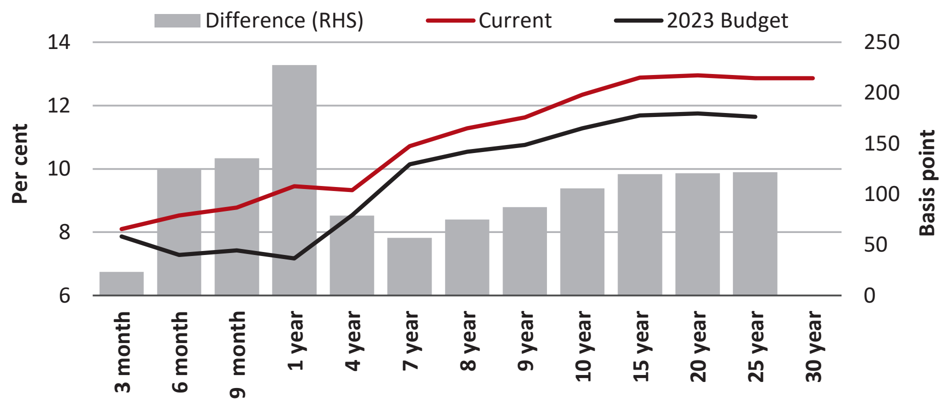
Table 3.7 National government gross borrowing requirement and financing

R billion	2022/23 Outcome	2023/24 Revised	2024/25 Medium-term estimates	2025/26	2026/27
Gross borrowing					
Main budget balance	**-309.9**	**-330.1**	**-321.6**	**-325.5**	**-310.7**
Redemptions	**-90.3**	**-155.5**	**-171.8**	**-187.7**	**-167.5**
Domestic long-term loans	-74.6	-106.6	-132.3	-128.7	-128.7
Foreign loans	-15.8	-48.9	-39.5	-59.0	-38.7
Eskom debt-relief arrangement	**–**	**-78.0**	**-66.2**	**-110.2**	**–**
Total	**-400.3**	**-563.6**	**-559.6**	**-623.4**	**-478.2**
Financing					
Domestic short-term loans (net)	-25.6	48.0	47.0	52.0	39.0
Domestic long-term loans	322.4	375.8	419.1	463.6	349.1
Foreign loans	64.5	45.9	36.9	82.7	92.8
Change in cash and other balances	39.0	93.9	56.6	25.1	-2.7
Total	**400.3**	**563.6**	**559.6**	**623.4**	**478.2**

Source: National Treasury

The fixed-rate bond yield curve – the relationship between bonds of different maturities – weakened by 95 basis points between February and September 2023. Higher yields indicate higher borrowing costs (Figure 3.10). This reflects the weaker fiscal position, monetary policy tightening, geopolitical conflict and the domestic energy crisis.

Figure 3.10 Interest rates on domestic government bonds



Source: National Treasury

In 2023/24, government will raise US$2.4 billion through concessional funding from international financial institutions to meet its foreign-currency commitments. Over the next two years, government will draw down on its foreign exchange balances and continue accessing financing from global financial institutions to meet such commitments.

As Table 3.8 shows, gross loan debt is expected to increase from R5.24 trillion in 2023/24 to R6.52 trillion in 2026/27. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates. Gross loan debt as a share of GDP is projected to stabilise at 77.7 per cent in 2025/26.

Table 3.8 Total national government debt

End of period	2022/23	2023/24	2024/25	2025/26	2026/27
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans[1]	**4 209.8**	**4 642.8**	**5 065.3**	**5 536.0**	**5 867.7**
Short-term	422.6	470.5	517.5	569.5	608.5
Long-term	3 787.2	4 172.4	4 547.8	4 966.6	5 259.2
Foreign loans[1]	**555.7**	**595.2**	**576.0**	**597.3**	**657.2**
Gross loan debt	**4 765.4**	**5 238.0**	**5 641.3**	**6 133.4**	**6 524.9**
Less: National Revenue Fund bank balances	-249.2	-149.7	-92.5	-72.9	-81.0
Net loan debt[2]	**4 516.3**	**5 088.4**	**5 548.8**	**6 060.5**	**6 444.0**
As percentage of GDP:					
Gross loan debt	*70.9%*	*74.7%*	*75.8%*	*77.7%*	*77.5%*
Net loan debt	*67.2%*	*72.6%*	*74.6%*	*76.7%*	*76.6%*

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

Compared with the 2023 Budget estimate, debt-service costs will increase by R14.1 billion to R354.5 billion in 2023/24. These costs will reach R455.9 billion, or 5.4 per cent of GDP, by 2026/27. As a share of main budget expenditure, debt-service costs will increase from 17.3 per cent in 2023/24 to 19.2 per cent in 2026/27.

RISKS TO THE FISCAL OUTLOOK

Fiscal risks remain elevated in the short to medium term. The major risks to the fiscal framework include:

- Weaker-than-expected global and domestic economic growth, which would slow revenue growth and widen the budget deficit.
- Continued losses by municipalities and state-owned companies, which would result in requests for bailouts.
- Higher borrowing costs as a result of an elevated risk premium and tighter global monetary conditions.

The contingency reserve, amounting to R27.1 billion over the medium term, cushions the fiscal framework against changes in the economic environment and unforeseeable spending pressures.

Annexure A contains the fiscal risk statement, which examines medium- and long-term risks to government's forecasts and the public finances.

CONCLUSION

Over the medium term, government will maintain a prudent fiscal stance, which will promote economic growth and support the most vulnerable members of society, while stabilising the public finances and reducing fiscal and economic risks.

4

2023 MTBPS

EXPENDITURE PRIORITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

EXPENDITURE PRIORITIES

In brief

- Consolidated government spending is expected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing by an annual average rate of 4.6 per cent. The bulk of spending supports the social wage.
- Fiscal consolidation is implemented through a combination of reductions and protection of key functions. Compared with the 2023 Budget, main budget non-interest spending is lowered by a net R37.3 billion in 2024/25 and R47.7 billion in 2025/26.
- Reductions of R21.7 billion are implemented in 2023/24. These are offset by a net increase in budgets for compensation of employees and other items, leading to a net reduction in non-interest spending of R3.7 billion.
- South Africa needs to get better value for money from its budget. Over the next three years, government will reconfigure the state to improve the efficiency and effectiveness of public spending.

INTRODUCTION

Over the next three years, government is projected to spend R7.41 trillion. Although expenditure growth has slowed in recent years, the bulk of spending remains focused on the social wage, primarily for healthcare, education and social protection (Table 4.1). Yet the value received for each rand spent varies across programmes and there is wide scope for improved efficiency. In addition, debt-service costs, estimated at R1.3 trillion, exceed all individual consolidated spending sectors by function, reflecting the increasing extent to which these payments crowd out spending on basic services and other policy priorities. To maximise the value of spending, government needs to contain costs, exercise prudent financial management and eliminate wasteful treatment of public funds and resources.

Table 4.1 Social wage

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Community development	**162.2**	**165.1**	**180.0**	**198.3**	**215.7**	**226.5**	**233.1**
Housing development	23.7	27.0	25.7	26.1	29.3	31.0	32.6
Transport	25.9	29.4	33.7	40.2	42.1	45.1	47.2
Basic services and local government[1]	112.5	108.7	120.5	131.9	144.3	150.3	153.3
Employment programmes	**16.9**	**18.1**	**20.3**	**20.3**	**21.3**	**22.2**	**23.3**
Health	**222.7**	**228.5**	**235.3**	**241.2**	**247.1**	**255.5**	**267.2**
Basic education	**247.6**	**262.5**	**276.2**	**293.6**	**296.1**	**308.5**	**322.6**
Fee-free higher education and training	**44.3**	**54.7**	**61.0**	**64.0**	**62.7**	**65.5**	**69.3**
Social protection	**247.0**	**252.2**	**261.0**	**280.1**	**294.4**	**312.7**	**326.9**
of which: Social grants	*218.9*	*222.7*	*233.0*	*252.1*	*266.5*	*248.4*	*259.8*
Social security funds	**106.9**	**75.9**	**72.6**	**71.4**	**73.9**	**53.3**	**52.1**
Social wage	**1 047.7**	**1 057.0**	**1 106.3**	**1 168.8**	**1 211.3**	**1 244.1**	**1 294.6**
Percentage of non-interest spending	*60.5%*	*59.6%*	*60.2%*	*61.3%*	*61.6%*	*60.8%*	*60.7%*

1. Includes local equitable share

Source: National Treasury

The Department of Public Service and Administration, the National Treasury, the Department of Planning, Monitoring and Evaluation and the Presidency will, over the medium term, review and reconfigure executive functions to address duplication of functions, close ineffective programmes and consolidate departments and institutions. Measures will be proposed based on spending reviews conducted in 2020/21 and 2021/22, which suggest a general need to ensure that programmes are designed to be affordable and avoid overlapping policy mandates. The changes are expected to lead to reduced executive responsibilities, higher fiscal credibility and savings in non-interest expenditure.

REVISIONS TO EXPENDITURE PRIORITIES

Spending revisions are targeted to protect critical frontline services, including basic education, health and police services. Most national and provincial departments will absorb the carry-through costs of the 2023 public-service wage agreement and will reprioritise spending for other priorities. Departments will need to reprioritise and repurpose funds from existing public employment programmes to extend the presidential employment initiative to 2024/25.

In-year spending adjustments

Labour-intensive departments have been allocated additional funding amounting to R23.6 billion in 2023/24 to help implement the 2023 public-service wage agreement. Other departments will reprioritise funds to implement the agreement. Departments need to manage headcounts proactively.

Net total adjustments to spending included in the 2023 Adjustments Appropriation Bill amount to R10.3 billion. This includes reductions due to significant and unforeseeable economic events totalling R21.7 billion. The largest adjustments are to local conditional grants, healthcare programmes and infrastructure, and social grants. Allocations are also proposed to the Department of Cooperative Governance for the reconstruction and rehabilitation of damaged infrastructure due to flooding in four provinces and to replenish the *disaster response grant*. Other adjustments include:

- R578.4 million for rollovers
- R2 billion for self-financing from the revenue-generating activities of departments to enable them to continue these activities
- R1 billion, as announced in the 2023 Budget Speech, for the South African Revenue Service to improve revenue-raising capabilities.

Total unspent funds amount to R2 billion, mainly from unallocated local government equitable share funds and R502 million allocated for the recapitalisation of the Land Bank.

Details on in-year spending adjustments for national departments are set out in the 2023 *Adjusted Estimates of National Expenditure*. Changes to conditional grants are included in the 2023 Division of Revenue Amendment Bill.

SPENDING PRIORITIES BY FUNCTION GROUP

Consolidated government spending is projected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing at an annual average rate of 4.6 per cent. The economic development function accounts for the largest share of this growth. Debt-service costs grow at the fastest rate, averaging 8.7 per cent per year. Spending on payments for capital assets is the fastest-growing item by economic classification, mainly due to buildings and other capital assets, which grow by an average of 13.9 per cent over the three-year period.

Table 4.2 Consolidated expenditure by function[1]

	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual growth
R billion	Outcome	Revised	Medium-term estimates			2023/24 – 2026/27
Learning and culture	**441.5**	**464.9**	**474.2**	**492.1**	**515.4**	**3.5%**
Basic education	300.4	319.7	322.8	335.4	350.8	3.1%
Post-school education and training	129.9	133.3	140.2	145.4	152.8	4.7%
Arts, culture, sport and recreation	11.2	11.9	11.2	11.4	11.7	-0.6%
Health	**256.4**	**264.5**	**268.4**	**277.6**	**290.0**	**3.1%**
Peace and security	**227.7**	**234.9**	**234.9**	**246.0**	**256.6**	**3.0%**
Defence and state security	54.2	53.5	51.6	53.6	56.0	1.5%
Police services	112.5	117.0	121.4	127.7	133.6	4.5%
Law courts and prisons	51.6	52.0	52.2	54.4	57.0	3.0%
Home affairs	9.5	12.4	9.8	10.4	10.1	-6.5%
Community development	**232.2**	**251.9**	**265.6**	**278.4**	**287.5**	**4.5%**
Economic development	**214.9**	**239.6**	**254.7**	**281.7**	**287.4**	**6.2%**
Industrialisation and exports	39.4	41.4	40.4	40.9	42.5	0.9%
Agriculture and rural development	27.4	27.7	27.0	28.2	29.1	1.8%
Job creation and labour affairs	23.0	23.0	24.3	25.3	26.5	4.8%
Economic regulation and infrastructure	107.6	128.1	144.9	169.7	170.7	10.1%
Innovation, science and technology	17.4	19.5	18.0	17.6	18.5	-1.6%
General public services	**72.1**	**77.6**	**72.9**	**75.3**	**78.3**	**0.3%**
Executive and legislative organs	14.9	17.5	15.8	16.2	16.5	-1.9%
Public administration and fiscal affairs	48.7	51.5	48.5	50.2	52.4	0.6%
External affairs	8.6	8.6	8.6	8.9	9.4	2.9%
Social development	**345.1**	**369.7**	**387.5**	**385.1**	**398.8**	**2.6%**
Social protection	263.5	283.7	298.2	316.6	331.1	5.3%
Social security funds	81.6	86.0	89.3	68.5	67.8	-7.6%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Allocated by function	**1 836.8**	**1 907.1**	**1 961.7**	**2 040.2**	**2 118.2**	**3.6%**
Debt-service costs	308.5	354.5	385.9	425.5	455.9	8.7%
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2 145.2**	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**	**4.6%**

1. Consisting of national and provincial departments, social security funds and public entities

Source: National Treasury

Table 4.3 Consolidated expenditure by economic classification[1]

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual growth 2023/24 – 2026/27
	Outcome	Revised	Medium-term estimates			
Current payments	**1 292.5**	**1 395.4**	**1 446.3**	**1 528.0**	**1 602.1**	**4.7%**
Compensation of employees	689.1	724.3	740.2	768.8	804.7	3.6%
Goods and services	286.1	307.5	310.9	324.0	331.8	2.6%
Interest and rent on land	317.2	363.6	395.3	435.1	465.6	8.6%
of which: debt-service costs	*308.5*	*354.5*	*385.9*	*425.5*	*455.9*	*8.7%*
Transfers and subsidies	**720.6**	**751.4**	**774.9**	**788.4**	**818.3**	**2.9%**
Provinces and municipalities	165.5	172.1	182.9	191.5	197.8	4.8%
Departmental agencies and accounts	26.7	27.3	24.1	24.2	25.8	-1.9%
Higher education institutions	53.5	51.3	55.6	56.3	58.9	4.7%
Foreign governments and international organisations	3.3	3.3	3.5	3.6	3.8	4.2%
Public corporations and private enterprises	39.7	42.9	40.3	42.2	42.8	0.0%
Non-profit institutions	40.6	42.8	39.5	41.1	42.9	0.1%
Households	391.3	411.6	429.1	429.4	446.2	2.7%
Payments for capital assets	**85.4**	**110.9**	**122.9**	**145.4**	**149.4**	**10.4%**
Buildings and other capital assets	63.0	81.1	95.2	115.6	120.0	13.9%
Machinery and equipment	22.4	29.8	27.7	29.8	29.5	-0.4%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Total	**2 145.2**	**2 261.6**	**2 347.5**	**2 465.7**	**2 574.1**	**4.4%**
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2 145.2**	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**	**4.6%**

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

Learning and culture

Learning and culture consists of the basic and higher education sectors, as well as sport, arts and culture. Although additional funding has been provided to implement the 2023 public-service wage agreement, provincial education departments are constrained in hiring additional teachers. This could lead to larger class sizes and higher learner-teacher ratios, possibly resulting in weaker educational outcomes. To mitigate this, the sector will improve the approach to allocating teachers to schools, ensure that learner and teacher support materials are used cost-effectively, manage infrastructure projects more tightly and focus on plans to catch up on lost teaching time.

Institutions in the post-school education and training sector, including the National Student Financial Aid Scheme, will need to bring their student enrolment and bursary allocations in line with their budgets. Planned infrastructure spending will be brought in line with institutions' ability to spend.

Health

The health sector is aiming to maintain service delivery amid budgetary constraints. While additional funding is provided to cover wage increases, baseline reductions are being implemented as part of fiscal consolidation.

To minimise negative effects, the sector will need to improve efficiency in areas such as overtime payments, medical supplies and security services, and to delay infrastructure projects. The South African Law Reform Commission is finalising a report on legal reform to manage medico-legal claims, which constitute a significant financial risk.

To address funding fragmentation for oncology services, allocations will be shifted from the *national health insurance grant* to the *national tertiary services grant*. A single grant is also proposed to consolidate the existing personal and non-personal services components of the *national health insurance indirect grant*. Funding is also redirected towards the Office of Health Standards Compliance to strengthen the Health Ombud.

Social development

The social grant baseline includes inflation-linked increases in 2024/25 and 2025/26. The *COVID-19 social relief of distress grant* will be extended for another year until March 2025 while government considers social security policy reforms and a funding model.

Provincial budget allocations will not increase in line with inflation, leading to a funding gap for core services and transfers to non-profit organisations. The sector needs to reprioritise and realign resources to avoid adverse effects on service delivery.

Community development

This function allocates funds for services to low-income households, including housing, water and sanitation, public transport, electrification and solid waste removal. Transfers and subsidies to municipalities and public entities account for the largest share of spending in this function over the medium term.

Urgent intervention is required in the urban water business in metropolitan municipalities. Turnaround plans will be implemented in 2024, including the provision of technical assistance and financing through the *urban settlements development grant*. The plans aim to improve performance, professionalise service management and establish a business unit with authority to manage revenue and investment. A clear investment strategy will be developed through the Cities Support Programme, enabling municipalities to become creditworthy and access commercial finance for water resources management.

Economic development

Government will spend an annual average of R274.6 billion in this function over the 2024 medium-term expenditure framework (MTEF) period to enable inclusive economic growth and job creation. Over 7 per cent of this amount provides for transfers and subsidies to departmental agencies, public corporations and private enterprises.

The Department of Agriculture, Land Reform and Rural Development is focusing on monitoring and controlling pest and disease outbreaks, particularly highly pathogenic avian influenza and foot-and-mouth disease, which have disrupted local chicken and beef supply and export. The department is working with farmers to ensure a constant supply of these products. The Department of Forestry, Fisheries and the Environment will finalise the waste tyre management plan and strengthen the economic instruments supporting the producer responsibility regulations.

Over the medium term, government will merge the Small Enterprise Finance Agency, Small Enterprise Development Agency and Co-operative Banks Development Agency to improve cohesion and support to small businesses. The Department of Trade, Industry and Competition will reprioritise funds to support the implementation of the electric vehicle roadmap. Work is under way to merge the Trans-Caledon Tunnel Authority and the Water Trading Entity under the new National Water Resource Infrastructure Agency. This will help to allocate risks more efficiently and ensure transparency in long-term water financing.

To address the deteriorating condition of roads, the South African National Roads Agency Limited and provincial roads authorities will prioritise preventative maintenance on high-traffic roads.

Peace and security

The peace and security function aims to combat crime and maintain territorial integrity. Over the MTEF period, the focus is on improving efficiency and reprioritising funds towards key programmes. As most of the departments within this function are labour-intensive, reductions will primarily affect personnel spending. Organisational structures will need to be rationalised as a result.

The South African Police Service will contain costs and streamline operations as headcounts decline due to natural attrition. It will foster partnerships with communities and implement reforms to optimise resource allocation, training and technology.

The Department of Justice and Constitutional Development will reallocate funds over the MTEF period to capacitate the Office of the Legal Services Ombud. Funding will also be shifted from the Department of Agriculture, Land Reform and Rural Development to Legal Aid South Africa to improve its capacity to provide legal representation in land rights matters. To strengthen its independence, the Judicial Inspectorate for Correctional Services will become a government component in 2024/25. Concomitant resources, currently in the baseline of the Department of Correctional Services, will be transferred with the inspectorate.

Government will continue to fill critical posts in the Border Management Agency and verify assets transferred from departments to the agency. To reduce employee compensation pressure, the Department of Defence will implement human resource reforms and review commuted overtime and allowance policies. Furthermore, funds will be reallocated in the Department of Defence to provide for day-to-day maintenance and emergency repairs.

General public services

This function helps build a capable state that is able to play a transformative and developmental role. In 2023/24, it accounts for 3.4 per cent of consolidated spending.

Budget reductions will be absorbed through cost-containment measures and realigning goods and services budgets.

The Department of Public Works and Infrastructure has identified underspending amounting to R306.1 million in programmes. Recommendations to address underspending include reviewing corporate service spending, implementing a shared service model and reducing operational leases, consultants and reporting requirements for Statistics South Africa, the National Treasury and the Department of Public Enterprises.

Improving responsiveness to extreme weather events and climate change

Government is developing a disaster risk financing strategy to address the challenges posed by natural disasters. Despite a robust legal framework, gaps exist in financing and implementation, including overreliance on budget reallocations. The National Treasury is analysing fiscal vulnerability and implementing policy reform to improve disaster resilience, reduce risks and ensure resources are efficiently allocated. The strategy adopts a risk-layering approach, incorporating multiple financing instruments based on the incidence and severity of shocks. It aims to strengthen governance, improve data quality and build financial and fiscal sustainability. The draft is expected to be ready during 2024/25.

Separately, the National Treasury has initiated the design and piloting of a climate budget tagging system to incorporate climate considerations into public financial management processes. The first phase of the project, from October 2020 to October 2022, involved consulting on the design of this system, conducting workshops to raise awareness, reviewing international experience and piloting the system in eight sites across the three spheres of government. The next phase is expected to conclude in December 2023. It will involve refining the climate budget tagging framework for additional testing and formal rollout, consulting stakeholders, revising guidance materials and setting up governance arrangements.

DIVISION OF REVENUE

Provinces provide basic education and healthcare services, road infrastructure, housing, social development and agriculture. Municipalities are responsible for basic services such as water, sanitation, electricity reticulation, roads and community services. Over the next three years, government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces and 9.9 per cent to local government.

Provinces and municipalities face both spending pressures from rising costs of basic and social services and revenue pressures from lower economic growth and high borrowing costs. These pressures imply the need for greater spending efficiency and strong financial management.

Table 4.4 Division of revenue framework

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	**790.5**	**822.8**	**855.9**	**826.3**	**840.9**	**846.4**	**884.2**
of which:							
Provincial indirect grants	*2.9*	*3.8*	*3.9*	*4.0*	*4.0*	*4.3*	*4.4*
Local indirect grants	*4.1*	*5.7*	*7.2*	*8.3*	*8.0*	*8.3*	*8.7*
Provinces	**628.8**	**660.8**	**694.1**	**706.4**	**720.5**	**752.4**	**784.6**
Equitable share	520.7	544.8	570.9	585.1	589.5	616.4	644.3
Conditional grants	108.1	116.0	123.3	121.3	131.0	136.1	140.3
Local government	**137.1**	**135.6**	**150.7**	**160.6**	**169.2**	**177.3**	**182.9**
Equitable share	83.1	76.2	83.9	95.2	101.2	106.1	110.7
General fuel levy sharing with metropolitan municipalities	14.0	14.6	15.3	15.4	14.5	15.2	15.9
Conditional grants	40.0	44.8	51.4	50.0	53.5	56.0	56.4
Provisional allocations not assigned to votes[1]	–	–	–	–	2.3	38.0	47.1
Projected underspending	–	–	–	-3.3	–	–	–
Non-interest allocations	**1 556.4**	**1 619.2**	**1 700.7**	**1 690.1**	**1 732.8**	**1 814.1**	**1 898.8**
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
Contingency reserve	–	–	–	0.4	5.0	7.6	14.5
Main budget expenditure	**1 789.0**	**1 887.3**	**2 009.2**	**2 044.9**	**2 123.7**	**2 247.2**	**2 369.2**
Percentage shares							
National departments	50.8%	50.8%	50.3%	48.8%	48.6%	47.7%	47.8%
Provinces	40.4%	40.8%	40.8%	41.7%	41.6%	42.4%	42.4%
Local government	8.8%	8.4%	8.9%	9.5%	9.8%	10.0%	9.9%

1. Includes amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations
Source: National Treasury

The debt-relief arrangement for Eskom outlined in the 2023 Budget noted that a large proportion of outstanding municipal debt is owed to Eskom. National government subsequently invited municipalities to apply for debt relief for arrears debt to Eskom up to 31 March 2023. The debt will be written off over a three-year period, in equal annual tranches, provided the municipality complies with set conditions. These include enforcing strict credit controls and collecting revenue to pay for bulk expenses like electricity and water. Municipalities that fail to meet the conditions will need to repay the remainder of their arrears debt to Eskom, including interest and penalties.

By October 2023, 67 applications had been submitted, totalling R56.8 billion or 97 per cent of total municipal debt owed to Eskom at end-March 2023. Twenty-eight applications have been approved; the remainder are being assessed and verified with provincial treasuries. Municipalities that receive this debt relief are expected to sustain the improvement in their financial condition.

The provincial equitable share

The provincial equitable share is the primary revenue source for provinces and is made up of six key components: education, health, basic, institutional, poverty and economic activity. The provincial equitable share formula is updated annually to ensure that funding is allocated fairly to each province, reflecting demographic changes and the demand for services based on need. Changes introduced in 2022/23 as a result of a review of the health component will be fully phased in at the end of 2024/25. The provincial equitable share task team, made up of representatives from the National Treasury and provincial treasuries, is reviewing the education component.

To cover implementation costs associated with the 2023 public-service wage agreement, the education and health sectors will receive additional allocations amounting to R68.2 billion during the 2024 MTEF period. These allocations will be disbursed to provinces using the provincial equitable share formula and conditional grants.

Table 4.5 Provincial equitable share

R million	2023/24	2024/25	2025/26	2026/27
Eastern Cape	75 605	76 680	80 125	82 768
Free State	32 429	32 487	33 972	35 578
Gauteng	124 465	125 652	131 405	137 629
KwaZulu-Natal	119 722	118 932	124 127	129 745
Limpopo	67 359	68 354	71 637	75 192
Mpumalanga	48 051	48 596	50 825	53 237
Northern Cape	15 573	15 849	16 608	17 429
North West	41 289	42 034	44 089	46 314
Western Cape	60 593	60 937	63 584	66 447
Total	**585 086**	**589 520**	**616 371**	**644 338**

Source: National Treasury

Major in-year adjustments

In 2023/24, direct conditional grants to municipalities are reduced by R3.4 billion and provincial direct conditional grants are reduced by R6.2 billion. To create a resource pool to respond to future disasters, R372 million has been added to the *municipal disaster response grant*, while R1.2 billion has been added to the *municipal disaster recovery grant* to cover the repair and rehabilitation of infrastructure damaged by flooding in February and March 2023. An amount of R1.4 billion was included in the local government equitable share to fund electricity-related pressures that have not materialised. These funds revert to the National Revenue Fund.

Revisions to medium-term expenditure priorities

Transfers to both provinces and municipalities will change significantly relative to the 2023 Budget. Reductions are focused on grants and programmes where there has been significant underspending in recent years. Nonetheless, provinces and municipalities will have to consider their strategies for prioritising resources to avoid negative effects on critical services.

Changes to the structure of provincial and local government grants

The National Treasury is reviewing the conditional grant system, so no major changes are proposed to conditional grants for the 2024 MTEF period. To improve water management and wastewater systems, changes will be made to the *urban settlements development grant* for metropolitan municipalities, the *integrated urban development grant* for intermediate cities and the *municipal infrastructure grant* for other local and district municipalities. The conditions of the grants will change to require alignment with the Green Drop, Blue Drop and No Drop assessments.

Update on the conditional grant review process

Government is due to complete its review of the conditional grants system in 2024. The system is a complex and significant component of intergovernmental fiscal relations. One-third of conditional grant funding is allocated to local government to augment other sources of revenue and the balance is allocated to provincial government, which has fewer other options to raise revenue.

The system is generally viewed as a robust and prudent way to support service delivery. The conditions of the grants support effective performance, although performance can be highly uneven. Streamlining of some grants would improve intersectoral and interdepartmental coordination and minimise duplications.

The increased reliance on indirect grants – which allow national departments to perform a function on behalf of a province or municipality – indicates declining trust in the ability of subnational government to deliver on its mandates.

Progress with the review of the local government fiscal framework

The 2023 Budget noted that the National Treasury is developing compulsory national norms and standards to regulate municipal surcharges on electricity and identify alternative sources of revenue to replace these surcharges. A draft report is under review. The next step will be to consult with stakeholders on the recommendations.

CONCLUSION

Over the medium term, government is focused on improving the efficiency of spending. Targeted revisions to departmental baselines direct resources to key functions. In addition, work continues on a range of initiatives aimed at improving the management of municipalities.

2023 MTBPS

ANNEXURES

national treasury

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A

2023 MTBPS

FISCAL RISK STATEMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

This fiscal risk statement considers the major medium- and long-term risks to the public finances. It should be read in conjunction with the analysis of short-term risks presented in Chapter 3. The primary risks to the fiscal outlook over the next decade are lower potential growth, difficulty in executing government's borrowing strategy, and spending pressures – particularly in subnational government and state-owned companies. The fiscal risk statement also considers the sustainability of government's social commitments in the context of low economic growth.

MACROECONOMIC RISKS

As discussed in Chapter 2, the economic growth outlook has deteriorated. If GDP growth underperforms the forecast, it may compromise government's ability to achieve its fiscal goals. Additional deviations from planned spending will raise the sovereign risk premium and make fiscal stabilisation harder to achieve.

Figure A.1 Nominal GDP growth

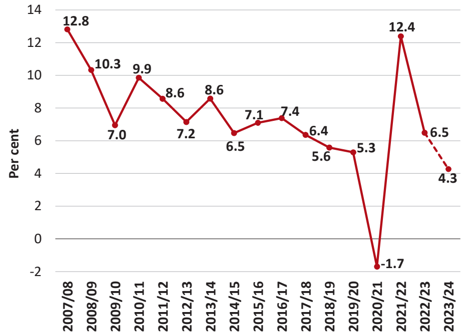
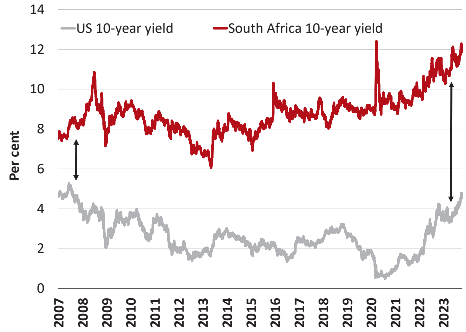


Figure A.2 Government bond yields



Source: National Treasury and Bloomberg

South Africa's long-term debt dynamics are unfavourable over the medium-term horizon. The gap between the yield on South Africa's long-term debt and the yield on the United States 10-year Treasury bond has widened consistently since 2015. This reflects an increase in South Africa's risk premium – the additional amount that government pays investors to compensate for uncertainty. Should the combination of weaker nominal growth and rising yields persist, it will require consistently higher primary surpluses – where revenue exceeds non-interest expenditure – to stabilise the public finances over the long term. As outlined in chapters 2 and 3, government's fiscal strategy is intended to reduce fiscal risks and support economic growth.

Fiscal scenarios

By considering different macroeconomic scenarios that deviate from the baseline forecast, policymakers can better anticipate potential challenges and navigate the complexities of a shifting economic environment. The 2023 *Medium Term Budget Policy Statement* (MTBPS) considers the fiscal implications of the two scenarios outlined in Chapter 2:

Scenario A – Economic growth slows appreciably in China. The primary balance deteriorates by R48.6 billion 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 79.8 per cent of GDP and declines thereafter.

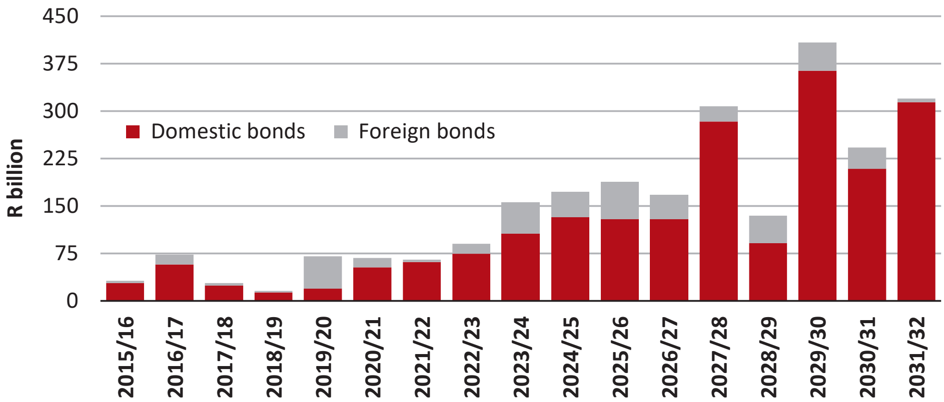
Scenario B – Global disinflation. The primary balance improves more rapidly relative to the 2023 MTBPS baseline projection. Debt-service costs fall below 20 per cent of revenue by 2030/31 and the debt-to-GDP ratio stabilises at 76.3 per cent of GDP in 2025/26 and declines thereafter.

DEBT MANAGEMENT RISKS

Government debt levels are affected by the budget balance and changes in economic variables such as interest, inflation and exchange rates. Between 2007/08 and 2022/23, government's debt stock grew from R577 billion to R4.77 trillion.

Government's fiscal consolidation efforts focus on reducing the persistent gaps between revenue and expenditure, which will improve the primary balance. In addition to the primary balance, government debt stock and redemptions are important indicators of macro-fiscal health. The large debts that government incurred to finance the budget balance need to be repaid or refinanced as they become due. Figure A.3 shows the extent of debt redemptions to 2031/32. Over the next eight years, debt redemptions will average R242.5 billion annually.

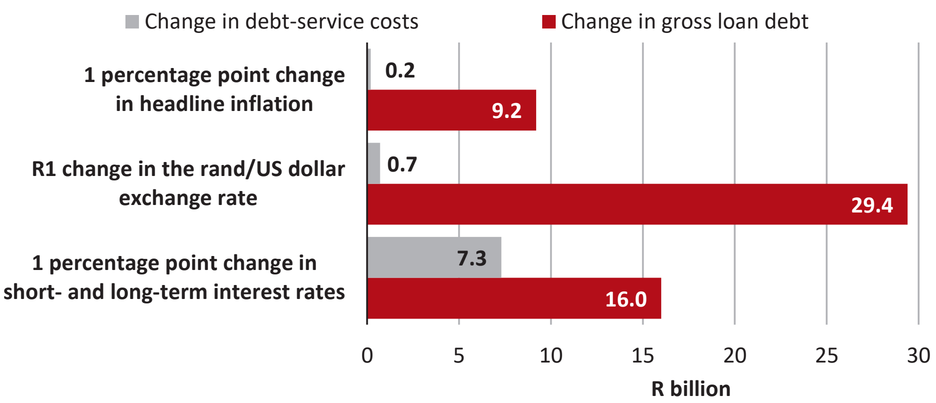
Figure A.3 Long-term government debt redemptions



Source: National Treasury

High debt levels elevate the risks associated with changes in macroeconomic variables such as interest, inflation and exchange rates, which affect debt and debt-service costs. Modelling by the National Treasury shows that a 1 percentage point increase in inflation and interest rates, together with a R1 depreciation of the rand's exchange value against the US dollar, results in a R54.6 billion increase in gross loan debt and an R8.2 billion increase in debt-service costs. Successful fiscal consolidation will reduce these risks by reducing the deficit and stabilising the stock of debt.

Figure A.4 Sensitivity of debt and debt-service costs



Source: National Treasury

Government continues to manage debt in a prudent and sustainable manner within its strategic risk benchmarks by diversifying the debt portfolio and managing refinancing risk.

SUBNATIONAL GOVERNMENT

Relative to the previous year, provincial accruals increased by 7.8 per cent in 2022/23 to R18.2 billion. Provincial medico-legal payments rose from R996 million in 2021/22 to R1.6 billion in 2022/23. Government estimates the total contingent liabilities associated with such claims at R76 billion in 2022/23, down from R86.5 billion in 2021/22.

Local government arrears increased from R89.7 billion in 2021/22 to R99.9 billion in 2022/23. Over the same period, uncollected revenues grew from R255.4 billion to R313.2 billion. Monies owed to Eskom, the Department of Water and Sanitation and the water boards increased from R63.5 billion in 2021/22 to R88 billion at the end of June 2023. The agreement to write off part of municipal debt to Eskom, discussed in Chapter 4, is expected to mitigate some of the risk of this outstanding debt.

CONTINGENT LIABILITIES

Contingent liabilities represent government's potential financial commitments if certain conditions 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.

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 Eskom's 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 during the current year.

From October 2023, Cabinet members requesting fiscal commitments that affect contingent liabilities will report these to Parliament on a quarterly basis. Government is managing its exposure to contingent liabilities carefully in the context of past experience with large appropriations to state-owned companies and the current Eskom debt-relief arrangement.

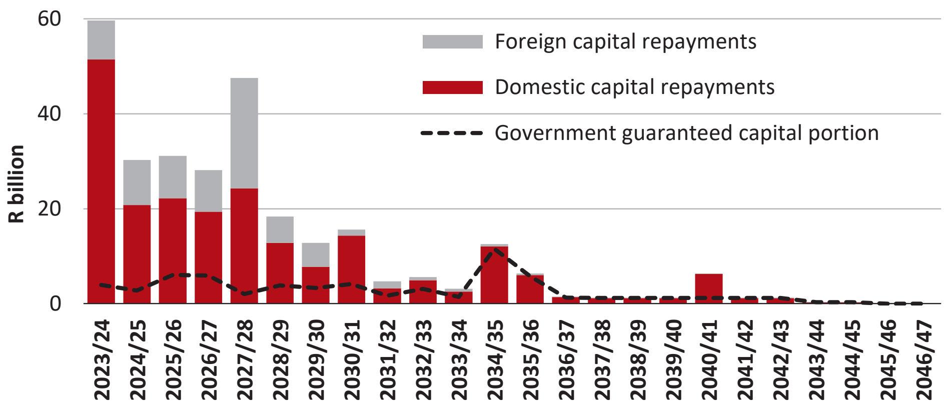
Rapid implementation of the structural reforms outlined in Chapter 2, supported by a government policy outlining a strategic approach to managing state-owned companies, will be crucial in managing these contingent liabilities.

FINANCIAL CONDITION OF STATE-OWNED COMPANIES

Since 2019, weak economic growth has compounded the poor financial position of most state-owned companies. Capital investment continues to slow, falling below company budgets, with some large enterprises facing serious liquidity problems. Operational inefficiencies, high cost structures and onerous debt obligations continue to hamper profitability and cash flows, intensified by non-payment for services. Many companies are unable to attract funding at favourable rates and terms, and rely on fiscal funding for support.

Figure A.5 shows the debt maturity profile of the largest state-owned companies.

Figure A.5 Debt maturity profile of the largest state-owned companies*



**Airports Company South Africa, Denel, Development Bank of Southern Africa, Industrial Development Corporation, Land Bank, South African Airways, South African National Roads Agency Limited and Trans-Caledon Tunnel Authority; excludes Eskom*
Source: National Treasury as at 31 March 2023

Over the medium term, repayments are expected to amount to R121 billion. The large domestic capital repayment in 2023/24 stems from the maturity of bonds issued by the Industrial Development Corporation, the Development Bank of Southern Africa, Transnet and the South African National Roads Agency Limited (SANRAL). In the following three years, capital repayments will be relatively lower as state-owned companies build cash flows to manage maturities. Capital repayments are expected to decline significantly after another spike in 2027/28.

Denel

Denel remains in financial distress and has not submitted its annual financial statements since 2019/20. In March 2023, government disbursed R1.9 billion to Denel through the Special Appropriation Act (2022). The disbursement was proportionate to the entity's share of proceeds from the sale of non-core assets. Denel used this funding to help settle debt obligations, pay for restructuring and enhance working capital. The remaining portion remains ringfenced until other non-core assets are sold. In September 2023, Denel requested that a further R100 million of the ringfenced funds be released to settle the last government guaranteed debt obligation. Following its settlement, Denel has no debt obligations remaining and its government guarantee will be revoked.

Eskom

As outlined in the 2023 Budget, government is providing Eskom with debt relief amounting to R254 billion from 2023/24 to 2025/26, subject to strict conditions. This arrangement will enable the utility to undertake much-needed maintenance and investment, and to improve its financial position. Eskom's financial sustainability remains at risk from poor generating plant performance, declining sales, lack of cost-reflective tariffs, rising municipal arrears and high debt-service costs.

The Eskom Debt Relief Act (2023) was promulgated in July 2023. Eskom is required to comply with strict conditions attached to this act until 31 March 2026. As at 30 September 2023, government has already disbursed R16 billion of the R78 billion for 2023/24. A task team has been established with officials from the National Treasury, the Department of Public Enterprises and Eskom to monitor compliance with the conditions and report quarterly on whether Eskom qualifies for the conversion of the loan to equity.

Chapter 2 discusses the near-term risk to growth posed by Eskom. Prolonged power cuts would continue to constrain the economy, with significant knock-on effects for the public finances.

The Land Bank

The Land Bank remains in default after failing to meet its debt obligation in April 2020. At the end of 2022/23, the National Treasury transferred R5.1 billion to the Land Bank, subject to conditions, as part of a R7 billion fiscal allocation. Government has repaid approximately R1.4 billion to all guaranteed lenders of the Land Bank since its default, eliminating its guarantee exposure. The remaining portion of the R7 billion fiscal allocation will be transferred to the Land Bank in this financial year to use in its blended finance scheme during March 2024.

Transnet

Transnet continues to experience weak profitability and deteriorating liquidity due to operational challenges, a high debt burden and low cash flows. A prolonged period of underinvestment in capital infrastructure and maintenance backlogs have combined to limit revenue-generating capacity. Transnet has initiated a five-year R122.7 billion capital investment programme, including R99.5 billion for operational maintenance and R23.2 billion to expand infrastructure, starting in 2023/24. Further borrowing is restricted by its existing debt, which stood at R130 billion at the end of March 2023, and declining revenues. Transnet's issued guarantee remains at R3.5 billion.

South African National Roads Agency Limited

A long-term dispute over Phase 1 of the Gauteng Freeway Improvement Programme has limited SANRAL's investment capacity. Government's decision to take over the Phase 1 commitments will support SANRAL's ability to finance the strengthening, rehabilitation and expansion of the toll road network. As a result of revisions to SANRAL's borrowing limits and guarantees associated with the R23 billion injection made in the 2022 Adjustments Budget, SANRAL will now seek approval to revise its funding plan to ensure continued investment in the national road network.

LONG-TERM SUSTAINABILITY OF SOCIAL COMMITMENTS

The National Treasury maintains a long-term fiscal model to evaluate the sustainability of existing and new expenditure commitments, factoring in updated economic and demographic growth assumptions. The current update excludes results from the Census 2022, which will be analysed in an update in the 2026 MTBPS. This update highlights two adjustments to the assumptions following the COVID-19 pandemic:

- Demographic changes due to a high number of deaths, and lower migration and fertility.
- Subdued long-run economic growth.

The model is highly sensitive to any alterations in assumptions, including sector-specific cost trajectories and existing policy considerations. In the baseline model, nominal GDP growth (Figure A.7) is projected to decelerate over the medium term and reaches a long-term value of 6.8 per cent. Inflation remains stable at about 4.5 per cent. The nominal yield on government debt gradually decreases from 11.9 per cent in 2023/24 to 9.2 per cent by 2031/32.

Spending on key government programmes is broadly sustainable over the long term, largely because projected consolidated government spending has fallen relative to 2021 projections – due in part to efforts to contain the public-service wage bill. Demographic changes have also contributed to the sustainability of government spending.

Figure A.6 Statistics South Africa mid-year population growth estimates

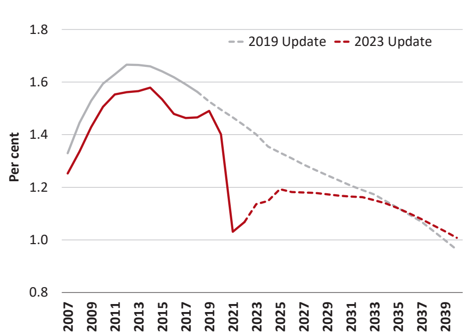
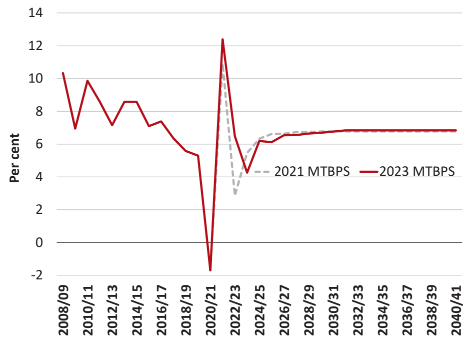


Figure A.7 Revisions to long-term nominal GDP growth



Source: Statistics South Africa and National Treasury

Social assistance

The 2019 MTBPS noted that by 2040/41, social assistance beneficiaries – excluding the temporary *COVID-19 social relief of distress grant* – were projected to increase to 22.5 million, necessitating spending on social grants amounting to 3 per cent of GDP annually. This is in line with current grants spending, excluding the temporary grant. If that or a similar type of new grant is made permanent, beneficiaries are projected to expand from 27.3 million in 2023/24 to 40.4 million in 2040/41, which will cost 3.8 per cent of GDP in 2040/41 and require a corresponding permanent source of funding, such as additional revenue measures.

Basic education

Over the past decade, spending on basic education has consistently hovered around 4.5 per cent of GDP. While teacher remuneration increased by an annual average of 7.5 per cent over the period, the number of teachers has declined, leaving spending relatively stable. As higher-earning older educators retire, the real wage bill for teachers is likely to decline. By 2040/41, basic education spending of about 4.6 per cent of GDP is projected to maintain current class sizes. This stabilisation is attributed to a combination of modest growth in the youth population and younger educator demographics.[1]

Health

Long-term healthcare expenditure is largely determined by inflation in the health sector and the growing needs of the population. Health inflation has lagged behind consumer price index inflation by an annual average of 0.4 percentage points over the past decade. Visits to public institutions grew by an annual average of 2.6 per cent between 2007/08 and 2014/15, but declined by an annual average of 1.1 per cent from 2015/16 to 2019/20 – and more sharply in 2020/21 due to COVID-19. If the national health insurance policy is implemented, then spending on public health could increase from about 4 per cent of GDP in 2022/23 to 6 per cent of GDP by 2040/41. This increase may require additional spending or revenue measures to ensure sustainability.

Higher education

Over the past 10 years, inflation in the higher education sector has consistently exceeded consumer price index inflation by about 2 percentage points. If this trend persists and the number of students grows in line with the working age population, current National Student Financial Aid Scheme funding levels for university students will increase. Funding requirements will increase from 1.3 per cent of GDP in 2022/23 to 1.5 per cent of GDP in 2040/41. However, if funding per student grows in line with headline inflation, the funding requirement will remain stable. Similarly, assuming enrolment of about 670 000 students annually, expenditure in the technical and vocational education and training sector is expected to remain constant at 0.2 per cent of GDP during the same period.

CONCLUSION

The outlook for the public finances is vulnerable to a range of domestic and external risks. The fiscal strategy outlined in the 2023 MTBPS helps government gradually build fiscal buffers to mitigate the risks outlined in this annexure. Disciplined measures across the public sector are also required to manage and mitigate these risks.

[1] Gustafsson, M. 2022. Projections of educators by age and average cost to 2070.

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B

2023 MTBPS

COMPENSATION AND EMPLOYMENT DATA

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

In recent years government has taken steps to slow growth in consolidated compensation costs. These costs include salaries, benefits and allowances for government employees such as teachers, healthcare workers, police officers and military personnel. This annexure focuses on the public-sector wage bill, which includes national, provincial and local government, as well as public entities and state-owned companies. It also analyses trends in public-service employment and wages, a narrower category covering only national and provincial departments.

Figures B.1 and B.2 reflect trends in compensation of employees since 2013/14. Over the past decade, the wage bill has declined as a share of consolidated spending from 35.7 per cent in 2013/14 to 32.1 per cent in 2022/23. In 2023/24, its share increases to 32 per cent in comparison to 31.3 per cent at the time of the 2023 Budget. This is mainly due to additional funding allocated for the 2023/24 wage increase for select labour-intensive departments, including the carry-through costs over the medium-term expenditure framework period. In 2026/27, it is projected to decrease to 31.6 per cent of consolidated spending.

Figure B.1 Consolidated wage bill trends

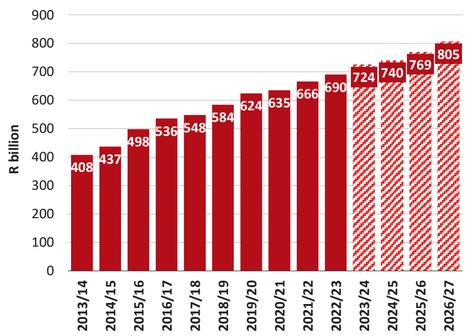
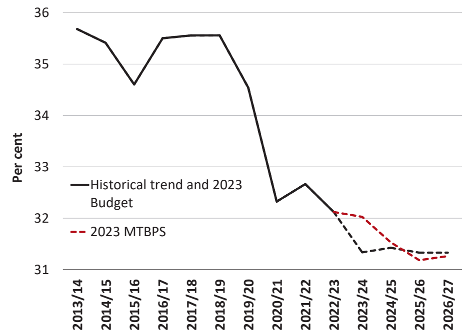


Figure B.2 Consolidated wage bill as a share of consolidated expenditure



Source: National Treasury

Managing growth in the wage bill is critical to fiscal sustainability. The percentage wage increases negotiated and agreed on in the past often exceeded the prevailing inflation rates. Above-inflation increases in one year raise average remuneration per person and compound the effect of any future increases. Above-inflation growth has hindered government's ability to allocate funds to other critical areas, such as social services and infrastructure development. Escalating public-sector wages contributed to higher budget deficits and debt over the past decade. As discussed in chapters 2 and 3, the weaker fiscal position now shows signs of harming economic growth.

INTERNATIONAL BENCHMARKING

South Africa's general government wage bill – made up of the public sector and state-owned companies – is one of the highest among emerging markets. Figure B.3 shows that, as a share of GDP, South Africa's general government wage bill is about 3.5 percentage points greater than the Organisation for Economic Co-operation and Development (OECD) average. Yet public-sector employment is lower as a share of total employment than in other countries with high wage bills, such as Norway and Denmark (Figure B.4). This suggests that high average compensation levels are mainly responsible for South Africa's high public-sector wage bill, rather than headcount growth.

Figure B.3 General government wage bill as a share of GDP, 2022

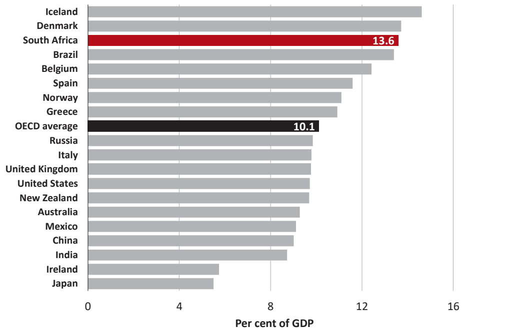
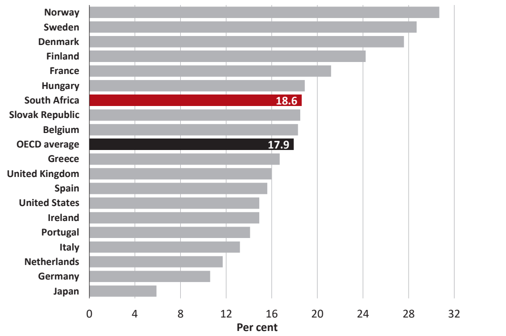


Figure B.4 General government employment as a share of total employment, 2022



Source: OECD Data Library

PUBLIC-SERVICE REMUNERATION COSTS AND EMPLOYMENT TRENDS

The average remuneration cost per public-service employee, or unit cost, refers to the total cost that the employer incurs on average for compensating a single employee. It includes employee salaries and various benefits, such as pensions, medical and housing subsidies, bonuses and other forms of compensation. This average has grown significantly faster than headcounts since 2013/14, largely because of above-inflation salary increases for national and provincial employees (Figure B.5). These increases have often been a point of contention during wage negotiations between government and labour unions representing public-service employees as they occurred during a period of weakening economic growth and fiscal constraints. From 2020/21 onwards, this salary trend shifted as government reduced growth in compensation in an effort to stabilise public finances.

Figure B.7 shows how, over time, a higher proportion of public-service employees have moved into higher-earning categories. This is directly as a result of the higher cost-of-living adjustment agreed on over the past years and pay progression policies. The number of employees with annual earnings in excess of R1 million per year has also increased from just above 10 000 in 2013/14 to over 55 000 in 2023/24. Almost half (48 per cent) of employees will earn between the annual ranges of R350 001 and R600 000 in 2023/24.

Figure B.8 shows that female employees account for 62.5 per cent of the public-service workforce in 2023/24, up from 59.7 per cent in 2013/14. Male employees account for a higher share of employment at the most senior levels of government, although representation is improving: as a share of management categories, female employees rose from 37.6 per cent in 2013/14 to 45.9 per cent in 2023/24. Achieving gender equity in senior management remains an important government objective.

Figure B.5 Public-service unit cost trends

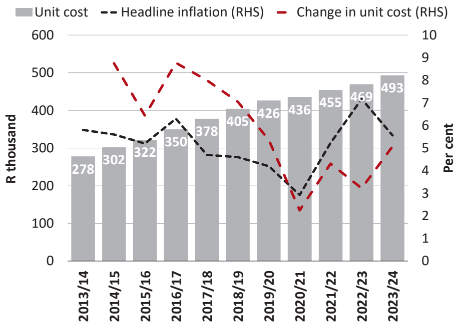


Figure B.6 Public-service unit cost trends by profession

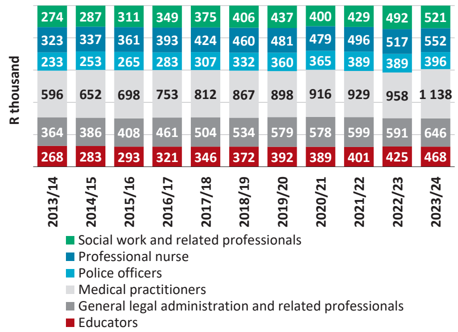


Figure B.7 Public-service headcount by earning range

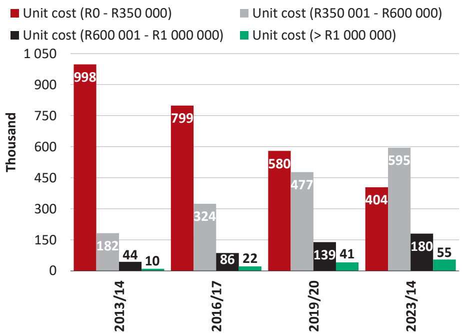
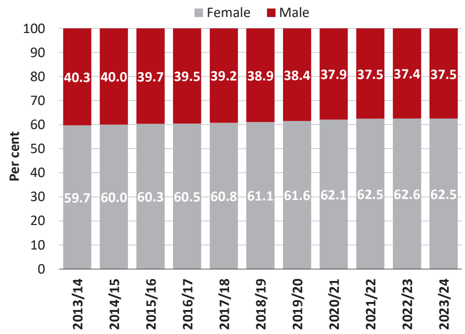


Figure B.8 Public-service headcount share by gender



Source: National Treasury

DRIVERS OF AVERAGE REMUNERATION COSTS PER PERSON

Remuneration policies, pay scales and benefits for public-service employees are determined through government determinations and collective bargaining agreements. These policies are periodically reviewed and updated to ensure fairness and competitiveness and to align with economic conditions and government priorities. Government has undertaken various remuneration policy reforms in line with these goals. Some of these reforms contributed to escalating remuneration cost per person for public-service employees, as outlined below. Many of the benefits listed below are linked to resolutions agreed on in the Public Service Co-ordinating Bargaining Council, which require them to grow in line with the relevant inflation rate every year. This in turn increases the total wage bill every year.

The factors driving average remuneration costs per person include:

- Occupation-specific dispensation: Between 2007/08 and 2009/10, occupation-specific dispensations were introduced as a major reform to recognise and retain employees with specialised skills through higher remuneration. This resulted in significant increases to the unit cost of frontline employees such as medical and legal practitioners, nurses and social workers (Figure B.6).

- Pay progression: This policy refers to the advancement of an employee's salary over time based on factors like performance, experience and qualifications. On average, most public-service employees receive pay progression of 1.5 per cent per year, although the Department of Defence provides pay progression of 2 per cent annually.
- Pension contributions: These are currently the largest benefit that public-service employees receive. Government contributes 16 per cent of the pensionable salaries for uniformed members of the police, defence, intelligence services and correctional services, and 13 per cent for all other employees.
- Benefits and allowances: These benefits differ across sectors depending on the nature of the work, the requirements of each occupation and the category of public service. For instance, police officers, correctional services personnel and medical personnel may be eligible for overtime pay or special allowances for working extended hours or performing hazardous duties. Other benefits and other allowances include medical subsidies, housing allowances, leave entitlements and professional development opportunities.

Figures B.9 and B.10 show the components that make up public-service employees' remuneration and the breakdown of allowances and benefits. Since 2016/17, allowances and benefits accounted for between 30 and 33 per cent of the total earnings of public-service employees.

Figure B.9 Remuneration components as a share of unit cost

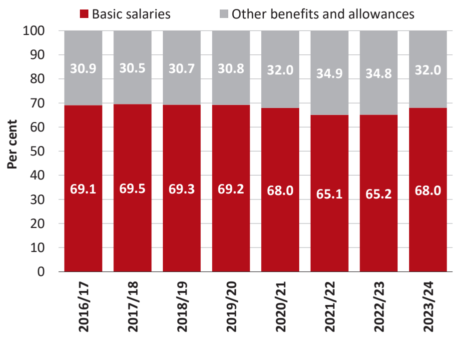
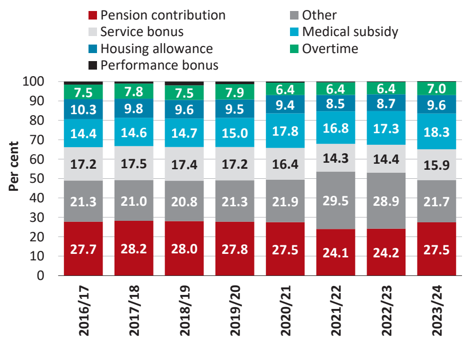


Figure B.10 Allowances and benefits trends



Source: National Treasury

PUBLIC-SERVICE WAGE BILL OUTLOOK

Table B.1 shows the projections for the public-service wage bill over the 2024 medium-term expenditure framework period. About R111.4 billion was added over the period to assist the labour-intensive departments – education, health, police, defence and correctional services – to implement the 2023 public-service wage agreement. Other departments are expected to absorb the wage increases within their baselines, including, where necessary, by managing headcounts. Government will assist in managing headcounts, including implementing controls on payroll systems to ensure executive authorities operate within their budgets when creating and filling vacant posts.

Table B.1 Public-service wage bill projections over the 2024 MTEF period by sphere and sector

R million	2023/24 Revised baseline	2024/25 Medium-term estimates	2025/26	2026/27	Average annual growth 2023/24 – 2024/25	Average annual growth 2023/24 – 2026/27
By sphere						
National	190 664	195 264	204 696	214 299	2.4%	4.0%
Provincial	455 778	468 004	483 672	506 050	2.7%	3.5%
By sector						
Education	239 888	247 985	257 728	269 567	3.4%	4.0%
Health	158 231	161 766	165 864	173 478	2.2%	3.1%
Police	83 795	88 608	93 716	98 006	5.7%	5.4%
Defence	31 829	32 525	33 960	35 514	2.2%	3.7%
Correctional services	18 290	18 694	19 520	20 413	2.2%	3.7%
Other	114 409	113 690	117 580	123 371	-0.6%	2.5%
Total	**646 442**	**663 268**	**688 368**	**720 349**	**2.6%**	**3.7%**

Source: National Treasury

CONCLUSION

Government remains committed to remunerating all its employees fairly, while balancing wage increases with the sustainability of public finances and broader policy priorities. In the current economic climate, with limited fiscal resources, it is especially important to manage the public-sector wage bill through careful planning and budgeting that considers all components of remuneration policy.

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C

2023 MTBPS

TECHNICAL ANNEXURE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

IN-YEAR ADJUSTMENTS TO MAIN BUDGET NON-INTEREST EXPENDITURE

Table C.1 shows in-year adjustments to the main budget non-interest expenditure since the 2023 *Budget Review*.

Table C.1 In-year adjustments to the main budget non-interest expenditure

R million	Appropriation (ENE) 2023 Budget	Adjustments appropriation (AENE)	Revised
Allocated expenditure	**1 687 615**	**2 440**	**1 690 055**
Provisional allocations not assigned to votes	1 505	-1 505	–
Contingency reserve	5 000	-4 642	358
Upward adjustments		**29 422**	
National government allocation for 2023/24 wage increase		6 000	
Unforeseeable and unavoidable expenditure		1 748	
2023 Budget earmarked allocation to SARS		1 000	
Rollovers		578	
Self-financing expenditure		1 963	
Direct charges adjustments[1]		18 133	
President and deputy president salaries		*6*	
Section 70 PFMA (1999) payment: Land and Agricultural Development Bank of South Africa		*502*	
Judges' salaries		*114*	
Provincial equitable share: 2023/24 wage increase		*17 558*	
National Revenue Fund payments		*267*	
Skills levy and sector education and training authorities		*-314*	
Downward adjustments		**-26 983**	
Declared unspent funds		-1 960	
Baseline reductions		-21 726	
National government projected underspending		-797	
Local government repayment to the National Revenue Fund		-2 500	
Main budget non-interest expenditure	**1 694 120**	**-3 707**	**1 690 412**
In-year adjustments to the main budget non-interest expenditure since 2023 Budget			-3 707

1. Excludes the unforeseen and unavoidable expenditure allocated through the provincial equitable share
Source: National Treasury

CHANGES TO MAIN BUDGET NON-INTEREST EXPENDITURE FOR THE NEXT TWO YEARS

Table C.2 presents changes to main budget non-interest expenditure since the 2023 Budget for the next two years.

Table C.2 Changes to main budget non-interest expenditure

R million	2024/25	2025/26	Total
Non-interest expenditure (2023 Budget)	**1 775 105**	**1 869 432**	**3 644 536**
Additions to baselines and provisional allocations	**62 913**	**65 437**	**128 350**
2023/24 wage increase carry-through costs	27 886	29 285	57 171
Provincial departments [1]	*21 604*	*22 712*	*44 315*
National departments [2]	*6 283*	*6 573*	*12 856*
COVID-19 social relief of distress grant	33 587	–	33 587
Provisional allocation for social protection	–	35 169	35 169
Olifants management model: Phase 2b and 2b+	1 440	983	2 422
Downward non-interest spending adjustments	**-100 170**	**-113 174**	**-213 344**
Reductions to baselines and provisional allocations	-63 721	-69 853	-133 575
Change in reserves and other adjustments[3]	-35 009	-42 338	-77 347
Drawdown of Infrastructure Fund for Olifants management model	-1 440	-983	-2 422
Revised non-interest expenditure (2023 MTBPS)	**1 737 848**	**1 821 695**	**3 559 543**
Change in non-interest expenditure from 2023 Budget	-37 256	-47 737	-84 994

1. Departments of education and health
2. Departments of police, defence and correctional services
3. Includes drawdown of 2023 Budget unallocated reserves, increase in 2025/26 contingency reserve and revisions to skills development levy projections
Source: National Treasury

MAIN BUDGET EXPENDITURE CEILING

Table C.3 Adjustments to expenditure ceiling

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Non-interest expenditure	**1 556 420**	**1 619 208**	**1 700 698**	**1 690 412**	**1 737 848**	**1 821 695**	**1 913 333**
Technical adjustments							
Skills development levy	-12 413	-19 012	-20 809	-22 713	-24 500	-26 441	-28 582
Eskom funding provisions	-56 000	-31 693	-21 857	–	–	–	–
NRF payments	-588	-2 173	-263	-317	–	–	–
International Oil Pollution Compensation Fund	–	-3	-2	-13	-13	-14	-14
Expenditure ceiling	**1 487 419**	**1 566 327**	**1 657 767**	**1 667 370**	**1 713 335**	**1 795 241**	**1 884 736**

Source: National Treasury

Table C.3 shows technical adjustments to the main budget non-interest expenditure to calculate the expenditure ceiling. The ceiling excludes payments directly financed by dedicated revenue sources and others not subject to policy oversight. These include:

- **Payments for financial assets financed by asset sales in the same financial year:** Revenue from the sale of assets, particularly for equity investments, generally offsets the increases in associated spending levels, so these increases do not require adjustments to departmental allocations. Financial support for Eskom is not included in the expenditure ceiling. This support is viewed as a balance sheet transaction.
- **Payment transactions linked to the management of debt:** These include premiums paid on new loan issues, bond switches and buy-back transactions, revaluation profits or losses on government's foreign exchange deposits at the Reserve Bank when used to meet government's foreign-currency position commitments, and realised profits and losses on the Gold and Foreign

Exchange Contingency Reserve Account. These items relate to debt and currency transactions not financed through main budget appropriations.

- **Direct charges related to specific payments made in terms of legislation that provides for the collection and transfer of such receipts outside of the main budget:** These include skills development levy contributions and the International Oil Pollution Compensation Fund. Skills development levy contributions are paid to the National Skills Fund and the sector education and training authorities. The payment schedule to the National Skills Fund is generally revised to align it directly with anticipated receipts from the levy.

Table C.4 Main budget expenditure ceiling[1]

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
2021 MTBPS	1 487 388	1 570 890	1 552 268	1 558 725	1 627 154		
2022 Budget Review	1 487 399	1 575 002	1 630 905	1 613 671	1 686 932		
2022 MTBPS	1 487 385	1 566 490	1 667 118	1 665 349	1 744 762	1 832 678	
2023 Budget Review	1 487 419	1 566 498	1 653 459	1 671 030	1 750 276	1 842 572	
2023 MTBPS	**1 487 419**	**1 566 327**	**1 657 767**	**1 667 370**	**1 713 335**	**1 795 241**	**1 884 736**

1. The expenditure ceiling differs from main budget non-interest expenditure
Source: National Treasury

REVISIONS TO MAIN BUDGET REVENUE ESTIMATES

Table C.5 shows revisions to the main budget revenue estimates since the 2023 Budget.

Table C.5 Revisions to main budget revenue estimates

	2023/24		2024/25		2025/26	
R billion	2023 MTBPS	Deviation from the 2023 Budget	2023 MTBPS	Deviation from the 2023 Budget	2023 MTBPS	Deviation from the 2023 Budget
Revenue						
Gross tax revenue	1 730.7	-56.8	1 854.0	-53.7	1 975.8	-67.6
Non-tax revenue	41.6	1.1	29.2	-12.2	31.1	-12.2
SACU[1]	-79.8	–	-89.9	-3.4	-85.6	-5.6
National Revenue Fund receipts	22.4	11.3	8.8	3.3	0.4	-0.6
Main budget revenue	**1 714.8**	**-44.4**	**1 802.1**	**-66.0**	**1 921.7**	**-86.0**

1. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

CHANGES TO THE MAIN BUDGET FRAMEWORK SINCE THE 2023 BUDGET

Table C.6 summarises the changes to the main budget fiscal framework compared with the 2023 Budget estimates. The budget balances for 2023/24 to 2025/26 have worsened, mainly due to lower-than-expected revenue projections and higher debt-service costs, which are partially offset by lower main budget non-interest expenditure.

Table C.6 Revisions to main budget framework since 2023 Budget

R million	2023/24	2024/25	2025/26
Main budget revenue			
Revised	1 714 846	1 802 079	1 921 720
2023 Budget estimates	1 759 229	1 868 080	2 007 707
Difference	**-44 383**	**-66 001**	**-85 988**
Main budget non-interest expenditure			
Revised	1 690 412	1 737 848	1 821 695
2023 Budget estimates	1 694 120	1 775 105	1 869 432
Difference	**-3 707**	**-37 256**	**-47 737**
Debt-service costs			
Revised	354 516	385 878	425 523
2023 Budget estimates	340 460	362 840	397 074
Difference	**14 056**	**23 038**	**28 449**
Main budget primary balance			
Revised	24 434	64 231	100 025
2023 Budget estimates	65 109	92 976	138 275
Difference	**-40 675**	**-28 744**	**-38 250**
Main budget balance			
Revised	-330 082	-321 646	-325 498
2023 Budget estimates	-275 351	-269 864	-258 799
Difference	**-54 731**	**-51 782**	**-66 699**

Source: Reserve Bank and National Treasury

MAIN BUDGET FRAMEWORK AND FINANCING REQUIREMENTS

Table C.7 indicates government's financing gap. A detailed discussion of the main budget framework and financing requirements is in Chapter 3.

Table C.7 Main budget framework and financing requirements

Macroeconomic projections R billion/percentage change	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Real GDP growth	-6.8%	6.0%	1.3%	0.9%	1.4%	1.5%	1.9%
Nominal GDP growth	-1.7%	12.4%	6.5%	4.3%	6.2%	6.1%	6.5%
CPI inflation	2.9%	5.2%	7.2%	5.6%	4.7%	4.6%	4.5%
GDP at current prices (R billion)	**5 615.9**	**6 312.0**	**6 721.8**	**7 008.6**	**7 442.9**	**7 898.6**	**8 415.5**
Main budget framework R billion/percentage of GDP	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Revenue							
Personal income tax	487.0	554.0	600.4	646.7	698.1	753.0	812.7
Corporate income tax	202.1	320.4	344.7	300.3	308.6	325.6	344.2
Value-added tax	331.2	390.9	422.4	445.8	475.3	502.3	534.7
Other tax revenue	146.4	186.0	184.6	198.1	225.7	239.8	254.8
Customs and excise duties	82.9	112.4	134.6	139.6	146.2	155.2	165.6
SACU transfers	-63.4	-46.0	-43.7	-79.8	-89.9	-85.6	-84.0
Non-tax revenue	26.3	40.4	51.0	41.6	29.2	31.1	30.1
National Revenue Fund receipts[1]	25.8	6.1	5.2	22.4	8.8	0.4	0.6
Main budget revenue	**1 238.4**	**1 564.3**	**1 699.2**	**1 714.8**	**1 802.1**	**1 921.7**	**2 058.5**
	22.1%	*24.8%*	*25.3%*	*24.5%*	*24.2%*	*24.3%*	*24.5%*
Expenditure							
Expenditure ceiling	1 487.4	1 566.3	1 657.8	1 667.4	1 713.3	1 795.2	1 884.7
Baseline and provisional allocations	*1 487.4*	*1 566.3*	*1 657.8*	*1 667.0*	*1 708.3*	*1 787.6*	*1 870.2*
Contingency reserve	–	–	–	*0.4*	*5.0*	*7.6*	*14.5*
Other non-interest expenditure[2]	69.0	52.9	42.9	23.0	24.5	26.5	28.6
Non-interest expenditure	**1 556.4**	**1 619.2**	**1 700.7**	**1 690.4**	**1 737.8**	**1 821.7**	**1 913.3**
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
Main budget expenditure	**1 789.0**	**1 887.3**	**2 009.2**	**2 044.9**	**2 123.7**	**2 247.2**	**2 369.2**
	31.9%	*29.9%*	*29.9%*	*29.2%*	*28.5%*	*28.5%*	*28.2%*
Main budget balance	**-550.6**	**-323.0**	**-309.9**	**-330.1**	**-321.6**	**-325.5**	**-310.7**
	-9.8%	*-5.1%*	*-4.6%*	*-4.7%*	*-4.3%*	*-4.1%*	*-3.7%*
Primary balance	**-318.1**	**-54.9**	**-1.5**	**24.4**	**64.2**	**100.0**	**145.2**
	-5.7%	*-0.9%*	*-0.0%*	*0.3%*	*0.9%*	*1.3%*	*1.7%*
Borrowing requirement							
Main budget balance	-550.6	-323.0	-309.9	-330.1	-321.6	-325.5	-310.7
Redemptions	-67.6	-65.3	-90.3	-155.5	-171.8	-187.7	-167.5
Eskom debt-relief arrangement	–	–	–	-78.0	-66.2	-110.2	–
Gross borrowing requirement	**-618.3**	**-388.3**	**-400.3**	**-563.6**	**-559.6**	**-623.4**	**-478.2**
	-11.0%	*-6.2%*	*-6.0%*	*-8.0%*	*-7.5%*	*-7.9%*	*-5.7%*
Government debt							
Gross loan debt	**3 935.7**	**4 277.5**	**4 765.4**	**5 238.0**	**5 641.3**	**6 133.4**	**6 524.9**
	70.1%	*67.8%*	*70.9%*	*74.7%*	*75.8%*	*77.7%*	*77.5%*
Net loan debt	**3 601.8**	**4 011.1**	**4 516.3**	**5 088.4**	**5 548.8**	**6 060.5**	**6 444.0**
	64.1%	*63.5%*	*67.2%*	*72.6%*	*74.6%*	*76.7%*	*76.6%*

1. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
2. Technical adjustments explained in Table C.3
Source: National Treasury

TAX REVENUE OUTLOOK

Table C.8 Tax revenue and tax bases

R million/percentage change	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Estimate	Projections		
Personal income tax	**487 011**	**553 951**	**600 367**	**646 739**	**698 130**	**752 965**	**812 671**
Wage bill [1]	*-3.0%*	*8.2%*	*4.1%*	*6.8%*	*6.6%*	*6.9%*	*7.2%*
Buoyancy	*2.55*	*1.68*	*2.02*	*1.14*	*1.20*	*1.14*	*1.10*
Corporate income tax	**202 123**	**320 447**	**344 660**	**300 329**	**308 642**	**325 631**	**344 162**
Net operating surplus	*1.2%*	*18.5%*	*8.5%*	*-2.6%*	*4.2%*	*4.5%*	*5.4%*
Buoyancy	*-3.71*	*3.16*	*0.89*	*4.98*	*0.67*	*1.23*	*1.06*
Net value-added tax	**331 197**	**390 895**	**422 416**	**445 844**	**475 265**	**502 287**	**534 727**
Household consumption	*-5.0%*	*12.6%*	*9.5%*	*6.7%*	*6.6%*	*5.9%*	*6.5%*
Buoyancy	*0.90*	*1.43*	*0.84*	*0.83*	*0.99*	*0.97*	*0.99*
Domestic VAT	**392 936**	**448 760**	**486 437**	**521 426**	**556 038**	**588 779**	**627 078**
Household consumption	*-5.0%*	*12.6%*	*9.5%*	*6.7%*	*6.6%*	*5.9%*	*6.5%*
Buoyancy	*0.32*	*1.12*	*0.88*	*1.08*	*1.00*	*1.00*	*1.00*
Import VAT	**166 454**	**204 552**	**254 984**	**277 308**	**291 314**	**309 604**	**330 758**
Nominal imports	*-13.0%*	*27.1%*	*32.7%*	*8.1%*	*5.1%*	*6.3%*	*6.8%*
Buoyancy	*0.58*	*0.84*	*0.75*	*1.08*	*1.00*	*1.00*	*1.00*
VAT refunds	**-228 193**	**-262 417**	**-319 005**	**-352 889**	**-372 087**	**-396 095**	**-423 109**
Nominal exports	*1.2%*	*26.9%*	*12.5%*	*1.1%*	*5.4%*	*6.5%*	*6.8%*
Buoyancy	*-1.60*	*0.56*	*1.72*	*10.06*	*1.00*	*1.00*	*1.00*
Customs duties	**47 290**	**57 994**	**73 945**	**77 742**	**81 668**	**86 795**	**92 726**
Nominal imports	*-13.0%*	*27.1%*	*32.7%*	*8.1%*	*5.1%*	*6.3%*	*6.8%*
Buoyancy	*1.13*	*0.83*	*0.84*	*0.63*	*1.00*	*1.00*	*1.00*
Specific excise duties	**32 273**	**49 705**	**55 155**	**55 252**	**58 920**	**62 389**	**66 448**
Household consumption	*-5.0%*	*12.6%*	*9.5%*	*6.7%*	*6.6%*	*5.9%*	*6.5%*
Buoyancy	*6.26*	*4.27*	*1.15*	*0.03*	*1.00*	*1.00*	*1.00*
Skills development levy	**12 250**	**19 336**	**20 892**	**22 713**	**24 500**	**26 441**	**28 582**
Private-sector wage bill	*-5.5%*	*9.6%*	*4.4%*	*7.3%*	*7.9%*	*7.9%*	*8.1%*
Buoyancy	*6.16*	*6.02*	*1.82*	*1.20*	*1.00*	*1.00*	*1.00*
Fuel levy	**75 503**	**88 889**	**80 473**	**92 020**	**99 316**	**106 458**	**113 425**
Nominal GDP	*-1.7%*	*12.4%*	*6.5%*	*4.3%*	*6.2%*	*6.1%*	*6.5%*
Buoyancy	*3.44*	*1.43*	*-1.46*	*3.36*	*1.28*	*1.17*	*1.00*
Ad valorem excise duties	**3 386**	**4 725**	**5 520**	**6 620**	**5 644**	**5 989**	**6 381**
Nominal GDP	*-1.7%*	*12.4%*	*6.5%*	*4.3%*	*6.2%*	*6.1%*	*6.5%*
Buoyancy	*10.58*	*3.19*	*2.59*	*4.67*	*-2.38*	*1.00*	*1.00*
Other [2]	**58 678**	**77 812**	**83 268**	**83 413**	**86 899**	**90 963**	**95 792**
Nominal GDP	*-1.7%*	*12.4%*	*6.5%*	*4.3%*	*6.2%*	*6.1%*	*6.5%*
Buoyancy	*5.59*	*2.63*	*1.08*	*0.04*	*0.67*	*0.76*	*0.81*
Gross tax (pre-proposals)	**1 249 711**	**1 563 754**	**1 686 697**	**1 730 673**	**1 838 984**	**1 959 918**	**2 094 914**
Nominal GDP	*-1.7%*	*12.4%*	*6.5%*	*4.3%*	*6.2%*	*6.1%*	*6.5%*
Buoyancy	*4.62*	*2.03*	*1.21*	*0.61*	*1.01*	*1.07*	*1.05*
Announced tax policy measures [3]					*15 000*	*15 918*	*16 960*
Gross tax	**1 249 711**	**1 563 754**	**1 686 697**	**1 730 673**	**1 853 984**	**1 975 837**	**2 111 874**
Nominal GDP	*-1.7%*	*12.4%*	*6.5%*	*4.3%*	*6.2%*	*6.1%*	*6.5%*
Buoyancy	*4.62*	*2.03*	*1.21*	*0.61*	*1.15*	*1.07*	*1.05*

1. Total remuneration in the formal non-agriculture sector
2. Other includes dividends tax, interest on overdue income tax, taxes on property, stamp duties and fees, departure tax, electricity levy, plastic bag levy and all other minor taxes
3. Unspecified tax policy measures - details to be announced in the 2024 Budget. Tax increases are carried through into the following years at the same rate as nominal GDP growth
Source: National Treasury

SOUTHERN AFRICAN CUSTOMS UNION REVENUE POOL

Payments to the Southern African Customs Union (SACU) for 2022/23 and 2023/24 remain unchanged from the 2023 Budget estimates. The SACU revenue-sharing formula adjusts for forecast errors with a two-year lag. As a result, the projected 2024/25 SACU payments include the forecast error adjustment for 2022/23 based on the outcomes of the common revenue pool estimates. Compared with the 2023 Budget, SACU payments projections have been revised higher by R3.4 billion in 2024/25 and R5.6 billion in 2025/26. The revisions to SACU payments are mainly due to higher common revenue pool estimates than projected in the 2023 *Budget Review*.

FISCAL FRAMEWORK ASSUMPTIONS FOR LONG-TERM MAIN BUDGET BASELINE

The long-term main budget fiscal framework assumptions that underpin the long-term debt outlook include the following:

- The gap between gross tax and main budget revenue averages 0.67 per cent of GDP per year from 2027/28 onwards.
- In real terms, non-interest expenditure (excluding the Infrastructure Fund) grows by 1.5 per cent per year from 2027/28 onwards.
- The Infrastructure Fund amounts are R14.6 billion in 2024/25, R12.9 billion in 2025/26, R17.2 billion in 2026/27, R22.2 billion in 2027/28 and R23.1 billion in 2028/29. Over a decade from 2019/20, the Infrastructure Fund remains at R100 billion, as announced in the 2019 *Medium Term Budget Policy Statement*.
- Beyond the medium term, real GDP growth averages 2.1 per cent.

2022/23 OUTCOMES AND 2023/24 MID-YEAR ESTIMATES

Table C.9 summarises national and provincial appropriated expenditure outcomes for 2022/23 and estimates for the first half of 2023/24. Tables C.10 and C.11 present additional details.

In 2022/23, national expenditure amounted to R2.01 trillion, which was R14.3 billion lower than the adjusted budget estimate. For the first six months of 2023/24, national departments spent R1.03 trillion or 50.5 per cent of their adjusted budgets. Provinces spent R305.6 billion or 42 per cent of their original budgets for the first five months of the fiscal year. Provinces are primarily responsible for delivering social services, including basic education and health. Compensation of employees is the largest spending item in provincial budgets, accounting for 60.8 per cent of spending in the first five months of 2023/24.

Table C.9 National and provincial expenditure outcomes and mid-year estimates

	2022/23			2023/24			
R billion	Adjusted appropriation[1]	Audited outcome	Over(-)/ Under(+)	Main budget	Adjust -ments appropriation	Adjusted appropriation[2]	Actual spending April to September[3]
National appropriation	**1 104.0**	**1 088.2**	**15.9**	**1 077.4**	**-12.4**	**1 065.0**	**545.7**
Direct charges	**919.4**	**921.0**	**-1.6**	**950.6**	**32.2**	**982.8**	**488.5**
Debt-service costs	307.2	308.5	-1.3	340.5	14.1	354.5	172.5
Provincial equitable share	570.9	570.9	–	567.5	17.6	585.1	297.2
Other direct charges	41.4	41.6	-0.3	42.6	0.6	43.2	18.7
National votes	**2 023.4**	**2 009.2**	**14.3**	**2 028.1**	**19.8**	**2 047.9**	**1 034.2**
of which:							
Compensation of employees	*187.9*	*188.6*	*-0.6*	*183.6*	*7.1*	*190.7*	*96.2*
Goods and services	*83.5*	*78.2*	*5.3*	*83.3*	*-3.3*	*80.0*	*36.9*
Transfers and subsidies	*1 359.8*	*1 349.5*	*10.3*	*1 400.2*	*2.8*	*1 403.0*	*720.6*
Payments for capital assets	*16.9*	*16.4*	*0.4*	*18.4*	*-1.2*	*17.2*	*6.0*
Payments for financial assets	*68.0*	*67.8*	*0.2*	*2.0*	*0.3*	*2.3*	*1.7*
Provisional allocation not assigned to votes	–	–	–	1.5	-1.5	–	–
Contingency reserve	–	–	–	5.0	-4.6	0.4	–
National government projected underspending	-15.8	–	-15.8	–	-0.8	-0.8	–
Local government repayment to the National Revenue Fund	-3.6	–	-3.6	–	-2.5	-2.5	–
Main budget expenditure	**2 004.0**	**2 009.2**	**-5.2**	**2 034.6**	**10.3**	**2 044.9**	**1 034.2**
Provincial expenditure	**719.1**	**706.2**	**12.8**	**728.2**			**305.6**
of which:							
Compensation of employees	*431.6*	*428.9*	*2.7*	*438.2*	*n/a*	*n/a*	*185.9*
Goods and services	*156.4*	*150.5*	*5.9*	*154.9*	*n/a*	*n/a*	*65.6*
Transfers and subsidies	*93.9*	*91.7*	*2.2*	*94.2*	*n/a*	*n/a*	*41.5*
Payments for capital assets	*37.1*	*34.7*	*2.4*	*40.9*	*n/a*	*n/a*	*12.6*

1. The 2022/23 adjusted appropriation includes allocations made in the Second Adjustments Appropriation Act (2023)
2. Provinces will table an adjusted budget during November 2023
3. Provinces' actual expenditure is for April to August 2023
Source: National Treasury

Table C.10 Expenditure by vote

R million	2022/23 Adjusted appropria-tion[1]	2022/23 Audited outcome	2022/23 Over(-)/ Under(+)	2023/24 Main budget	2023/24 Adjust -ments appropria-tion	2023/24 Adjusted appropria-tion	2023/24 Actual spending April to September
1 The Presidency	618	543	76	617	-11	606	284
2 Parliament[2]	2 367	2 367	–	3 423	-215	3 209	–
3 Cooperative Governance	115 027	110 709	4 318	121 698	-1 325	120 374	49 251
4 Government Communication and Information System	730	724	6	751	-7	744	367
5 Home Affairs	11 096	10 398	698	10 863	1 317	12 180	5 694
6 International Relations and Cooperation	6 784	6 708	77	6 694	137	6 831	3 751
7 National School of Government	231	220	11	229	-8	221	110
8 National Treasury	38 838	37 491	1 346	34 889	-539	34 350	16 071
9 Planning, Monitoring and Evaluation	481	443	39	476	-10	465	198
10 Public Enterprises	34 145	33 888	257	303	-28	275	126
11 Public Service and Administration	550	516	34	553	-12	542	241
12 Public Service Commission	296	279	17	292	-3	289	158
13 Public Works and Infrastructure	8 153	7 910	243	8 782	-306	8 476	4 329
14 Statistics South Africa	2 999	3 798	-798	2 692	-49	2 643	1 391
15 Traditional Affairs	180	174	6	193	–	193	95
16 Basic Education	29 693	29 427	267	31 783	-1 754	30 029	18 638
17 Higher Education and Training	109 738	109 275	463	110 782	-2 951	107 830	80 917
18 Health	64 556	62 896	1 660	60 111	-1 561	58 550	29 521
19 Social Development	247 855	241 722	6 133	263 029	-2 135	260 894	128 804
20 Women, Youth and Persons with Disabilities	992	983	8	1 036	-43	994	551
21 Civilian Secretariat for the Police Service	156	153	3	154	–	154	76
22 Correctional Services	26 536	26 429	107	26 027	544	26 571	13 860
23 Defence	51 602	54 597	-2 995	51 124	1 344	52 468	26 169
24 Independent Police Investigative Directorate	364	359	5	364	–	364	174
25 Justice and Constitutional Development	20 482	20 356	126	20 794	-286	20 508	10 173
26 Military Veterans	670	616	54	895	-48	846	212
27 Office of the Chief Justice	1 363	1 295	68	1 305	-10	1 295	660
28 Police	102 555	102 500	55	102 138	3 338	105 476	52 513
29 Agriculture, Land Reform and Rural Development	17 534	17 106	428	17 254	-497	16 758	8 068
30 Communications and Digital Technologies	5 328	5 221	106	3 512	-200	3 312	1 555
31 Employment and Labour	4 108	3 897	211	4 092	-76	4 017	1 885
32 Forestry, Fisheries and the Environment	8 995	8 827	168	9 874	-335	9 539	4 726
33 Human Settlements	33 478	32 858	621	34 942	-3 184	31 758	13 597
34 Mineral Resources and Energy	10 448	10 119	329	10 701	-430	10 271	4 686
35 Science and Innovation	9 145	9 121	24	10 874	-311	10 563	5 517
36 Small Business Development	2 533	2 514	19	2 575	-45	2 529	1 451
37 Sport, Arts and Culture	6 305	6 237	69	6 358	-268	6 089	3 055
38 Tourism	2 502	2 474	29	2 524	-64	2 461	931
39 Trade, Industry and Competition	10 914	10 798	115	10 923	-213	10 710	6 793
40 Transport	95 134	94 543	591	79 552	-1 270	78 282	39 319
41 Water and Sanitation	18 555	17 693	862	22 257	-881	21 376	9 789
Total appropriation by vote	**1 104 036**	**1 088 182**	**15 853**	**1 077 438**	**-12 396**	**1 065 042**	**545 708**

Table C.10 Expenditure by vote *(continued)*

R million	2022/23			2023/24			
	Adjusted appropriation[1]	Audited outcome	Over(-)/ Under(+)	Main budget	Adjust-ments appropriation	Adjusted appropriation	Actual spending April to September
Total appropriation by vote	**1 104 036**	**1 088 182**	**15 853**	**1 077 438**	**-12 396**	**1 065 042**	**545 708**
Plus:							
Direct charges against the National Revenue Fund							
President and deputy president salaries (The Presidency)	8	6	2	8	6	14	9
Members' remuneration (Parliament)	472	538	-67	472	–	472	–
Debt-service costs (National Treasury)	307 157	308 459	-1 302	340 460	14 056	354 516	172 545
Provincial equitable share (National Treasury)	570 868	570 868	–	567 528	17 558	585 086	297 240
General fuel levy sharing with metropolitan municipalities (National Treasury)	15 335	15 335	–	15 433	–	15 433	5 144
National Revenue Fund payments (National Treasury)	263	263	-0	51	267	317	317
Auditor-General of South Africa (National Treasury)	73	149	-76	123	–	123	123
Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of SA (National Treasury)	102	889	-788	–	502	502	502
PFMA section 70 payment: Denel (Public Enterprises)	205	205	–	–	–	–	–
Skills levy and sector education and training authorities (Higher Education and Training)	21 238	20 809	429	23 027	-314	22 713	10 947
Magistrates' salaries (Justice and Constitutional Development)	2 399	2 297	101	2 399	–	2 399	1 108
Judges' salaries (Office of the Chief Justice)	1 247	1 155	93	1 125	114	1 239	573
International Oil Pollution Compensation Fund (Transport)	12	2	10	13	–	13	–
Total direct charges against the National Revenue Fund	**919 377**	**920 974**	**-1 597**	**950 638**	**32 189**	**982 826**	**488 510**
Provisional allocation not assigned to votes	–	–	–	1 505	-1 505	–	–
Contingency reserve	–	–	–	5 000	-4 642	358	–
National government projected underspending	-15 827	–	-15 827	–	-797	-797	–
Local government repayment to the National Revenue Fund	-3 600	–	-3 600	–	-2 500	-2 500	–
Total	**2 003 986**	**2 009 157**	**-5 170**	**2 034 580**	**10 348**	**2 044 928**	**1 034 218**

1. The 2022/23 adjusted appropriation includes allocations made in the Second Adjustments Appropriation Act (2023)

2. Amendments to Parliament's budget are determined independently of the national government's budget processes in accordance with the Financial Management of Parliament and Provincial Legislatures Act (2009), as amended

Source: National Treasury

Table C.11 Expenditure by province

R million	2022/23 Main budget	Adjusted budget	Audited outcome	Over(-)/ Under(+)	Deviation from adjusted budget	2023/24 Main budget	Actual spending April to August
Eastern Cape	**86 428**	**89 533**	**88 673**	**860**	**1.0%**	**91 620**	**39 580**
Education	38 559	39 696	39 288	408	1.0%	41 128	17 411
Health	27 362	28 252	28 189	62	0.2%	28 139	12 990
Social development	2 788	2 829	2 753	75	2.7%	2 834	1 241
Other functions	17 719	18 757	18 443	314	1.7%	19 519	7 938
Free State	**40 981**	**42 140**	**40 710**	**1 430**	**3.4%**	**41 727**	**17 356**
Education	17 293	17 671	17 353	318	1.8%	17 558	7 818
Health	12 711	13 182	13 186	-4	-0.0%	12 759	5 487
Social development	1 179	1 218	1 216	2	0.1%	1 186	548
Other functions	9 797	10 069	8 954	1 115	11.1%	10 224	3 503
Gauteng	**152 985**	**155 347**	**150 322**	**5 025**	**3.2%**	**158 945**	**66 218**
Education	59 736	60 286	59 820	466	0.8%	63 422	25 860
Health	59 426	61 352	58 640	2 712	4.4%	60 094	27 522
Social development	5 537	5 537	5 419	118	2.1%	5 551	2 212
Other functions	28 286	28 172	26 443	1 729	6.1%	29 879	10 624
KwaZulu-Natal	**140 375**	**146 535**	**145 633**	**902**	**0.6%**	**146 041**	**63 071**
Education	57 481	60 670	60 342	329	0.5%	60 637	26 403
Health	49 610	51 534	51 528	6	0.0%	50 688	22 087
Social development	3 198	3 369	3 369	–	0.0%	3 260	1 450
Other functions	30 086	30 961	30 394	567	1.8%	31 456	13 131
Limpopo	**74 230**	**77 933**	**76 491**	**1 442**	**1.9%**	**79 163**	**32 694**
Education	36 445	37 627	37 084	543	1.4%	38 188	16 074
Health	22 726	23 518	23 414	103	0.4%	23 772	9 582
Social development	1 788	1 907	1 879	28	1.5%	1 946	816
Other functions	13 272	14 881	14 114	767	5.2%	15 257	6 222
Mpumalanga	**56 443**	**57 198**	**56 731**	**467**	**0.8%**	**58 708**	**24 351**
Education	24 273	24 546	24 225	322	1.3%	24 921	10 633
Health	16 825	17 034	17 009	25	0.1%	17 305	7 208
Social development	1 616	1 597	1 596	1	0.0%	1 676	710
Other functions	13 729	14 021	13 901	120	0.9%	14 806	5 800
Northern Cape	**19 599**	**20 571**	**20 205**	**365**	**1.8%**	**20 806**	**8 998**
Education	7 672	7 932	7 948	-16	-0.2%	8 067	3 743
Health	5 894	6 051	5 907	144	2.4%	6 109	2 770
Social development	909	930	901	29	3.1%	946	389
Other functions	5 124	5 658	5 450	208	3.7%	5 684	2 097
North West	**49 712**	**51 722**	**49 954**	**1 768**	**3.4%**	**50 856**	**21 117**
Education	20 346	20 779	19 613	1 166	5.6%	20 576	8 548
Health	15 186	15 751	15 747	5	0.0%	15 220	6 594
Social development	1 654	1 680	1 630	50	3.0%	1 713	676
Other functions	12 525	13 511	12 964	547	4.1%	13 348	5 299
Western Cape	**77 383**	**78 078**	**77 495**	**583**	**0.7%**	**80 372**	**32 224**
Education	28 033	28 166	28 129	37	0.1%	29 548	12 441
Health	29 094	29 095	28 915	180	0.6%	28 805	12 180
Social development	2 285	2 365	2 356	9	0.4%	2 461	1 066
Other functions	17 971	18 452	18 095	357	1.9%	19 558	6 538
Total	**698 135**	**719 057**	**706 214**	**12 843**	**1.8%**	**728 239**	**305 609**
Education	289 838	297 374	293 800	3 573	1.2%	304 046	128 932
Health	238 834	245 768	242 534	3 234	1.3%	242 890	106 419
Social development	20 956	21 432	21 121	311	1.5%	21 572	9 106
Other functions	148 507	154 483	148 758	5 725	3.7%	159 731	61 153

Source: National Treasury

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2023 MTBPS

GLOSSARY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accrued liability	A liability that is not paid in the fiscal year in which it is incurred, and so continues to be owed in the next fiscal year.
Adjustment estimates	Presentation to Parliament of the amendments to be made to the appropriations voted on in the main budget for the fiscal year.
Administered prices	Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from the Provincial Revenue Fund.
Asset price inflation	An increase in the overall price of assets over a specific period of time.
Balance of payments	A summary statement of all the transactions of the residents of a country with the rest of the world over a particular time period.
Basel III	Reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Blended finance	The combination of public, private, development and multilateral sources of financing to leverage funding for infrastructure projects.
Bond-switch programme	An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-term debt for longer-term debt.
Budget balance	The difference between expenditure and revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, the budget is in surplus.
Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Buy-back transaction	A transaction where government buys debt instruments from investors before their redemption date.
Capital erosion	The deterioration of capital due to a lack of investment in the economy.
Capital flight	A large outflow of investments from a country in response to heightened economic, political or policy risk.
Capital flow	A flow of investments in or out of a country.
Concessionary financing	Financing or loans that are extended on terms that are more generous than market loans – for example, lower interest rates or grace periods where there is no repayment.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers to municipalities or other entities. See also *main budget expenditure*.
Consumer price index (CPI)	The main measure of inflation, charting changes in the price movements of a basket of consumer goods and services.
Consumption expenditure	Expenditure on goods and services, including salaries, that are consumed within a short period of time – usually a year.

Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes in the economic environment and to meet unforeseen and unavoidable spending pressures.
Contingent liability	A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See also *government guarantee*.
Core inflation	A measure of the change in consumer price levels that excludes temporary shocks and represents the long-run trend of changes in the price level. See also *headline inflation*.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument. Rating agencies assign grades signifying the borrower's capacity to meet its financial obligations or the probability that the value of the financial instrument will be realised. See also *rating agency*.
Crowding in	An increase in private investment or consumption as a result of government spending.
Crowding out	A fall in private investment or consumption as a result of increased government spending.
Current account (of the balance of payments)	The difference between total exports and imports, including service payments and receipts, interest, dividends and transfers. This account can be in deficit or surplus. See also *trade balance.*
Current balance	The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land.
Debt redemption	Repayment of the principal and any outstanding interest on a bond.
Debt-service cost	The cost of interest on government debt.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Disposable income	Total income less all taxes and employee contributions.
Division of revenue	The allocation of funds between national, provincial and local government as required by the Constitution.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Effective cost of debt	A measure of the cost of debt that includes non-interest costs, such as penalties and upfront payments, which are often applied to distressed borrowers.
Emerging-market economies	A name given by international investors to middle-income economies.
Employment tax incentive	An incentive to encourage the creation of jobs for youth by allowing employers to claim a reduction in employees' tax.
Equitable share	The allocation of revenue to national, provincial and local government as required by the Constitution.
Expenditure ceiling	An overall limit on expenditure that enables government to manage departmental spending levels.

External imbalance	An excessively positive or negative current account balance, reflecting an excess or deficit of domestic investment over domestic savings.
Financial account (of the balance of payments)	A statement of all financial transactions between a country and the rest of the world, including portfolio and fixed investment flows, and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established in terms of the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial year	The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March.
Fiscal consolidation	Measures to narrow a government's budget deficit and stabilise its debt-to-GDP ratio.
Fiscal multiplier	A ratio measuring the extent to which national income changes in response to changes in government spending. For example, a fiscal multiplier of 0.5 implies that national income increases by 50 cents for every R1 of additional government spending.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Fiscal space	Government's ability to provide additional resources in the budget without jeopardising fiscal sustainability.
Flexible exchange rate	Determination of currency exchange rates by market forces.
Floating exchange rate	An exchange rate regime in which the exchange rate of a country can fluctuate in response to movements in the foreign exchange market.
Foreign direct investment	The acquisition of long-term business interests in another country, usually involving management, technology and financial participation.
Full-time equivalent	An indicator measuring the proportion of time for which an employee receives a salary. It enables government to estimate annual personnel costs by aggregating the amount of part-time work to calculate the full-time equivalents. For example, two people working full-time for six months of the year would count as one full-time equivalent.
GDP inflation	A measure of the total increase in prices in the entire economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods.
GDP rebasing	The process of replacing a previous base year used to compile GDP estimates in constant prices (or real/volume terms) with a more recent base year. It is usually done alongside periodic benchmarking and methodological changes that account for changes in the economy, inflation and technological progress. These changes incorporate updated data for more accurate analysis and estimates.
Gini coefficient	A measure that illustrates inequality in the distribution of income. It is expressed as a number between 0 and 1, with 0 representing perfect equality in income and 1 representing perfect inequality.
Gold and foreign exchange account	A Reserve Bank account that reflects its losses and profits on holdings of foreign currency and gold reserves, driven by changes in the exchange rate of the rand to the US dollar and the gold price.
Government guarantee	An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government institution is unable to repay the debt. See also *contingent liability.*

Gross domestic product (GDP)	A measure of total national output, income and expenditure in the economy.
Gross fixed-capital formation	The addition to a country's fixed-capital stock over a specific period, before providing for depreciation.
Headline inflation	A measure of the change in the CPI level that includes temporary price shocks to the economy, such as once-off price changes. See also *core inflation*.
Independent power producer	A private-sector business that generates energy for the national grid.
Indirect grant	A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end product of the grant, such as infrastructure, is generally transferred to the province or municipality.
Inflation	An increase in the general level of prices.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time. The Reserve Bank and government agree on a target rate or range of inflation to be maintained.
Integrated financial management system (IFMS) project	A project to review, upgrade and integrate government's financial management information technology systems.
Intergenerational equity	A value based on ensuring that future generations do not have to repay debts taken on today unless they also share in the benefits of assets.
Investment grade	A credit rating which is regarded as carrying minimal risk to the investors.
Labour force participation	The ratio of employed and unemployed workers (the labour force) relative to the working-age population.
Liquidity	The ease with which assets can be bought and sold.
Macroprudential policy	Policy to protect the stability of the financial sector and guard against systemic risk.
Main budget expenditure	National government expenditure and transfers to provincial and local government financed from the National Revenue Fund, excluding revenues and spending related to social security funds, extra-budgetary institutions and provincial own-source revenue. See also *consolidated government expenditure.*
Medico-legal claim	A civil claim of alleged wrongful medical treatment against a health provider.
Medium Term Expenditure Committee (MTEC)	The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
Medium-term expenditure framework (MTEF)	The three-year spending plans of national and provincial governments published at the time of the Budget.
Medium-term strategic framework	The five-year strategy of government coinciding with the electoral term.
Monetary policy	The actions taken by a country's monetary authority (for example, the Reserve Bank), usually focused on money supply and interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditure flowing through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.

National Development Plan (NDP)	A national strategy to eliminate poverty and reduce inequality.
National health insurance (NHI)	A healthcare policy that aims to provide access to quality, affordable health services to all South Africans.
National Revenue Fund	The consolidated account of national government into which departmental revenue and all taxes, fees and charges collected by the South African Revenue Service must be paid.
Nominal exchange rate	The current rate of exchange between the rand and foreign currencies.
Nominal wage	The return, or wage, to employees at the current price level.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Occupation-specific dispensation (OSD)	A public-sector initiative aimed at improving government's ability to attract and retain skilled employees in targeted occupations through increased remuneration.
Opportunity cost	The cost of an alternative forgone to pursue a certain action.
Payroll tax	Tax that an employer withholds and/or pays on behalf of employees based on their wages or salaries.
Potential growth	The fastest growth that an economy can sustain without increasing inflation.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure, there is a surplus.
Primary expenditure	Non-interest expenditure by government.
Primary sector	The agricultural and mining sectors of the economy.
Private-sector credit extension	Credit provided to the private sector by banks. This includes all loans, credit card balances and leases.
Productivity	A measure of the amount of output generated from every unit of input over a period of time. Typically used to measure changes in labour efficiency.
Protectionism	When a country restricts international trade to protect domestic industries.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law.
Public-private partnership	A contractual arrangement in which a private party performs a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria.
Public-sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index (PMI)	A composite index measuring the change in manufacturing activity compared with the previous month.
Rating agency	A company that evaluates the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of risk. See also *credit rating.*
Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for inflation.
Real expenditure	Expenditure measured in constant prices – in other words, adjusted to remove the effects of inflation.
Real interest rate	The level of interest after removing the effects of inflation.

Recapitalisation	Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity.
Redemption	The return of an investor's principal in a fixed-income security, such as a preferred stock or bond.
Refinancing	The repayment of debt at a scheduled time using the proceeds of new loans.
Repurchase (repo) rate	The interest rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
Revaluation gain/loss	The difference in value between the original (historical) rate and current rate of an asset, liability or transaction.
Risk premium	A return that compensates for uncertainty.
Rollover	Funds not spent during a given financial year that flow into the following year's budget.
Seasonally adjusted and annualised	The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data. Once the rate is annualised, it is expressed as if it were applied over one year.
Social grants	Social benefits available to qualifying individuals, funded wholly or partly by the state.
Southern African Customs Union (SACU) agreement	An agreement that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue, between South Africa, Botswana, eSwatini, Lesotho and Namibia.
Southern African Development Community (SADC)	A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
Sovereign debt	Debt issued by a government.
Special economic zone	A designated area where infrastructure and incentives are provided to clusters of businesses to encourage private investment and employment growth.
Structural reforms	Measures that are put in place to substantially change the economy or the institutional and regulatory framework in which people and businesses operate.
Supply-side constraints	When a country's productive capacity cannot keep up with rising demand.
Switch (auction)	Auctions to exchange bonds to manage refinancing risk or improve tradability.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
Tax buoyancy	The relationship between total tax revenue collections and economic growth. This measure includes the effects of policy changes on revenue. A value above 1 means that revenues are growing faster than the economy; a value below 1 means they are growing below the rate of GDP growth.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax-to-GDP ratio	For public finance comparison purposes, a country's tax burden, or tax-to-GDP ratio, is calculated by taking the total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.

Terms of trade	An index measuring the ratio of export prices to import prices.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise. See also *current account.*
Transversal term contract	A fixed-term contract to procure goods or services needed by more than one government department.
Treasury bills	Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months.
Twin deficit	The combination of deficits on the budget and the current account.
Twin peaks	An approach to organising financial sector regulation and supervision involving two regulators. One is responsible for ensuring financial services firms sell their products in an appropriate way. The other is responsible for ensuring financial firms remain financially sound and are generally prudent.
Undercapitalisation	Lack of sufficient funds (capital) to conduct day-to-day operations.
Unit labour costs	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
Yield	A financial return or interest paid to buyers of government bonds. The yield, or rate of return, on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity.

2023 MTBPS

MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

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national treasury

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