1

2024 BUDGET REVIEW

BALANCING DEVELOPMENT AND FISCAL SUSTAINABILITY

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 1

BALANCING DEVELOPMENT AND FISCAL SUSTAINABILITY

In brief

- The 2024 Budget balances development and sustainable public finances. In the context of persistently low economic growth, government will protect critical services, support economic growth through reforms and public investment, and stabilise public debt.
- Although South Africa continues to confront difficult economic conditions, a moderate recovery is forecast in the economic outlook. GDP growth is projected to increase from an estimated 0.6 per cent in 2023 to average 1.6 per cent between 2024 and 2026.
- Broad reforms are under way in energy, freight, water and telecommunications. Yet it will take time to reverse the consequences of operational, maintenance and governance failures at state-owned companies responsible for electricity, rail and ports.
- Rapid growth in debt-service costs chokes the economy and the public finances. Government is staying the course to narrow the budget deficit and stabilise debt. This year, for the first time since 2008/09, government will achieve a primary budget surplus. Debt will stabilise in 2025/26.
- The 2024 Budget allocates six of every 10 rands to the social wage. Over the medium term, proposed additional spending of R57.6 billion since the 2023 *Medium Term Budget Policy Statement* (MTBPS) will ensure that the salaries of teachers, nurses, doctors and many other public servants are catered for.

OVERVIEW

Following more than a decade of low growth, South Africa confronts difficult fiscal choices. Accordingly, the 2024 Budget outlines a balanced policy stance that will support higher public and private investment, while stabilising debt and reducing overall fiscal risks.

The economy is estimated to have grown by 0.6 per cent in real terms in 2023. The negative impact of power cuts, the poor state of ports and freight rail, and inflation have taken a toll. The outlook, however, shows moderate improvement. Global inflationary pressures are receding and interest rates are expected to start declining. Power cuts should become more infrequent as additional generating capacity comes online. Economic growth is projected to average 1.6 per cent per year from 2024 to 2026.

To accelerate economic growth, spur job creation and promote a broad improvement in livelihoods, structural reforms are needed to reduce binding constraints to growth. Such reforms remain central to government’s medium-term plans, with the focus on creating a competitive electricity market and efficient port and rail logistics systems.

Fiscal policy continues to prioritise stabilising debt and debt-service costs. Government remains on course to achieve a primary budget surplus in 2023/24, and to stabilise debt at 75.3 per cent of GDP in 2025/26.

The 2024 Budget includes tax proposals to raise R15 billion in revenue in 2024/25, a reduction in the budget pressures on critical service delivery programmes and increases in capital spending. At the same time, public investment is being prioritised through upscaling the use of public-private partnerships and new institutional arrangements that will crowd in private funding for public infrastructure.

THE MEDIUM-TERM FISCAL STRATEGY

The 2023 MTBPS outlined the three elements of fiscal policy:

- Achieve fiscal sustainability
- Support economic growth
- Reduce fiscal and economic risks.

The 2024 Budget details how these objectives will be achieved.

A balanced approach to fiscal sustainability

Government remains committed to a fiscal consolidation that balances the needs of the most vulnerable in society and protects the public finances for future generations. High and rising government debt hampers service delivery and investment by draining ever-larger amounts of taxpayer resources for debt service. Debt-service costs now consume one of every five rands of government revenue and absorb a larger share of the budget than basic education, social protection or health.

Figure 1.1 Debt-service cost trends in South Africa and peers*

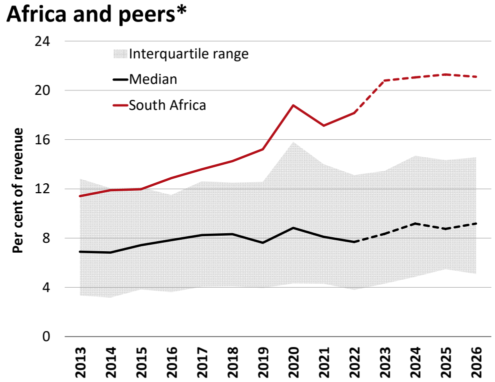
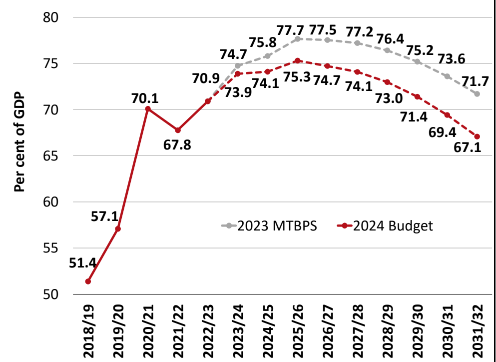


Figure 1.2 Gross debt-to-GDP outlook



**Consists of 74 non-oil-producing emerging market economies*
Source: National Treasury and IMF World Economic Outlook, October 2023

Stabilising debt is a central policy objective. Beyond the crowding-out effect of debt-service costs on service delivery, high and rising public debt hinders economic recovery. Investors who lend to South Africa demand a premium to compensate them for the risks of investing in the country due to its high debt. This in turn raises borrowing costs across the economy. In this context, fiscal consolidation will reduce the risk premium and bolster confidence, providing an incentive for investment and job creation.

The 2024 Budget strikes a careful balance between fiscal consolidation and development. On average, 60.2 per cent of consolidated non-interest spending will continue to be spent on the social wage (health, education, social protection, community development and employment programmes). Proposed additional spending of R18.6 billion in 2024/25, R19.2 billion in 2025/26 and R19.8 billion in 2026/27 will ensure that the salaries of teachers, nurses, doctors, police and many other public servants are catered for. Spending on social transfers will rise from R283.4 billion in 2023/24 to R331.5 billion in 2026/27.

The 2024 Budget prioritises capital budgets, with a 7.3 per cent increase in capital investment over the medium term.

STRUCTURAL REFORMS FOR GROWTH

The economic growth strategy is premised on clear and stable macroeconomic policies, structural reforms and restoring the capability of the state.

Progress is being made on a range of economic reforms to support investment and job creation. Energy supply and logistics failures are being addressed through measures to accelerate private investment in infrastructure and stabilise Eskom and Transnet. Other reforms encompass a range of operational and regulatory functions affecting key aspects of the economy, such as faster processing of water licence applications for large water users, which supports agriculture and tourism.

The Eskom debt-relief arrangement remains on schedule to conclude in 2025/26, subject to strict conditions. It will support the utility's ability to restructure operations and conduct critical maintenance. Meanwhile, improved electricity regulations have led to more than R100 billion in new private energy generation projects. The solar rooftop tax incentive announced in the 2023 Budget has promoted the installation of solar panels that are now generating 5 200 MW of electricity for households and businesses.

Transnet has been granted a guarantee of R47 billion in 2023/24 to meet its borrowing requirements. Use of the guarantee is conditional on the implementation of a comprehensive turnaround plan recently approved by the board of directors. Government is working closely with Transnet to ensure it implements changes needed to improve operational efficiency and achieve financial sustainability.

IMPROVING PUBLIC FINANCIAL MANAGEMENT

As a result of the measures implemented since the 2021 Budget, the budget deficit, which is the amount government has to borrow to cover the gap between spending and revenue, has declined from R550.6 billion in 2020/21 to R331.4 billion in 2023/24. The deficit will continue to narrow over the 2024 medium-term expenditure framework (MTEF) period.

To chart a sustainable long-term path for the public finances, government will, after extensive consultation, propose a binding fiscal anchor. This will secure the benefits of fiscal consolidation and ensure that permanent fiscal imbalances do not reappear in a way that requires painful future adjustments.

Over the medium term, the debt-stabilising primary budget surplus will anchor fiscal policy.

Building on South Africa's strong record of fiscal transparency

South Africa has a strong record of fiscal transparency and consistently ranks among the top three countries worldwide for transparency, according to the International Budget Partnership. A predictable and transparent fiscal policy underpins macroeconomic stability.

In 2024 the International Monetary Fund will publish the results of South Africa's most recent fiscal transparency evaluation. The report notes a strong performance in fiscal reporting and budget transparency, and suggests improvements in three areas:

- Fiscal reporting: Expand and align fiscal reporting to international best practice by including other spheres of the public sector, strengthening tax expenditure disclosure and improving adherence to audit timelines for published financial statements.
- Forecasting and budgeting: Implement precise, time-bound and stable fiscal rules.
- Fiscal risk analysis: Enhance analysis of risks in the fiscal risk statement (Annexure A of the MTBPS), publish public-private partnership financial data regularly, consolidate transfers to state-owned companies to show fiscal impact and set limits on government guarantees.

Government intends to address these areas to enhance fiscal credibility, ensuring continued transparency and accountability in the management of public finances.

Government has decided to further mitigate fiscal risks by reducing borrowing over the medium term using a portion of valuation gains in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). As a result, debt-service costs will decline by R30.2 billion over the 2024 MTEF period compared with the 2023 MTBPS estimate.

Gold and Foreign Exchange Contingency Reserve Account distribution

GFECRA is an account held at the Reserve Bank. It captures losses and profits on foreign-currency reserve transactions, protecting the Reserve Bank from currency volatility. When the rand exchange rate against the US dollar and other reserve currencies strengthens, the account balance declines; when the rand depreciates, the balance improves.

The last settlement of balances in this account was reached in 2003, to the value of R28 billion in favour of the central bank. Since then, the value of the account has grown to over R500 billion due to significant rand depreciation.

A proposed settlement agreement to be formalised between the National Treasury and the Reserve Bank will settle a portion of the valuation gains, after ensuring that the necessary buffer and contingency reserve are fully funded. Consequently, between 2024/25 and 2026/27, government will draw down R150 billion of the GFECRA balance. This will be formalised through legislation. Government will use these funds to reduce borrowing, and consequently the growth in debt-service costs.

This reform is governed by several principles. Critically, any distributions should be transparent (with full details published for the public); governed by a formal framework that rules out ad hoc decisions; and used to reduce government borrowing.

Additional details are provided in Chapter 7.

SUPPORTING PUBLIC INFRASTRUCTURE INVESTMENT

Total infrastructure investment planned by government over the next three years amounts to R943.8 billion. This includes investments of R486.1 billion by state-owned companies and public entities, R213.8 billion from municipalities and R224.8 billion from provincial and national government. Consolidated spending on buildings and other fixed structures will increase by an average of 15.9 per cent over the next three years.

Rolling out institutional reforms to boost capital investment

Following a review of the public-private partnership (PPP) regulatory framework, government is implementing reforms to reduce waste and inefficiency, improve quality and increase the impact of public investment on growth. The key elements of the reforms are to:

- Consolidate the financing, preparation and planning arrangements for large projects in a single entity to crowd in private-sector finance and expertise.
- Increase the use of PPPs to deliver infrastructure projects.
- Reduce fragmentation and duplication across spheres of government.

During 2024/25, an infrastructure finance and implementation support agency will be established to coordinate the planning and preparation of large projects, engaging directly with private financial institutions. The agency will incorporate the functions of project preparation, PPP technical support and data management. Departments, public entities and municipalities will be able to use its services to prepare, plan and execute projects.

Proposed amendments out for public comment (see Annexure D) are intended to encourage more regular use of PPPs and revive the pipeline, harnessing private financing and capitalising on private-sector efficiencies. Red tape will be reduced by granting exemptions for projects valued below R2 billion from obtaining multiple approvals. Limits on the ability of accounting officers to cancel key projects that have passed the feasibility stage will provide greater security to investors.

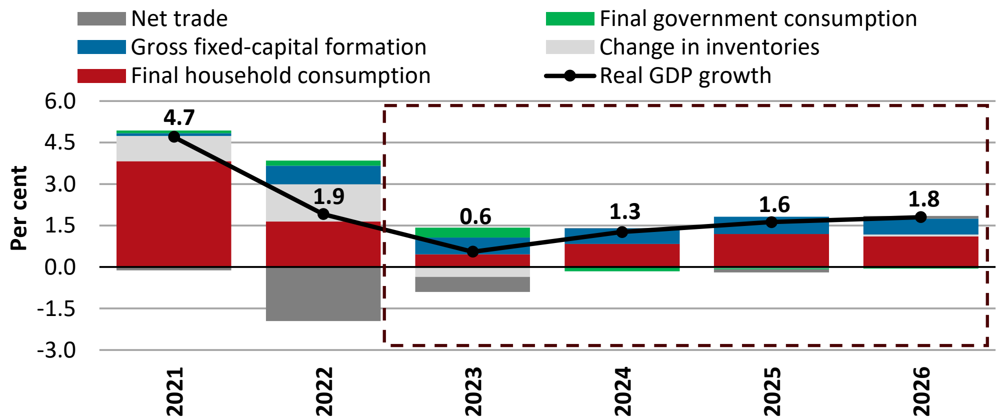
SUMMARY OF THE 2024 BUDGET

Economic outlook

The economy is estimated to have grown by only 0.6 per cent in real terms in 2023, largely as a result of intensive and persistent power cuts. Real GDP growth has been revised to 1.3 per cent for 2024. Over the next three years, growth will average 1.6 per cent.

Chapter 2 discusses the economic outlook and associated risks, provides details on government's economic growth strategy and reports on the status of economic reforms.

Figure 1.3 Macroeconomic outlook*



**Stacked bars indicate the contributions of each component to real GDP growth*
Source: National Treasury

Table 1.1 Macroeconomic outlook – summary

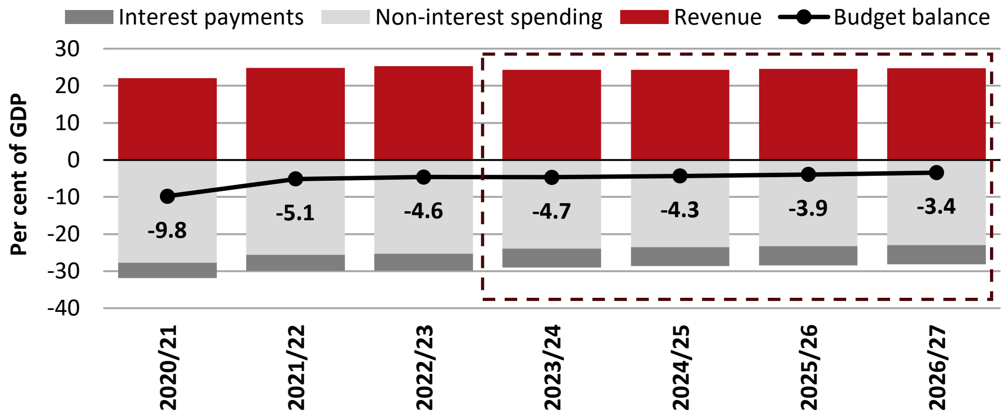
Real percentage growth	2023	2024	2025	2026
	Estimate	Forecast		
Household consumption	0.7	1.3	1.8	1.7
Gross fixed-capital formation	4.2	3.7	4.0	3.6
Exports	3.2	2.1	2.5	3.2
Imports	4.8	1.9	2.6	2.6
Real GDP growth	**0.6**	**1.3**	**1.6**	**1.8**
Consumer price index (CPI) inflation	6.0	4.9	4.6	4.6
Current account balance (% of GDP)	-1.8	-2.8	-3.0	-3.0

Across all tables in the Budget Review, 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: National Treasury, Reserve Bank and Statistics South Africa

Fiscal policy

The consolidated budget deficit is projected to continue declining over the MTEF period, narrowing to 3.3 per cent of GDP in 2026/27. Gross loan debt will stabilise at 75.3 per cent of GDP in 2025/26. Debt-service costs will rise from R356.1 billion in 2023/24 to R440.2 billion in 2026/27. As a result of the fiscal strategy, debt-service costs will peak at 21.3 per cent of revenue in 2025/26 and decline thereafter.

Figure 1.4 Main budget fiscal outlook



Source: National Treasury

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27
	Revised estimate	Medium-term estimates		
Revenue	**1 921.4**	**2 036.6**	**2 176.4**	**2 323.6**
	27.3%	*27.3%*	*27.5%*	*27.6%*
Expenditure	**2 268.9**	**2 369.0**	**2 471.4**	**2 597.8**
	32.2%	*31.8%*	*31.2%*	*30.8%*
Budget balance	**-347.4**	**-332.4**	**-295.0**	**-274.2**
	-4.9%	*-4.5%*	*-3.7%*	*-3.3%*

Source: National Treasury

Revenue trends and tax proposals

Gross tax revenue for 2023/24 is expected to be R1.73 trillion, which is R56.1 billion lower than expected in the 2023 Budget. As foreshadowed in the 2023 MTBPS, fiscal consolidation includes tax policy measures of R15 billion in 2024/25 to alleviate immediate fiscal pressure and support debt stabilisation. These measures mainly affect personal income taxes, with no adjustment of the tax brackets for inflation. Specific excise duties on alcohol and tobacco products will increase, but there will be no increase in the fuel levy. Two long-term reforms – the two-pot retirement system and the minimum corporate tax rate – will be implemented in 2024/25.

Over the next three years, tax revenue is expected to grow by R401.7 billion, reaching R2.13 trillion in 2026/27 and a tax-to-GDP ratio of 25.3 per cent.

Table 1.3 Impact of tax proposals on medium-term revenue[1]

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

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. Includes carry-through effect of tax policy proposals
Source: National Treasury

Medium-term spending plans

Excluding debt-service costs, the largest components of the R2.37 trillion consolidated budget for 2024/25 are basic education, social protection and health.

Table 1.4 Consolidated government expenditure by function

R billion	2023/24 Revised estimate	2024/25 Budget estimate	Average growth 2023/24 – 2026/27
Learning and culture	468.4	480.6	3.9%
Health	267.3	271.9	3.4%
Social development	368.5	387.3	2.7%
Community development	251.5	265.3	4.5%
Economic development	239.8	255.4	6.3%
Peace and security	236.8	244.0	4.0%
General public services	76.9	74.7	1.0%
Payments for financial assets	3.5	2.6	
Allocated expenditure	**1 912.7**	**1 981.8**	**3.9%**
Debt-service costs	356.1	382.2	7.3%
Contingency reserve	–	5.0	
Consolidated expenditure[1]	**2 268.9**	**2 369.0**	**4.6%**

1. Consisting of national and provincial government, social security funds and selected public entities. Refer to Annexure W2 on the National Treasury website for a full list of entities included
Source: National Treasury

Compared with estimates outlined in the 2023 MTBPS, additional resources of R57.6 billion are provided mainly to preserve staffing levels in the health and education functions and to protect the peace and security function from deeper reductions.

Transfers to public entities continue to be reduced as part of baseline reductions in administrative functions. Over the medium term, South Africa needs to get better value for money from its budget.

Division of revenue

Over the 2024 MTEF period, after payments for debt-service costs, the contingency reserve and provisional allocation, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provinces and 9.8 per cent to local government.

Table 1.5 Division of revenue

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

Source: National Treasury

Government debt and contingent liabilities

Gross government debt is projected to reach R5.2 trillion, or 73.9 per cent of GDP, in 2023/24. Gross loan debt is expected to stabilise at 75.3 per cent of GDP in 2025/26, slightly lower than the 77.7 per cent projected in the 2023 MTBPS. Debt-service costs are expected to stabilise in the same year.

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27
Gross loan debt	**5 207.3**	**5 522.2**	**5 959.2**	**6 293.2**
	73.9%	*74.1%*	*75.3%*	*74.7%*
Debt-service costs	**356.1**	**382.2**	**414.7**	**440.2**
	5.1%	*5.1%*	*5.2%*	*5.2%*

Source: National Treasury

Financial position of public-sector institutions

Public institutions, incorporating state-owned enterprises and major public entities, continue to pose a large risk to the fiscal outlook. The overall financial position of state-owned companies deteriorated in 2022/23. Government's reform programme for state-owned companies focuses on improving the transparency of guarantees to enable better monitoring and accountability, and using guarantee conditions to drive structural reforms – including cost optimisation and private-sector participation – that improve operational efficiency and reduce reliance on the fiscus.

Table 1.7 Combined financial position of public institutions

R billion/net asset value	2020/21	2021/22	2022/23
State-owned companies	380.2	419.0	407.4
Development finance institutions	124.0	157.6	160.9
Social security funds	-210.3	-182.6	-158.3
Other public entities[1]	834.5	942.9	1 018.0

1. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA

Source: National Treasury

BUDGET DOCUMENTATION

The 2024 Budget is accompanied by several other documents and submissions to Parliament. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Gold and Foreign Exchange Contingency Reserve Account Defrayal Amendment Bill
- The Estimates of National Expenditure.

These and other fiscal and financial publications, including the People's Guide to the Budget, are available at www.treasury.gov.za