2

2024 BUDGET REVIEW

ECONOMIC OUTLOOK

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- South Africa's 2023 GDP growth estimate has been revised down to 0.6 per cent due to widespread power cuts, operational and maintenance failures in freight rail and at ports, and high living costs.
- The medium-term outlook has improved marginally, with average growth of 1.6 per cent forecast, compared with 1.4 per cent at the time of the 2023 *Medium Term Budget Policy Statement* (MTBPS).
- GDP growth has averaged only 0.8 per cent since 2012, a rate of economic growth that is insufficient to address high levels of unemployment and poverty.
- Long-term growth is highly dependent on improving capacity in energy, freight rail and ports, and on continuing to reduce structural barriers to economic activity.
- The economic growth strategy prioritises macroeconomic stability, structural reforms and improvements in state capability to raise growth rates in a sustainable manner.

OVERVIEW

Over the next three years, South Africa's economy is forecast to grow at an average of 1.6 per cent, a moderate improvement on the 1.4 per cent average expected at the time of the 2023 MTBPS. The outlook is supported by an expected recovery in household spending as inflation declines, and an increase in energy-related fixed investments.

Power cuts and operational problems in freight rail and ports continue to disrupt economic activity and limit the country's export potential. Comprehensive reforms are under way in these sectors, although it will take time to see a recovery in growth. Household consumption is under pressure from high living costs, and investment remains low due to weak confidence and challenging business conditions linked to structural constraints.

South Africa has experienced over a decade of weak economic growth. GDP growth has averaged only 0.8 per cent annually since 2012, entrenching high levels of unemployment and poverty. To turn the tide and raise economic growth sustainably, government is prioritising energy and logistics reforms, along with measures to arrest the decline in state capacity. Successful efforts to improve the fiscal position, complete structural reforms and bolster the capacity of the state will, in combination, reduce borrowing costs, raise confidence, increase investment and employment, and accelerate economic growth.

ENHANCING ECONOMIC GROWTH

A macroeconomic framework that supports growth

A sound macroeconomic framework promotes stable prices, lower interest rates and more predictable exchange rate movements. It also proactively manages the risks of macroeconomic imbalances such as high budget deficits and is resilient to external shocks. This stability and resilience supports savings, investment decision-making and job creation. The inflation-targeting framework helps keep the cost of living stable, while a prudent fiscal policy strategy that stabilises public finances can reduce the costs associated with a high sovereign credit risk premium.

South Africa's sovereign credit risk premium remains elevated, with public debt as a share of GDP accelerating from 35.1 per cent in 2010 to an estimated 73.9 per cent in 2023 (Figure 2.2). This has led to higher government borrowing costs and, because government bonds are used as a benchmark in credit markets, contributed to elevated borrowing costs across the economy.

In this context, the fiscal strategy aims to lower the risk premium, bolster investor confidence and increase the appetite for domestic assets, which will also support the rand. In combination, these measures will help to reduce price pressures resulting from a weaker currency, especially in consumption staples such as food and fuel, providing relief to poor households.

Budget deficits are financed through borrowing in credit markets where government competes with the private sector for the available savings in the economy. Large budget deficits therefore reduce savings in the economy, with gross savings averaging 14.6 per cent of GDP since 2010 (Figure 2.3) compared to a world average of 26.8 per cent. Higher savings are needed to finance private investment, which accounts for over 70 per cent of total investment in 2023, to support faster economic growth.

Figure 2.1 South Africa's economic growth performance

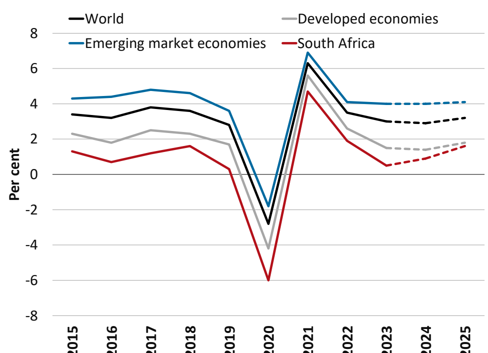


Figure 2.2 Sovereign credit risk premium and the debt-to-GDP ratio

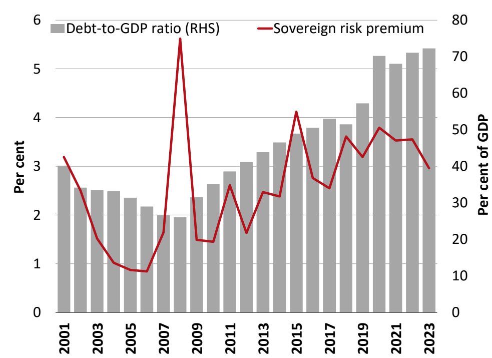


Figure 2.3 Gross savings breakdown

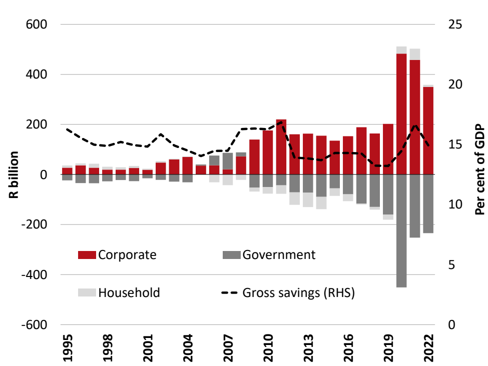
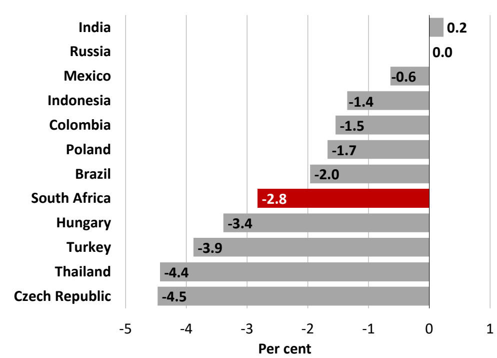


Figure 2.4 Year-to-date emerging market currency performance against the US dollar



Source: National Treasury, Bloomberg, Reserve Bank and IMF

Catalysing economic growth through structural reforms

South Africa's economic prospects are highly dependent on well-functioning network industries. Over the past three years, Operation Vulindlela has accelerated the implementation of structural economic reforms that will bolster growth. Noteworthy reforms include the following:

- In **freight logistics**, Cabinet approved the freight logistics roadmap in December 2023, outlining immediate steps needed to improve equipment and locomotive availability and network security. It also sets out structural reforms required in the logistics system, including the introduction of third-party access to the freight rail network by May 2024.
- In **ports,** Transnet is expected to finalise its partnership with a private company by April 2024 to upgrade Pier 2 of the Durban Container Terminal. The Port of Durban handles 46 per cent of South Africa's port traffic, and this joint venture will increase private investment for equipment, technological capability and higher operational efficiency.
- In **energy sector reform**, the Electricity Regulation Amendment Bill will be submitted to the National Council of Provinces this year. The bill will establish a competitive electricity market to promote long-term energy security. The board of the National Transmission Company was appointed in January 2024 – a step toward the unbundling of Eskom into separate generation, transmission and distribution entities.
- In **generation capacity**, despite record-high power cuts, the severity of load-shedding declined towards the end of 2023 (Figure 2.5) and should continue to fall in 2024 due to improved generation by Eskom and independent power producers. Renewable energy capacity under construction through the Renewable Energy Independent Power Producer Procurement Programme Bid Window 5 stands at 1 160 MW. Changes to schedule 2 of the Electricity Regulation Act (2006) have spurred private investment, with 6 000 MW of large-scale projects worth over R100 billion registered with the National Energy Regulator of South Africa expected to become operational in the medium term (Figure 2.6).

Figure 2.5 Load-shedding by stages

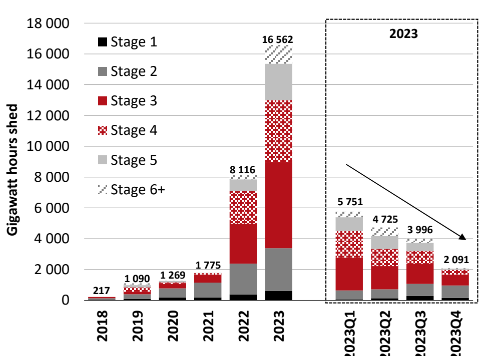
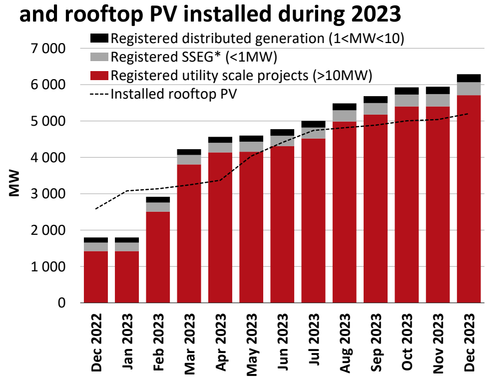


Figure 2.6 Cumulative capacity registered and rooftop PV installed during 2023



**SSEG refers to small-scale embedded generation*
Source: Eskom, NERSA and National Treasury calculations

- In the **water** sector, the National Water Resources Infrastructure Agency Bill was introduced in June 2023, with plans to establish the National Water Resources Infrastructure Agency by March 2025. Additionally, the Minister of Finance is set to agree on the updated Raw Water Pricing Strategy in 2024. Comments on the Water Services Amendment Bill, which allows for interventions by the Department of Water and Sanitation in failing municipalities, closed in mid-January 2024.
- In **telecommunications**, auctioned spectrum that has been made available to licensees is expected to attract over R40 billion in investment. In December 2023, Cabinet approved the Next Generation Radio Frequency Spectrum Policy, which will increase spectrum availability and promote competition. Investments following the auction of high-demand spectrum in March 2022 enhanced network quality and reduced data costs. Since 2021, 100-megabyte data bundle prices have dropped by 25 per cent.

Boosting growth through a capable state

South Africa needs a capable state that promotes economic growth and that crafts and enforces regulations to improve the business climate. Initiatives like the National Logistics Crisis Committee and partnerships with the private sector to improve procurement help to bolster state capability. Government is committed to professionalising public administration, improving the governance of state-owned enterprises and fostering a more stable and attractive environment for investment.

GLOBAL OUTLOOK

The International Monetary Fund (IMF) has revised its 2024 global economic growth forecast to 3.1 per cent – up from 2.9 per cent in October of last year. The IMF projects growth of 3.2 per cent in 2025. The moderate improvement is due to better-than-expected growth in the second half of 2023, particularly in the United States and several large emerging market economies, as well as fiscal support for disaster relief in China. Robust US economic growth has partially offset weaker-than-expected outcomes in the euro area, which, nevertheless, is expected to recover gradually. Commodity prices are expected to continue to decline in 2024 and 2025.

Global inflation is expected to decline faster than previously expected due to softening labour markets, lower energy prices and easing supply-side constraints. The IMF expects inflation in advanced economies to fall from 4.6 per cent in 2023 to 2.6 per cent in 2024 and 2 per cent in 2025. The pace of disinflation has raised expectations that central banks in advanced economies will begin cutting interest rates in 2024 and continue into 2025.

Figure 2.7 Global inflation outlook

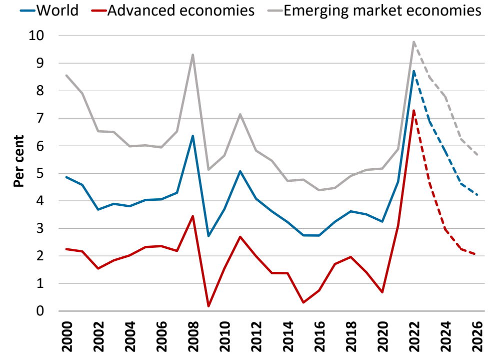
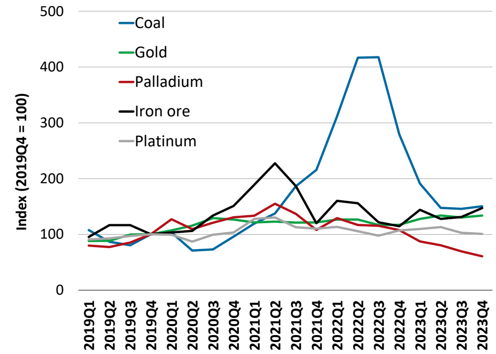


Figure 2.8 Key commodity export prices



Source: IMF World Economic Outlook Database, January 2024, and Bloomberg

As global monetary conditions become more favourable, the US dollar is expected to depreciate, supporting moderate improvements in the foreign exchange value of the rand. Despite the improved global outlook for 2024, South Africa's near-term growth prospects remain hamstrung by subdued prices for key export commodities and domestic supply-side constraints. Downside risks remain from potential spikes in the global oil price if the conflict in the Middle East escalates and if growth falters in China – the country's largest trade partner – due to its continuing real estate crisis.

Table 2.1 Economic growth in selected countries

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

1. National Treasury forecast
Source: IMF World Economic Outlook, January 2024

DOMESTIC OUTLOOK

The National Treasury estimates real economic growth of 0.6 per cent in 2023. This is down from growth of 0.8 per cent projected in the 2023 MTBPS due to weaker-than-expected outcomes in the third quarter of 2023, resulting in downward revisions to household spending growth and spending on gross fixed investment. GDP growth is projected to average 1.6 per cent from 2024 to 2026 as the frequency of power cuts declines, lower inflation supports household consumption, and employment and credit extension recover gradually. New energy projects will improve fixed investment and business sentiment.

Employment

The unemployment rate moderated to 31.9 per cent in the third quarter of 2023, its lowest level in three years. That quarter marked the first time that employment exceeded pre-pandemic levels, with 325 000 more jobs than in the fourth quarter of 2019. Yet joblessness remains extremely high, with the pace of employment creation expected to moderate in 2024. To date, the jobs recovery has been led by the community and social services sector. Faster economic growth is needed for a significant and sustainable increase in private-sector jobs.

Inflation

Headline inflation is projected to moderate from 6 per cent in 2023 to 4.9 per cent in 2024 and 4.6 per cent in 2025 as food and fuel inflation continue to decline. In 2023, food inflation slowed less than expected due to power cuts and rand depreciation, keeping imported food costs high. An avian influenza outbreak also increased prices for poultry and eggs. These factors are expected to dissipate over the medium term. As crude oil prices continue to normalise after the spike at the outbreak of the Russia-Ukraine war, upward pressure on domestic fuel prices is expected to subside.

Higher vehicle and insurance prices, which have contributed to core inflation pressure, are easing slowly. Near-term inflation may increase if global crude oil prices rise due to an escalation in the Middle East conflict and a weaker rand exchange rate. Elevated administered prices, including water and electricity, also pose an upside risk to the medium-term outlook.

Household consumption

Household consumption remains under significant pressure after contracting for two consecutive quarters in 2023. This reflects the effects of inflation and borrowing costs, weak consumer confidence and shrinking real incomes. Growth in credit extended to households has steadily declined since February 2023. The household consumption forecast for 2024 has been revised down to 1.3 per cent compared to 1.4 per cent at the time of the 2023 MTBPS. Risks to the near-term outlook remain skewed to the downside due to the possibility of food prices remaining elevated for a large percentage of households even as inflation declines and tight credit conditions ease. Improvements in confidence, employment and real incomes, alongside an anticipated easing of interest rates by the end of 2024, will sustainably raise household spending over the medium term.

Investment

After growing for seven consecutive quarters, gross fixed-capital formation contracted by 3.4 per cent in the third quarter of 2023 due to low business confidence and weaker growth. Machinery and equipment – the largest category of gross fixed-capital formation

– is the only category that has fully recovered from the pandemic, likely thanks to private-sector investments in renewable energy. Investment growth is estimated to have slowed to 4.2 per cent in 2023 and is expected to decline to 3.7 per cent in 2024, due to challenging business conditions including high borrowing costs and low confidence. Machinery and equipment spending will benefit from renewable energy and Transnet's port investments, supporting overall investment.

Figure 2.9 Gross fixed-capital formation and business confidence

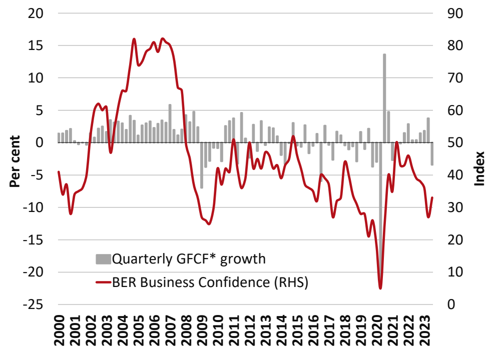
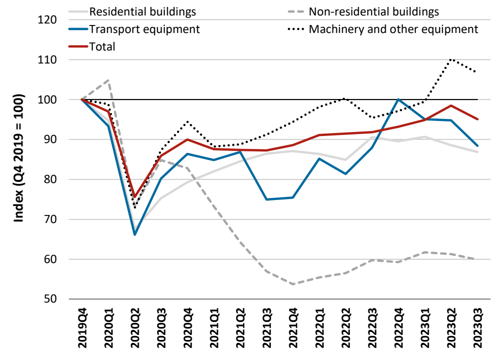


Figure 2.10 Gross fixed-capital formation by type



**Gross fixed-capital formation*

Sources: Statistics South Africa, BER and National Treasury

Determinants of corporate cash holdings in South Africa

Research using the South African Revenue Service/National Treasury tax database from 2010 to 2017 investigated the determinants of corporate cash holdings in South Africa.[1] The findings imply that implementing economic reforms to boost growth and aggregate demand will also catalyse greater fixed investment by firms. Furthermore, improvements in investor perceptions of government's ability to implement sound policies that promote private-sector development will encourage private investment rather than firms retaining cash. Greater private-sector investment will support faster economic growth.

As a share of GDP, corporate cash and liquidity holdings have not increased since 2014. However, at a firm level, cash holdings increased between 2010 and 2017, led by the manufacturing sector. Cash holdings in South Africa were broadly higher than in other emerging market countries.

1. Karwowski, E., Szymborska, H., Lesame, K. and Thoka, T. 2022. Determinants of corporate cash holdings in South Africa. WIDER Working Paper 2022/212. Helsinki: UNU-WIDER.

Balance of payments

The current account deficit is expected to widen from 1.8 per cent of GDP in 2023 to 2.8 per cent of GDP in 2024 and to average 2.9 per cent over the medium term. The outlook is driven by a weaker trade balance as exports – constrained by near-term rail and port delays and power cuts – are expected to grow slower than imports. Import volume growth between 2024 and 2026 is anticipated to be boosted by energy-related fixed investment outlays. The risks to the outlook are tilted to the downside due to subdued external demand, lower commodity prices and logistical bottlenecks.

Table 2.2 Macroeconomic performance and projections

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

Sources: National Treasury, Reserve Bank and Statistics South Africa

Macroeconomic assumptions

The forecast incorporates the assumptions outlined in Table 2.3.

Table 2.3 Assumptions informing the macroeconomic forecast

	2021	2022	2023	2024	2025	2026
Percentage change	Actual		Estimate	Forecast		
Global demand[1]	6.5	3.7	3.5	3.3	3.3	3.3
International commodity prices[2]						
Oil	70.8	99.0	82.3	77.1	74.0	71.5
Gold	1 799.8	1 801.5	1 943.2	2 029.9	2 119.5	2 199.3
Platinum	1 090.8	960.9	966.7	922.2	947.3	972.8
Coal	125.2	271.1	120.7	113.9	115.3	112.9
Iron ore	158.2	120.7	120.2	121.0	106.4	97.3
Palladium	2 398.2	2 107.4	1 338.7	1 009.4	1 051.6	1 096.8
Food inflation	6.1	9.2	10.7	4.7	4.5	4.5
Sovereign risk premium	3.5	4.1	3.9	3.7	3.7	3.6
Electricity inflation	10.1	11.1	11.8	13.9	12.7	10.5

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2024)
2. Bloomberg futures prices as at 15 January 2024
Source: National Treasury

Global demand is estimated to have expanded by 3.5 per cent in 2023 and projected to slow to 3.3 per cent in 2024. Similarly, key export commodity prices, apart from gold and iron ore, are anticipated to decline further in 2024. The sovereign risk premium is expected to improve from an average of 3.9 per cent in 2023 to 3.7 per cent in 2024 due to a more supportive global financial environment. Compared with the 2023 MTBPS, food prices are revised higher in the near term.

Economic scenarios

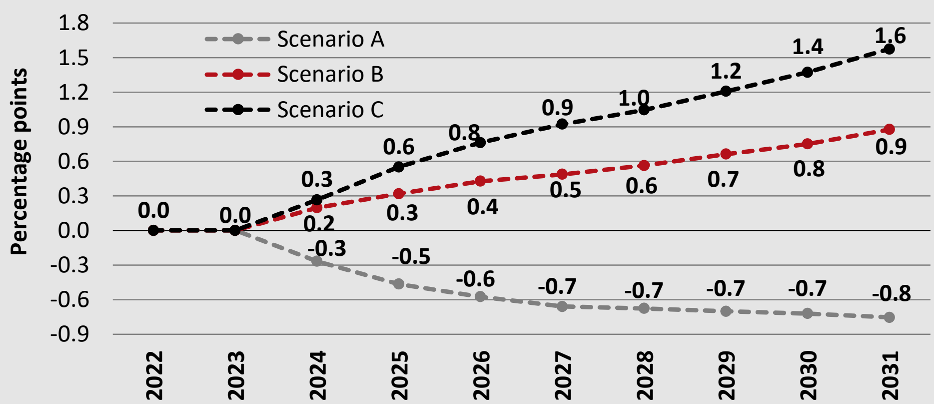
The National Treasury has modelled three alternative scenarios to the baseline economic forecast.

Scenario A – The conflict in the Middle East escalates, leading to continued disruption in the global oil and gas trade and raising food, energy and transportation costs. In response, global monetary policy tightens, raising borrowing costs. Economies with weak fundamentals face a growing risk of debt distress, triggering capital outflows and weakening exchange rates. Global trade disruptions dampen incomes and output. Domestic consumer prices reach 5.5 per cent in 2024, 0.6 percentage points above the baseline, before easing to 4.5 per cent in the long term. GDP trends below the baseline, with an estimated 0.8 per cent shortfall by 2031.

Scenario B – Rapid interventions by the National Logistics Crisis Committee resolve problems in ports and certain rail corridors, with an immediate boost to transport volumes. Targeted investment benefits various sectors, including mining. As confidence improves, with benefits for investment and trade, GDP is 0.9 per cent above the baseline by 2031. Implementation of the comprehensive reforms outlined in the freight logistics roadmap would further bolster capital stock and long-term growth.

Scenario C – Supported by reforms, gradual improvements in the level and quality of public investment spending as outlined in Chapter 1 increase coordination and partnerships with the private sector. As underspending declines, public-sector capital programmes approach full efficiency. The additional capital expenditure supports the scaling-up of projects, leading to increased availability and reliability of infrastructure. These changes encourage private investment and boost exports. GDP is 1.6 per cent above the baseline by 2031.

Figure 2.11 Deviation from baseline GDP forecast



Source: National Treasury

RISKS TO THE DOMESTIC OUTLOOK

The primary risks to the economic growth outlook are as follows:

- Continued operational and maintenance failures in electricity, freight rail and ports remain a persistent and binding constraint on output in the near term.
- A longer-than-expected period of high sovereign credit risks could increase borrowing costs further, weighing on investment and growth. Domestic interest rates could further erode consumption spending, alongside the risk of continued food inflation.

- Conversely, the domestic growth outlook may improve if there is less load-shedding than expected in the near term, coupled with a faster-than-expected resolution of the rail and port infrastructure constraints**.**

SECTOR PERFORMANCE AND OUTLOOK

Agriculture

In 2023, the agriculture sector's gross value added decreased by 3.2 per cent in the first three quarters compared with the same period in 2022. Load-shedding, animal diseases (foot and mouth, African swine fever and avian flu), localised flooding and declining grain prices hampered growth. Although the anticipated El Niño weather cycle could affect the sector, its effects are expected to be less severe than in 2015. In 2024, agriculture is likely to see moderate growth as grain production normalises from record highs and the livestock sector recovers from diseases. However, continued transport and port constraints will continue to exert pressure on the sector.

Mining

Gross value added in the mining sector contracted by 1.6 per cent in the first three quarters of 2023 compared with the same period in 2022. Production continues to be suppressed by domestic constraints, including power cuts and transport failures that reduce export capacity. Safety stoppages, strikes and crime also weighed on production. Mining sales declined by 14.9 per cent over the same period in response to weaker global demand. In 2024, domestic constraints will maintain pressure on the mining sector.

Manufacturing

In the first three quarters of 2023, the manufacturing sector saw a marginal 0.2 per cent increase in gross value added compared to the same period in 2022. It remains below pre-pandemic levels due to energy and transport constraints, as well as specific incidents (truck torching on the N3 in July, a strike and Western Cape floods in August and September). Despite this, sales grew by 9.7 per cent, driven by demand for petrochemicals and vehicles. The sector faces a subdued 2024 outlook, hampered by persistent supply-side issues, variable export growth and weaker European demand.

Construction

In 2023, the construction sector grew by 2.6 per cent in the first three quarters compared with the same period a year earlier, marking a recovery from six years of contraction. Growth resulted mainly from increased activity in civil construction, while the building sector remains sluggish due to low demand for new residential buildings and elevated interest rates. Growth in gross fixed-capital formation is expected to continue into 2024, although from a low base.

Utilities

The electricity, gas and water sector contracted by 5.4 per cent in the first nine months of 2023 compared with the same period in 2022, mainly due to Eskom constraints and delays in new generation capacity procurement. The electricity crisis is likely to boost demand for alternative energy sources in 2024, while reducing power cuts and securing new generation capacity remain crucial for long-term energy security.

Transport

The transport, storage and communication sector grew by 4 per cent in the first nine months of 2023, compared with the same period in 2022. Due to bottlenecks in rail infrastructure, there has been a marked substitution from rail to road – a pattern that is expected to reverse as the rail network is improved. In telecommunications, the rollout of digital infrastructure has enabled new investment in the sector and an improvement in the quality of broadband internet.

Trade, catering and accommodation

In the first nine months of 2023, the trade, catering and accommodation sector saw a 1.6 per cent drop in gross value added year-on-year. High borrowing costs and inflation affected household finances, leading to shifts in spending. Yet sales in clothing, footwear and household items grew. Power cuts encouraged people to dine out, boosting the restaurant and hospitality sector. Overall, the sector's recovery is tied to improved incomes and consumer confidence.

Finance and business services

In the first nine months of 2023, the finance, real estate and business services sector grew by 0.9 per cent compared with the same period in 2022. Banks have effectively managed the rise in non-performing loans and credit losses, particularly in retail lending and mortgages. Their capital adequacy ratios, liquidity and leverage remain well above minimum prudential requirements, showing resilience despite moderate growth.

Improving resilience and disaster response in the face of climate change

Recent years have seen a significant increase in extreme weather events and economic losses amid mounting concern over the effects of climate change. Between 1980 and 2021, 86 notable weather-related disasters have been recorded, affecting more than 22 million people and causing economic losses of about R113 billion.[1]

The 2017 Knysna wildfires, Cape Town (2015–2018) and Eastern Cape (2015–2020) droughts and KwaZulu-Natal floods in 2022 have heavily affected agriculture and tourism, with negative implications for government spending and revenue. These events exacerbate economic inequality, particularly in poor communities that are highly exposed to droughts, floods and wildfires and their consequences.

The National Treasury is finalising a disaster risk financing strategy, centred on innovative financing and risk transfer to effectively mitigate climate impacts. The strategy will boost state capacity to fund disaster recovery efforts and expand insurance mechanisms to protect against the financial strain of natural disasters.

1. South Africa: First Nationally Determined Contribution under the Paris Agreement, September 2021

CONCLUSION

To accelerate GDP growth after an extended period of weak economic performance, South Africa needs large-scale private investment. Government is working to improve the fiscal position, complete structural reforms and bolster the capacity of the state to reduce borrowing costs, raise confidence, increase investment and put the economy on a higher, job-creating growth path.