MTBPS 2024

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A revenue shortfall and expenditure adjustments widen the budget deficit in F2024/25

- Macroeconomic assumptions: National Treasury (NT) reduced its GDP growth forecast to 1.1% for 2024 from the 1.3% projected in February due to subdued activity in the first half of the year. The estimates for the next three years were kept broadly unchanged, with 2025 lifted marginally to 1.7% from 1.6%, while 2026 was scaled down bit from 1.8% to 1.7%. Over the Medium-Term Expenditure Framework period (MTEF, which covers 2025/26 to 2027/28), GDP growth is projected to average 1.8%, reflecting a stable global environment, accelerating domestic structural reforms and higher domestic spending. Our GDP growth forecasts for 2024 and 2025 are slightly lower at 1% and 1.6%, but the same as Treasury's for 2026.
- Revenue: In this fiscal year, NT expects gross tax revenue to be R22 billion less than February's estimate, mainly due to a weak labour market and lower import VAT collections due to less demand for energy generation machinery. Overall, revenue growth will improve over the MTEF, helping to narrow the budget deficit.
- Expenditure: Consolidated expenditure for the current year is estimated to increase by 6%, higher than the 4.4% projected in February. The expenditure overrun reflects increased spending on infrastructure investment, a higher wage bill, and elevated debt service costs. NT plans to slow expenditure growth in the years ahead, but it will still be higher than projected in February, growing by an annual average rate of 4.9% over the MTEF. Higher social transfers will keep non-interest expenditure elevated.
- Budget balance: The budget deficit widens to 5% of GDP vs 4.5% in the Budget 2024, raised by the revenue shortfall and higher aggregate expenditure. Over the MTEF, deficit reduction will be slower than reflected in Budget 2024, with the deficit narrowing to 4.3% in FY2025/26 and 3.2% in FY2027/28. The primary surplus is also estimated to be lower than the February 2024 figures, reaching 1.8% of GDP only in FY2027/28 vs FY2026/27 previously.
- Debt metrics: The public debt ratio peaks at a slightly higher 75.5% vs 75.3% and moderates slowly to 67% by FY2032/33.
- Policy announcements: Technical work on a fiscal rule, which will guide changes in expenditure, is progressing, and the policy recommendations will be published for public comment by March 2025. The review of the inflation targeting framework is also ongoing.

Table 1: Consolidated Budget framework

	2023/24	2024/25		2025/26		2026/27		2027/28
	Oct-24	Feb-24	Oct-24	Feb-24	Oct-24	Feb-24	Oct-24	Oct-24
Revenue (Rbn)	1 941.4	2 036.6	2 021.5	2 176.4	2 166.6	2 323.6	2 314.3	2 471.8
% growth	2.4	6.0	4.1	6.9	7.2	6.8	6.8	6.8
% of GDP	27.4	27.4	26.9	27.8	27.0	27.9	27.1	27.2
Expenditure (R bn)	2 258.8	2 369.0	2 395.0	2 471.4	2 510.3	2 597.8	2 624.4	2 767.1
% growth	5.5	4.4	6.0	4.3	4.8	5.1	4.5	5.4
% of GDP	31.8	31.9	31.8	31.6	31.3	31.2	30.8	30.4
Consolidated Budget Balance (R bn)	-317.5	-332.4	-373.5	-295.0	-343.7	-274.2	-310.1	-295.3
% of GDP	-4.5	-4.5	-5.0	-3.7	-4.3	-3.3	-3.6	-3.2
Debt Service Costs (R bn)	356.1	382.2	388.9	414.7	419.1	440.2	445.7	475.7
% of GDP	5.0	5.1	5.2	5.2	5.2	5.2	5.2	5.2
Primary Balance	33.2	61.2	33.3	106.5	75.3	153.0	120.6	166.7
% of GDP	0.5	0.8	0.4	1.3	0.9	1.8	1.4	1.8
Gross debt-to-GDP ratio (%)*	*74.1*	*74.1*	*74.7*	*75.3*	*75.5*	*74.7*	*75.3*	*75.0*

Source: Feb-24 refers to Budget 2024 figures; Oct-24 shows MTBPS 2024 numbers

The macroeconomic backdrop

National Treasury revised its real GDP growth forecast to 1.1% for 2024 from 1.3% estimated in the National Budget because elevated inflation and high interest rates still weighed on economic activity in the first half of the year. The forecasts for the next three years were kept broadly unchanged. The growth forecast for 2025 was lifted slightly to 1.7% from 1.6%, while the forecast for 2026 was lowered to 1.7% from 1.8%. For the next three years, growth is projected to average 1.8%, bolstered by a stable global environment and firmer domestic demand due to a more stable power supply, accelerating structural reforms and recovering confidence. Household spending will benefit from higher disposable income due to lower inflation, easing monetary policy and withdrawals from the two-pot retirement system.

The government plans to implement the second phase of Operation Vulindlela after the first phase showed significant progress on economic reforms. Economic policy will be anchored on maintaining a stable macroeconomic environment, speeding up structural reforms, building state capacity and supporting infrastructure investment.

Table 2: Forecasts of key macroeconomic variables

	Actual			Estimate	Forecast		
% change	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Final household consumption	6.2	2.5	0.7	1.2	1.8	1.7	1.9
Final government consumption	0.6	0.6	1.9	1.4	0.9	-0.4	-0.1
Gross fixed-capital formation	-0.4	4.8	3.9	-2.5	4.7	4.2	3.8
Gross domestic expenditure	4.9	4	0.8	0.5	2	1.7	1.9
Exports	9.7	6.8	3.7	-1.6	3.1	3.1	3.1
Imports	9.6	15	3.9	-3.2	4.1	2.8	3
Real GDP growth	**5.0**	**1.9**	**0.7**	**1.1**	**1.7**	**1.7**	**1.9**
GDP inflation	6.3	5.2	4.8	4.2	5	4.6	4.5
GDP at current prices (R billion)	6220.2	6655.5	7024	7396.7	7897.6	8404.1	8953.6
CPI inflation	4.6	6.9	5.9	4.6	4.4	4.5	4.5
Current account balance (% of GDP)	3.7	-0.5	-1.6	-1.8	-2.1	-2.2	-2.5

Source: National Treasury MTBPS 2024

The fiscal framework

Slower revenue growth in the first half of 2024 will cause the budget deficit to widen to 5% of GDP in FY2024/25 from 4.5% in Budget 2024. Surprisingly, NT expects lower tax collection for the fiscal year despite the expected increase in spending and the boost from the two-pot system withdrawals. Revenue undershoots significantly due to lower personal income tax, value-added tax and fuel levy collections. These will outweigh higher corporate tax collections.

Consolidated expenditure is budgeted to grow by 6% in FY2024/25, mainly due to the higher wage bill and debt service costs. However, the anticipated economic recovery is likely to lift revenue growth, which, combined with expenditure restraint, will help to narrow the budget deficit.

The envisioned fiscal trajectory faces significant risks over the short term. Revenue growth could disappoint if global and local economic growth proves weaker than expected. At the same time, expenditure could surprise on the upside due to higher-than-anticipated wage settlements, borrowing costs and state-owned enterprises (SOEs) support.

NT stressed that work on the proposed fiscal rule (which will guide expenditure control) is ongoing. To this effect, a discussion paper on fiscal policy anchor options will be released by March 2025.

Revenue

Steadier electricity supply has improved local operating conditions and reduced the cost of doing business for local entities. However, the sharp fall in imports of power generation machinery has hurt import taxes, while a weaker-than-expected labour market has weighed down personal taxes.

Gross tax collections are projected to be R22.3 billion below February's estimates, dragged by significant underperformance in personal taxes, value-added tax (VAT) and the fuel levy, which offset gains in corporate and dividend taxes. The more stable electricity grid has reduced aggregate fuel demand and imports of energy-generation components, hurting import VAT, customs duties and the fuel levy. Between 2025/26 and 2026/27, gross tax collections were revised lower by R41.4 billion primarily due to lower import VAT. Over the MTEF, NT expects the tax buoyancy - the rate at which gross tax revenue increases relative to nominal GDP growth -to improve to 1.09 in 2025/26 and average 1.07 between 2025/26 and 2027/28, from 0.95 and 0.66 in 2024/25 and 2023/24, respectively.

The NT forecasts personal income taxes (PAYE) to be R9.7 billion lower than February's estimate in FY2024/25, as employment and wage increases are trending lower than estimated. Surprisingly, the NT did not update its projected tax windfall from the two-pot retirement withdrawals after it estimated R5 billion for FY2024/25 in the Budget 2024, and it is not clear if the revenue underperformance incorporates this tax injection.

Domestic VAT collections have been substantial, but the aggregate VAT intake has been significantly eroded by the sharp fall in import VAT. As a result, NT forecasts total VAT collections to be R13 billion below the Budget 2024 estimate in FY2024/25.

Corporate taxes are projected to be R11.7 billion higher than the R302.7 billion estimated in February, as lower operating costs and improving demand help to improve corporate profitability. The FY2023/24 corporate tax collections were revised to R313.1 billion, a R11.7 billion improvement on the R34.8 billion underperformance estimated in the Budget 2024.

Table 3: Changes in tax revenue projections

Gross tax revenue					
	2023/24	2024/25			
R billion	Outcome	Feb-24	Oct-24	Deviation	Yearly change (%)
Persons and individuals	648.9	738.7	729.0	-9.7	12.3
Companies	313.1	302.7	314.4	11.7	0.4
Value-added tax	447.6	476.7	463.8	-13.0	3.6
Dividends tax	39.2	36.1	39.5	3.4	0.9
Specific excise duties	53.5	58.2	57.6	-0.6	7.6
Fuel levy	91.5	95.8	82.4	-13.4	-10.0
Customs duties	70.5	76.8	73.9	-3.0	4.7
Ad valorem excise duties	7.3	6.8	6.8	0.0	-7.1
Other	69.2	71.1	73.4	2.4	6.1
Gross tax revenue	**1740.9**	**1863.0**	**1840.8**	**-22.3**	**5.7**

Source: National Treasury MTBPS 2024

Expenditure

Consolidated expenditure is budgeted to grow by 4.9% per annum over the next three years, up from the 4.4% target set in February. The upward adjustment reflects increased allocations to non-interest expenditure and elevated debt service costs. Within non-interest expenditure, the biggest allocation will be to economic development, with funds directed to infrastructure investment, which will lift economic growth and job creation. Treasury showed that increased spending in this function will be funded from the current baseline and reprioritisation between the programmes. Government will focus on scaling up partnerships with the private sector to boost efficiency in infrastructure delivery. In addition to new projects to improve water infrastructure, priority will be given to reconstructing and rehabilitating infrastructure damaged by floods in affected provinces. Consequently, the economic development cluster is the fastest-growing function, with spending increasing by 12% for the current FY, and an average of 7.8% over the MTEF.

The baseline expenditure ceiling is lifted by R16.8 billion in 2025/26 and 2026/27 primarily due to the additional wage bill allocation and the SANRAL Gauteng Freeway Improvement Plan transfers.

Government aims to improve public service delivery, with higher expenditure allocations made for health, education and police services. Government is still consulting on the introduction of National Health Insurance. Increased spending allocations to focus on enhancing the health infrastructure is the right move in preparation for implementing the system. Funds will also be allocated to SARS to boost its operational capacity and strengthen the efficiency of revenue collections. Government is still reviewing the feasibility of the Basic Income Grant (BIG), which would require even more funds.

No major commitments or bailouts were announced for SOEs. NT highlighted that SOEs remain a concern as most cannot finance operations and service debts. Eskom will not receive a new allocation, but its debt relief allocation for FY2024/25 will be reduced by another R2 billion if it fails to dispose of its finance company by 31 March 2025. Transnet has not significantly improved its performance after receiving a R47 billion guarantee facility. Denel and the Land Bank are still unable to meet their financial obligations, although the Land Bank has reached an agreement with its lenders. Funds will also be allocated to South African National Road Agency Limited (SANRAL) to repay part of the Gauteng e-toll project. The Road Accident Fund is the most significant risk to the fiscus due to its high claims rate.

Over the medium term, NT will offer debt relief to municipalities that owe Eskom, provided they meet certain conditions. This will revive the operations and fiscal management in the specific municipalities and support Eskom's balance sheet. The details of the conditions will probably be provided in the 2025 National Budget.

NT figures still show a commitment to contain the growth of the public sector wage bill. However, additional funding for the 2023 wage agreement raises the bill between 2024/25 and 2026/27. Further allocations of R4.4 billion and R6.6 billion will be made in 2025/26 and 2026/27, respectively, to incentivise early retirement in the civil service as part of the broader measures to contain the wage bill. More details on measures to contain the wage bill will be announced in the Budget 2025, to cut the bill to 31.4% of consolidated expenditure by 2027/28 from 32.1% in 2023/24. The Group Economic Unit still expects wage increases to push spending higher than planned in 2025/26. The government has tabled a 4.7% offer for 2025/26 and inflation-related increases for the subsequent two years, while public sector unions have demanded a 12% increase for 2025/26 and hinted that they are unwilling to enter into a multi-year agreement.

Debt service costs were revised higher by R6.7 billion for R2024/25, which amounts to a R32.8 billion or 9.2% rise for the FY. This is higher than the NT's 7.3% increase projected in February and our forecasted 7.8% growth. Therefore, the NT's revision is R5 billion higher than our estimate. Between FY2024/25 and FY2026/27, the NT estimates interest payments to exceed the Budget 2024 figures by R16.6 billion. Therefore, the interest payments-to-revenue ratio is projected to peak at 21.7% in 2025/26 and average 5.2% of GDP over the MTEF. Interest payments are estimated to rise at an annual average of 6.9% over the MTEF, lower than the 15.2% recorded between 2021/22 and 2023/24.

Budget metrics

Lower revenue and higher expenditure in FY2024/25 will weaken the budget ratios compared with February's numbers. Even so, the metrics will gradually improve over the MTEF. The consolidated budget deficit widens to 5% of GDP in 2024/25 compared with 4.5% in Budget 2024. Over the MTEF, the shortfall narrows slowly to 3.2% in 2027/28.

The gross debt-to-GDP ratio is slightly higher than the Budget 2024 figures, peaking at 75.5% in 2025/26. After that, it eases slowly to 67% in FY20232/33.

Financing the budget deficit

The public sector gross borrowing requirement (PSGBR) for FY2024/25 is R32.9 billion lower than February's estimate due to reduced redemptions after the successful bond-switch programme for the bond maturing in January 2025. The R67.6 billion decrease in redemptions more than offset the R34.7 billion increase in the consolidated budget deficit. The borrowing requirement will rise to R602.7 billion in FY2025/26, averaging R557.5 billion annually over the MTEF. Bond redemptions will average R144.5 billion between FY2024/25 and 2026/27, lower than the R174.8 billion forecasted in February, before rising to R306 billion in FY2027/28 from R105 billion in FY2024/25.

The NT will raise $3 billion offshore in FY2024/25 to settle maturing loans and borrow a total of $15 billion over the MTEF.

Conclusion

The fiscal path set out in the MTBPS probably fell short of the market's relatively upbeat expectations. The unexpected downward revisions to revenue estimates illustrate that economic activity remains weak and the evolving recovery timid. Ironically, improving operating conditions due to steadier electricity supply also hurt tax revenue, dampening demand for alternative solutions sourced mainly through imports and thereby hitting import tax collections. Unsurprisingly, NT struggled to contain expenditure growth due to a higher wage bill and increased debt service costs. Consequently, this year's budget deficit will be higher than most anticipated, and the envisioned pace of fiscal consolidation will be slower than expected. These numbers are unlikely to support the bond market or the rand over the coming months.

The most encouraging message from the MTBPS is the focus on accelerating structural reforms, including the increase in infrastructure outlays. Undoubtedly, these reforms are the key to unlocking faster economic growth and job creation in the years ahead. Until the supply-side constraints on economic growth are lifted materially, fiscal consolidation will remain challenging, requiring continued and significant expenditure restraint. On this front, the outcome of the public sector wage negotiations will likely determine whether the government will meet today's fiscal targets come February next year.

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