National Budget Review

ECONOMICS | SOUTH AFRICA

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Higher revenue growth contains the budget deficit, while foreign exchange reserves gains reduce the borrowing requirement.

- **Macroeconomic environment:** National Treasury lowered its growth forecasts due to a subdued global economic environment, higher local interest rates and persistent power cuts. Real GDP growth is expected to be 0.6% in 2023, followed by a modest acceleration of 1.3% and 1.6% in 2024 and 2025, respectively. These are close to the South African Reserve Bank's forecast of 0.6%, 1.2%, 1.3% and 1.6% for 2023, 24, 25 and 26, respectively.
- **Revenue:** Tax revenue was dampened by a slump in corporate taxes as mining taxes plunged by more than 50% in the first 10 months of 2023/24. Over the MTEF period, National Treasury forecasts a rebound in tax collections, with personal taxes increasing faster than the other major taxes. Tax revenue is R56 billion lower than Budget 2023 estimates but slightly higher than in the Medium-Term Budget Policy Statement (MTBPS 2023). In 2024/25, personal tax brackets are not adjusted for the effects of inflation at all, raising an additional R16.3 billion for fiscus.
- **Expenditure:** The National Treasury remains committed to the expenditure consolidation path set out in the October Medium Term Budget Policy statement. However, the expenditure ceiling was adjusted up, reflecting the higher wage settlement reached in 2023. While the wage bill remains one of the largest expenditure items, it is projected to grow in line with inflation over the medium term. Expenditure growth averages 4.6% per year between 2024/25 and 2026/27. National Treasury increased allocations for social spending by extending the Social Relief of Distress (SRD) grant by another year to March 2025.
- **Debt metrics:** Higher revenue estimates and softer expenditure growth result in faster **deficit reduction** over the MTEF period. National Treasury projects a deficit of 4.9% of GDP for 2024/25, unchanged from the MTBPS, falling to 3.3% in 2026/27. The **debt-to-GDP ratio** rises slower than in the MTBPS 2023, peaking at 75.3% of GDP in 2025/26 before easing gradually to 67.1% by 2031/32.
- **Financing:** The public sector borrowing requirement falls notably versus the MTBPS 2023 estimates, reduced by the narrower budget deficit and the utilisation of R150 billion of the valuation gains in the Foreign Exchange Reserves Contingency Account over the MTEF.

Macroeconomic framework

The National Treasury forecasts the economy to grow by 0.6% in 2023, slightly less than 0.9% in the 2023/24 Budget and 0.8% in the MTBPS, reflecting fading consumer spending and the drag from persistent power cuts and the country's logistical bottlenecks. They reduced their real GDP growth forecast for 2024 to 1.3% from 1.5% in the 2023 Budget and 1.4% in the MTBPS. After that, growth is expected to accelerate to an average of 1.6% per year between 2024 and 2026, as power supply improves, employment

TABLE 1: FORECASTS OF KEY MACROECNOMIC VARIABLES

	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)	5568.0	6208.8	6628.6	6971.8	7346.2	7801.0	8298.0
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

Source: National Treasury Budget Review 2024

recovers, while lower inflation and interest rates support household spending. Less frequent and prolonged power supply cuts will also help business sentiment and encourage fixed investment activity. At the same time, the global demand conditions driven by the anticipated easing in global monetary policy will boost the net export position. However, the outlook still faces downside risks. Domestically, the biggest concern is that the envisioned capacity expansions in electricity generation, rail freight and port infrastructure fail to materialise. Globally, conditions in the global economy are vulnerable to escalating geopolitical conflicts that could cause spikes in global oil prices, transport costs and increased protectionism. These could lift inflation again and cause interest rates to remain elevated longer. Growth in China could also falter as the real estate crisis persists, resulting in lower demand for commodities, which could keep commodity prices under pressure.

National Treasury modelled three scenarios for the long-term growth trajectory. The **first scenario** reflects an escalation of the conflict in the Middle East, leading to continued disruptions in the global oil and gas trade and rising food, energy and transportation costs. This could result in further monetary policy tightening, causing economies with weak fundamentals to face a growing risk of debt distress, triggering capital outflows and weakening exchange rates. GDP trends below the baseline, with about a 0.8% shortfall by 2031. The **second scenario** is for rapid interventions by the National Logistics Crisis Committee to resolve problems in ports and specific rail corridors, with an immediate boost to transport volumes. This will boost confidence, encourage investment and trade, and lift GDP by 0.9% above the baseline by 2031. The **third scenario** involves speeding up economic reforms and improving the level and quality of public investment spending programs that will encourage coordination and partnerships with the private sector. Public-sector capital programmes approach full efficiency, encourage private investment and boost exports. In this scenario, GDP will reach 1.6% above the baseline by 2031.

The fiscal framework

TABLE 2: CONSOLIDATED BUDGET FRAMEWORK

	2023/24		2024/25		2025/26		2026/27	
	Oct-23	**Feb-24**	**Oct-23**	**Feb-24**	**Oct-23**	**Feb-24**	**Oct-23**	**Feb-24**
Revenue (Rbn)	1 915.5	**1 921.4**	2 012.6	**2 036.6**	2 139.3	**2 176.4**	2 286.5	**2 323.6**
% growth	0.9	**1.3**	6.0	**6.0**	6.3	**6.9**	6.9	**6.8**
% of GDP	27.3	**27.3**	27.0	**27.3**	27.1	**27.5**	27.2	**27.6**
Expenditure (Rbn)	2 262.0	**2268.9**	2 352.5	**2 369.0**	2 473.3	**2 471.4**	2 588.6	**2 597.8**
% growth	5.4	**6.0**	4.0	**4.4**	5.1	**4.3**	4.7	**5.1**
% of GDP	32.3	**32.2**	31.6	**31.8**	31.3	**31.2**	30.8	**30.8**
Budget Balance (Rbn)	-346.5	**-347.4**	-339.9	**-332.4**	-334.0	**-295.0**	-302.0	**-274.2**
% of GDP	-4.9	**-4.9**	-4.6	**-4.5**	-4.2	**-3.7**	-3.6	**-3.3**
Debt Service Costs (Rbn)	354.5	**356.1**	385.9	**382.2**	425.5	**414.7**	455.9	**440.2**
% of GDP	*5.1*	***5.1***	*5.2*	***5.1***	*5.4*	***5.2***	*5.4*	***5.2***
Primary Balance	24.4	**24.8**	64.2	**61.2**	100.0	**106.5**	145.2	**153.0**
% of GDP	*0.3*	***0.4***	*0.9*	***0.8***	*1.3*	***1.3***	*1.7*	***1.8***
Gross debt-to-GDP ratio (%)	***74.7***	***73.9***	***75.8***	***74.1***	***77.7***	***75.3***	***77.5***	***74.7***

Source: National Treasury Budget Review 2024

The **deficit** is unchanged for 2023/24 at 4.9% of GDP, and then narrows slightly faster than estimated in the MTBPS 2023, primarily due to higher revenue. Surprisingly, the **primary balance** (before debt service costs) switches to a surplus in 2023/24.

Debt service costs hover around 5% of GDP over the MTEF, averaging a slightly lower 5.1% per year compared with 5.3% in the MTBPS 2023. Debt service costs peak at 21.3% of main budget revenue in 2025/26.

Revenue

The National Treasury projects a better revenue performance than the estimates in the MTBPS 2023, with gross tax revenue revised higher for 2024/25 and 2025/26. **Total revenue** rises by only 1.3% in 2023/24, well below 3.5% in the Budget 2023 but better than 0.9% in the MTBPS 2023. It will be R5.9 billion higher than the MTBPS 2023 estimate, mainly boosted by higher-than-expected personal taxes.

The tax revenue shortfall in 2023/24 is R56.1 billion. As widely expected, the drag came from lower **corporate taxes**, which dropped by almost 14% over the first 10 months of the fiscal year (April to January), hurt by a sharp fall in **mining taxes** (down by R39.2 billion and 50.4%), while collections in **transport** and **manufacturing** fell by R2.5 billion and R5.9 billion, respectively.

In 2024/25, tax revenue is R9.1 billion higher than in the MTBPS 2023. **Main budget revenue** increases by an annual average of 6.8% over the MTEF, with personal taxes expected to rise by 9.4% a year while company taxes will increase by 5.1% a year. Value-added tax collections are projected to increase by 6.6%, exceeding National Treasury's inflation forecast of less than 5%.

TABLE 3: BUDGET REVENUE

	2023/24	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
R million	**Outcome**	**Medium-term estimates**			**Y-o-y %**		
Taxes on income and profits	997 924	1 084 989	1157 045	1 248 687	8.7	6.6	7.9
Personal income tax	649 783	738 749	787 476	850 473	13.7	6.6	8.0
Corporate income tax	301 367	302 702	323 482	349 611	0.4	6.9	8.1
Skills development levy	22 713	24 500	26 441	28 582	7.9	7.9	8.1
Taxes on property	19 486	20 600	21 876	23 282	5.7	6.2	6.4
Domestic taxes on goods and services	616 951	654 290	702 478	743 865	6.1	7.4	5.9
VAT	445 340	476 749	510 130	539 785	7.1	7.0	5.8
International trade and transactions	74 279	78 655	83 370	88 607	5.9	6.0	6.3
Gross tax revenue	**1 731 353**	**1 863 035**	**1 991 210**	**2 133 023**	**7.6**	**6.9**	**7.1**
Non-tax revenue	61 294	41 856	33 461	32 696	-31.7	-20.1	-2.3
Mineral and petroleum royalties	15 718	16 000	16 930	17 850	1.8	5.8	5.4
Less: SACU payments	-79 811	-89 871	-77 246	-79 714	12.6	-14.0	3.2
Main budget revenue	**1 712 836**	**1 815 020**	**1 947 425**	**2 086 004**	**6.0**	**7.3**	**7.1**
Provinces, social security funds and selected public entities	208 587	221 602	228 970	237 592	6.2	3.3	3.8
Consolidated budget revenue	**1 921 423**	**2 036 623**	**2 176 395**	**2 323 596**	**6.0**	**6.9**	**6.8**
Tax revenue (% of GDP)	24.6%	25.0%	25.2%	25.3%			
Main budget revenue (% of GDP)	24.3%	24.4%	24.6%	24.8%			
GDP (R billion)	7 049.0	7 452.2	7 913.8	8 422.3	5.7	6.2	6.4
Tax buoyancy	0.5	1.3	1.1	1.1			

Source: National Treasury Budget Review 2024

In 2024/25, revenue proposals to raise R15 billion:

- The **personal income tax brackets and rebates** are unchanged (not adjusted for higher inflation at all), which raises R16.3 billion in 2024/25 and a combined R35.9 billion between 2025/26 and 2026/27.
- The **medical aid tax credits** are also unchanged at R364 per month for each of the first two members and R246 per additional member, raising an additional R1.9 billion in 2024/25.
- The **fuel levy** is unchanged for the third year, costing the fiscus R4 billion in 2024/25.
- The **Road Accident Fund (RAF) levy** and the **customs and excise levy** are also unchanged.
- Higher-than-inflation increases in **alcohol and tobacco excise duties** raise R800 million in 2024/25 and R2.6 billion over the MTEF.
- The **carbon fuel levy** rises to 11c per litre from 10c for petrol and to 14c per litre from 11c for diesel.

Tax reform measures announced are:

The **two-pot retirement fund system** will be effective from 1 September 2024. One-third of retirement savings will go into a savings component, and savers can withdraw a maximum of R30 000 or 10% of their funds, whichever is lower, at a minimum of R2 000 per tax year. Withdrawals will be taxed at individuals' marginal tax rate. The retirement component, funded by two-thirds of retirement savings, will be preserved until retirement.

Local car manufacturers can claim 150% of qualifying investment on production facilities for **electric and hydrogen-powered vehicles** in the first year of investment. This measure comes into effect on 1 March 2026 and will cost the fiscus R500 million in 2026/27.

National Treasury is working on implementing the **global minimum tax legislation**, which will set the minimum tax rate at 15% for multinationals with annual turnover of at least €750 million.

Expenditure

Treasury continues to reflect restraint in non-interest expenditure growth while responding to some immediate spending needs. **Consolidated expenditure** is budgeted to grow by 4.4% in 2024/25, up 0.7% from the November estimate. Over the Medium Term Expenditure Framework (MTEF), expenditure increases by an average of 4.6% per annum, unchanged from the MTBPS estimates. National Treasury highlighted the need to minimise inefficiencies and ensure stainable public finances through effective spending. Consolidated non-interest expenditure is R73.3 billion lower than the outcome for 2023/24, with priority given to key service delivery areas. Non-interest expenditure will amount to 26.5% of GDP in 2024/25, down from 27% in 2023/24, and is projected to average 26% over the next three years.

Interest payments on public debt remain the fastest-growing expenditure item, crowding out spending on key economic and social services. **Debt service costs** will rise 7.3% to R382.2 billion in 2024/25, accounting for 16.1% of total expenditure and 18.8% of revenue. The debt service cost will accelerate, peak at 19.1% of revenue in 2025/26, before receding as revenue growth improves. This will reduce growth in debt service to an annual average of 7.3% over the medium term.

Additional spending amounting to R251.3 billion was allocated for the current fiscal year to accommodate the higher wage settlements reached in 2023 and enable hiring key government employees such as doctors, nurses, teachers, and police officers. Over the medium term, National Treasury still wants to contain growth in the **public sector wage bill**, which is budgeted to increase in line with inflation and, therefore, stagnant in real or inflation-adjusted terms. Treasury emphasised that the departments must absorb additional wage hikes within their baselines and operate within their budgets when creating new posts or filling vacant posts.

Spending on **social grants** is budgeted to increase by 6.1% in 2024/25, reflecting inflation-related adjustments to the monetary transfers and further growth in the number of dependents. The Social Relief of Distress (SRD) grant was also extended for another year, costing R33.6 billion. Over the MTEF, social grants grow by an annual average of 1.3%, provided the SRD is not extended even further. Given the country's challenging socio-economic conditions, we believe the government will still implement some form of basic income grant once the SRD expires. Discussion to convert the SRD into the Basic Income Grant (BIG) is underway.

Government plans to accelerate infrastructure expansions through public-private partnerships (PPP). Several reforms are underway that will involve the pooling of resources, including funding mechanisms and improving the PPP regulatory framework and the Infrastructure Fund's operation. **Infrastructure spending** increases by 6% to R106 billion in 2024/25. Most of the funds (around 36%) will be allocated to transport and logistics to upgrade the toll and non-toll road networks and rail freight corridors. Higher allocations were also made for energy (R58.5 billion) and water and sanitation (R53.2 billion). Treasury highlighted that the infrastructure fund has made progress in supporting infrastructure finance since its inception. Over the MTEF, infrastructure spending rises by an average of 5% per year.

No new major allocations were made to the **state-owned enterprises (SOEs)**. Some progress was reported, with Eskom continuing its recovery plan under the debt relief arrangement. Transnet, which was granted a R47 billion guarantee in December 2023 is also implementing its recovery plan. Through its cost reduction initiative, the South African Post Office (SAPO) reduced its net loss position to R2.2 billion. Denel is still struggling to progress on its turnaround strategy after it was allocated R3.4 billion in 2022.

Budget metrics

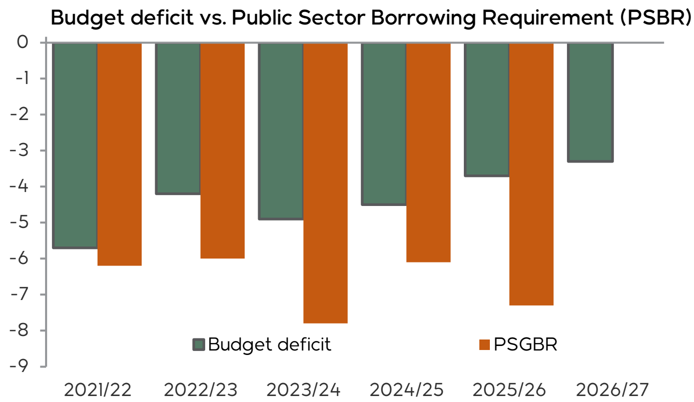
Higher revenue growth helps to offset the effect of higher expenditure, with the National Treasury projecting a lower **budget deficit** over the MTEF. In 2023/24, the deficit will likely amount to 4.9% of GDP as predicted in the MTBPS 2023, but then narrows faster between 2024/25 and 2026/27, dipping to below 3.5% over the MTEF.

National Treasury still forecasts a **primary surplus** in 2023/24, revising it slightly higher to R24.8 billion from R24.4 billion. The surplus widens to 0.4% of GDP in 2023/24, increasing further to 1.8% in 2026/27.

The higher primary surplus contains the increase in the **public debt ratio**. Debt is projected to peak at 75.3% of GDP in 2025/26, lower than 77.7% in the MTBPS 2023, before easing gradually to 67.1% by 2031/32.

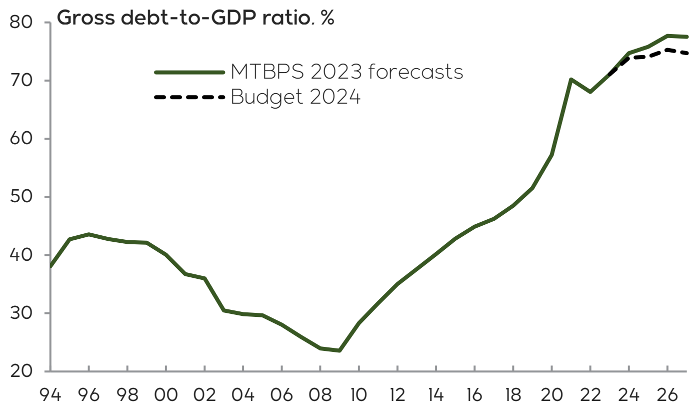
Although the budget deficit falls at a rapid pace over the MTEF, the public sector borrowing requirement (PSBR), the sum of the budget deficit, borrowing for refinancing maturing bonds and loans for the Eskom debt package keep the borrowing requirement much higher than implied by the budget deficit (Chart 1)

Chart 1: PSBR and budget deficit as % of GDP



Source: National Treasury Budget 2024

Chart 2: Gross debt as % of GDP



Source: National Treasury Budget 2024

Borrowing requirement

The narrower budget deficit and the utilisation of valuation gains in the **Gold and Foreign Exchange Contingency Reserve Account** (GFECRA) reduce the **public sector gross borrowing requirement** (PSGBR). Over the MTEF, the PSBR averages 6.25% of GDP, easing to 5.1% in 2026/27 from 7.8% in 2023/24.

Between 2024/25 and 2026/27, the National Treasury will tap R150 billion from the GFECRA. Legislation governing the utilisation of valuation gains and losses in the Contingency Reserve Account is still to be formalised.

Eskom debt package is R2 billion per year lower than planned for 2023/24 and 2024/25 as the utility has not met some of the conditions of the debt package, but it remains unchanged at R110 billion for 2025/26. No additional allocations were made for Transnet, after a R47 billion bailout was announced in late 2023. However, indications are that Transnet will need more financial assistance in 2024/25, with its debt pile jumping to R131.8 billion at the end of 2023.

Debt issuance will remain dominated by local currency long-term bonds, while the National Treasury will continue to extend the maturity profile of the debt stock.

TABLE 4: PUBLIC SECTOR BORROWING REQUIREMENT

	2022/23	2023/24		2024/25	2025/26	2026/27
R billion	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Main budget balance	-309.9	-275.4	-331.4	-320.9	-308.2	-287.2
Redemptions	-90.3	-162.2	-145.8	-172.6	-185.6	-166.3
Domestic long-term loans	-74.6	-117.9	-98.6	-132.1	-126.7	- 126.7
Foreign loans	-15.8	-44.4	-47.1	-40.5	-58.9	-39.6
Eskom debt-relief package	-	-78.0	-76.0	-64.2	-110.2	-
GFECRA settlement (net)[4]	-	-	-	100.0	25.0	25.0
Total	**400.3**	**515.6**	**553.1**	**457.7**	**579.0**	**428.5**
Financing						
Domestic short-term loans	-25.6	48.0	88.0	33.0	47.0	34.0
Treasury bills (net)	-25.5	48.0	88.0	33.0	47.0	34.0
Corporation for Public Deposits	-0.084	-	-	-	-	-
Domestic long-term loans	322.4	329.9	327.9	328.1	422.2	303.2
Market loans	321.7	329.9	328.0	328.1	352.2	303.2
Loans issued for switches	0.09	-	0.53	-	-	-
Loans issued for repos (net)	0.66	-	-0.66	-	-	-
Eskom debt-relief package					70.0	-
Foreign loans	64.5	44.4	45.2	36.7	82.2	92.2
Market loans	64.5	44.4	45.2	36.7	82.2	92.2
Change in cash and other balances[2]	39.0	93.3	92.1	59.9	27.6	-0.88
Cash balances	29.3	86.3	83.6	53.1	21.8	-5.9
Other balances[3]	9.6	7.0	8.4	6.8	5.9	5.0
Total	**400.3**	**515.6**	**553.1**	**457.7**	**579.0**	**428.5**
Percentage of GDP	*6.0%*	*7.4%*	*7.8%*	*6.1%*	*7.3%*	*5.1%*

Source: National Treasury Budget Review 2024

Conclusion

Although the National Treasury has once again signalled its commitment to contain the increase of the public debt stock by remaining on a path of fiscal consolidation, they have undoubtedly opted for the easy way out of a difficult situation by utilising the GFECRA. It makes everything look much better, even though the underlying picture remains unchanged. To their credit, they still aim to contain expenditure growth over the next three years. However, meeting the expenditure targets will require significant fiscal restraint and discipline. Faster revenue growth will also be crucial to reduce the budget deficit below 3.5% of GDP by 2026/27.

The additional burden on individual taxpayers threatens to weaken consumers already grappling with the effects of high debt levels and elevated interest rates.

The utilisation of GFECRA will have to follow strict rules to ensure the facility is not used as a bailout instead of fundamental measures to contain the increase of the debt stock.

Encouragingly, an additional allocation was not made to Transnet, following the R47 billion package announced in late 2023. However, it is unlikely that the rail utility will achieve an operational and financial turnaround without further assistance from the fiscus. Therefore, it is likely that more financial support will be set aside for the utility during 2024/25, which would push the borrowing requirement higher.

Overall, this was a prudent budget against the backdrop of elevated expenditure needs. However, the risk of missing the estimates over the MTEF period will remain high. Faster economic growth, which an accelerated implementation of structural reforms would facilitate, is necessary to expand the revenue base and boost aggregate revenue. Expenditure restraint, particularly on non-investment spending, will be crucial to stabilise the fiscal position further.

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