

Box 3 The 2023 Medium Term Budget Policy Statement¹

The *2023 Medium Term Budget Policy Statement (2023 MTBPS)* sets out the government's strategy to avoid a fiscal crisis and prevent the build-up of systemic risks to the economy. The strategy, as set out in the *2023 MTBPS*, is focused on fiscal discipline by narrowing the budget deficit and stabilising debt, while ensuring continued assistance for the most vulnerable, investment in infrastructure and that the implementation of structural reforms are fast-tracked to support economic growth. The deteriorating rail freight network, inefficient port operations and frequent power interruptions remain government's main challenges and binding constraints to economic growth.

The main expected outcomes of the *2023 MTBPS* are to achieve a primary budget surplus² of 0.3% of gross domestic product (GDP) by fiscal 2023/24 and to stabilise national government's gross loan debt at 77.7% of GDP in fiscal 2025/26.

South Africa's fiscal and economic outlook remains constrained over the medium term, reflecting high inflation and electricity load-shedding alongside logistical inefficiencies, rising borrowing costs and a weaker global economic environment, all of which are not supportive of domestic economic growth prospects. Amid these factors, the *2023 MTBPS* revised annual growth in real GDP lower from 0.9% to 0.8% for 2023, with a projected average of 1.5% from 2024 to 2026. Consumer price inflation is expected to decelerate from 6.0% in 2023 to 4.5% in 2026 as the energy and food price shocks associated with the war in Ukraine and global supply chain disruptions slowly dissipate. The upside risks to the medium-term inflation outlook include a weakening exchange value of the rand, rising oil prices, the recent avian influenza outbreak and elevated administered prices for utilities such as electricity and water. However, headline inflation is expected to return to the midpoint of the 3–6% inflation target range in 2026.

¹ The *2023 Medium Term Budget Policy Statement* was presented to Parliament by the Minister of Finance on 1 November 2023.

² A primary budget surplus is attained when revenue exceeds non-interest expenditure.



Macroeconomic projections*

Percentage

	2022**	2023		2024		2025		2026
		Medium-term estimates***						
	Actual	Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Real GDP growth	1.9	0.9	0.8	1.5	1.0	1.8	1.6	1.8
CPI	6.9	5.3	6.0	4.9	4.9	4.7	4.6	4.5
Current account balance (as a percentage of GDP).....	-0.5	-1.8	-2.4	-2.0	-3.0	-2.1	-3.0	-3.1
GDP at current prices (R billions)	6 628.6	6 894.8	6 947.3	7 338.3	7 321.4	7 814.5	7 786.8	8 288.7

* Calendar years

** 2023 MTBPS

*** 2023 Budget Review, 2023 MTBPS

Source: National Treasury

The 2023 MTBPS revised consolidated government revenue lower by R44 billion to R1 915 billion compared to the 2023 Budget Review's original estimate of R1 959 billion for fiscal 2023/24. The lower-than-expected revenue estimate largely reflected downward revisions to near-term tax base growth projections, falling corporate tax collections and lower net value-added tax (VAT) collections. By contrast, the National Revenue Fund (NRF) receipts were revised higher by R11.3 billion, mainly owing to higher-than-expected revaluation profits from foreign currency transactions. Consolidated government revenue is expected to average 27.1% of GDP over the medium term compared with the 28.2% recorded in fiscal 2022/23. Compared with the 2023 Budget Review, the gross tax revenue projected for fiscal 2023/24 was revised lower by R56.8 billion to R1 731 billion.

Fiscal framework*

R billions/percentage of GDP

	2022/23**	2023/24		2024/25		2025/26		2026/27
	Outcome	Medium-term estimates***						
		Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Total consolidated revenue	1 898	1 959	1 915	2 078	2 013	2 225	2 139	2 286
Total consolidated expenditure	2 145	2 243	2 262	2 360	2 352	2 477	2 473	2 589
<i>Of which: Debt-service cost</i>	<i>308.5</i>	<i>340.5</i>	<i>354.5</i>	<i>362.8</i>	<i>385.9</i>	<i>397.1</i>	<i>425.5</i>	<i>455.9</i>
<i>Primary budget balance</i>	<i>-1.5</i>	<i>65.1</i>	<i>24.4</i>	<i>93.0</i>	<i>64.2</i>	<i>138.3</i>	<i>100.0</i>	<i>145.2</i>
<i>Percentage of GDP****</i>	<i>-0.0</i>	<i>0.9</i>	<i>0.3</i>	<i>1.2</i>	<i>0.9</i>	<i>1.7</i>	<i>1.3</i>	<i>1.7</i>
Consolidated budget deficit	-247.0	-283.7	-346.5	-282.0	-339.9	-252.1	-334.0	-302.0
<i>Percentage of GDP</i>	<i>-3.7</i>	<i>-4.0</i>	<i>-4.9</i>	<i>-3.8</i>	<i>-4.6</i>	<i>-3.2</i>	<i>-4.2</i>	<i>-3.6</i>
Gross loan debt of national government	4 765	5 060	5 238	5 424	5 641	5 843	6 133	6 525
<i>Percentage of GDP****</i>	<i>70.9</i>	<i>72.2</i>	<i>74.7</i>	<i>72.8</i>	<i>75.8</i>	<i>73.6</i>	<i>77.7</i>	<i>77.5</i>

* Fiscal years

** 2023 MTBPS

*** 2023 Budget Review and 2023 MTBPS

**** Main Budget

Source: National Treasury

The constrained fiscal framework provided no room for additional allocations to state-owned companies (SOCs). Owing to weak economic growth, operational inefficiencies, high cost structures and onerous debt obligations, most SOCs remain in financial distress and are unable to attract funding at reasonable rates and terms, and thus rely on fiscal funding. As outlined in the *2023 Budget Review*, the government will provide Eskom with a debt relief amount of R254 billion from fiscal 2023/24 to 2025/26 to enable the utility to undertake much-needed maintenance and investment, and to improve its financial position. The Eskom Debt Relief Amendment Bill tabled during the *2023 MTBPS* now includes conditions for the payment of interest by Eskom on amounts advanced as part of the debt relief loan. By 30 September 2023, government had paid R16.0 billion of the R78.0 billion debt relief for fiscal 2023/24. The Land Bank received R5.1 billion at the end of fiscal 2022/23 as part of the R7.0 billion allocation and the remaining portion will be transferred in the current fiscal year to use in its blended finance scheme. Transnet's issued guarantee of R3.5 billion for operational maintenance and the expansion of infrastructure remains unchanged.

Revisions to consolidated government's revenue and expenditure*



* Budget Review to MTBPS

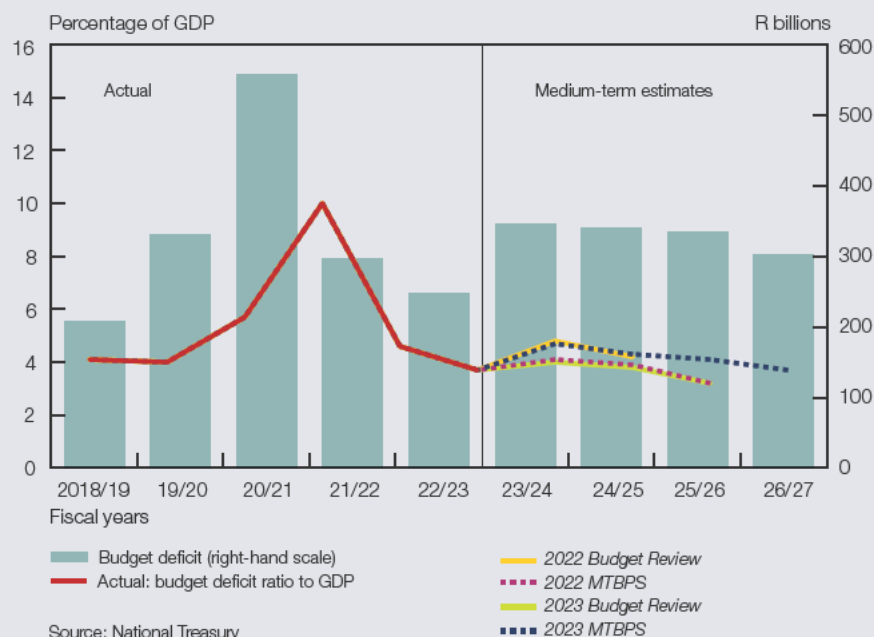
Source: National Treasury

Consolidated government expenditure for fiscal 2023/24 was revised marginally higher in the *2023 MTBPS* to an estimated R2 262 billion, from R2 243 billion in the *2023 Budget Review*. Annual average growth in expenditure is projected at 4.6% over the next three years, peaking at R2 589 billion in fiscal 2026/27. These revisions reflect, among other things, expected wage bill adjustments, the extension of the R350 special COVID-19 social relief of distress grant until 31 March 2025 as well as an increase in infrastructure spending allocations. Total consolidated government expenditure by function (non-interest spending) is expected to increase at an annual average rate of 3.6%, while debt-service costs are expected to increase at an average rate of 8.7% over the medium term. Debt-service costs – the fastest-growing component of spending given the increase in national government debt – are expected to increase from R355 billion (5.1% of GDP) in the current fiscal year to R456 billion, or 5.4% of GDP, in the medium term. Similarly, debt-service costs as a share of consolidated government revenue will increase from 18.5% in fiscal 2023/24 to 19.9% in fiscal 2026/27, crowding out important social spending programmes.

The consolidated government budget deficit for fiscal 2023/24 is higher at 4.9% of GDP in the *2023 MTBPS* compared to 4.0% in the *2023 Budget Review*, and is expected to average 4.1% over the medium term.



Consolidated government budget deficit



Government's gross borrowing requirement (both the budget deficit and maturing loans) was revised higher to R564 billion for fiscal 2023/24 compared with R516 billion at the time of the 2023 Budget Review. Over the medium term, the gross borrowing requirement is expected to average R554 billion. Government's financing strategy includes long-term borrowing in the domestic bond market, which is expected to increase to R464 billion in fiscal 2025/26 and decline to R349 billion in fiscal 2026/27. Debt redemptions are expected to increase from R156 billion in fiscal 2023/24 to R188 billion in fiscal 2025/26. Government plans to exchange some of the redemptions expected in fiscal 2023/24 for longer-dated bonds as part of the ongoing bond switch programme. Government will raise additional foreign funding of US\$2.4 billion during the current fiscal year through concessional funding from international financial institutions to meet its foreign currency commitments. Over the next two years, government will also draw on its foreign exchange balances.

The gross loan debt of national government for fiscal 2023/24 was revised higher from R5 060 billion in the 2023 Budget Review to R5 238 billion in the 2023 MTBPS, and is expected to increase to R6 133 billion (stabilising at 77.7% of GDP) in fiscal 2025/26 and R6 525 billion (77.5% of GDP) in fiscal 2026/27, mainly driven by the budget balance as well as fluctuations in interest rates and the exchange value of the rand.

National government gross loan debt

