Box 3 The *2024 Budget Review*[1]

The 2024 Budget proposals outline the government's intention to balance fiscal sustainability and development, supported by structural reforms in energy, ports, railways and telecommunications as well as increased public investment and the stabilisation of public debt.

To assist with stabilising debt, the government will draw down R150 billion from the balance of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). The framework setting out GFECRA distributions will be formalised through legislation. A net reduction of R80.6 billion in non-interest expenditure over the medium term is expected to result in an improvement in the fiscal balance, with a consolidated budget primary surplus[2] of 0.2% in fiscal 2023/24.

Revenue collections thus far in 2023/24 have been well below the projections in the *2023 Budget Review*, mainly due to lower corporate income tax (CIT) and value-added tax (VAT), impacted by energy and other logistical constraints. The *2024 Budget Review* has revised growth in South Africa's real gross domestic product (GDP) for 2023 lower to 0.6% due to weaker-than-expected outcomes in the third quarter of 2023, particularly in household consumption expenditure and fixed investment. GDP growth has also been hampered by intensive and persistent electricity supply disruptions as well as the poor state of ports and freight rail infrastructure. Over the medium term, GDP growth is projected to average 1.6%. The outlook is supported by an expected recovery in household spending as inflation moderates and an increase in energy-related fixed investment.

1 The *2024 Budget Review* was presented to Parliament by the Minister of Finance on 21 February 2024.

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

Macroeconomic projections*

Percentage

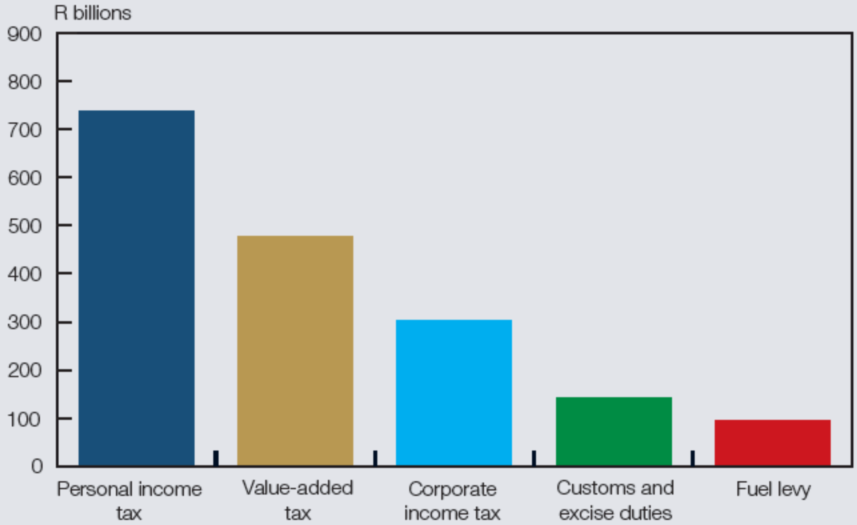
	2021	2022	2023		2024	2024	2025	2026
	Actual outcome		Budget	*MTBPS*	Budget	Medium-term estimates**		
Real GDP growth	4.7	1.9	0.9	0.8	0.6	1.3	1.6	1.8
Consumer price inflation.......	4.6	6.9	5.3	6.0	6.0	4.9	4.6	4.6
Current account balance*** ..	3.7	-0.5	-1.8	-2.4	-1.8	-2.8	-3.0	-3.0

* Calendar years
** *2024 Budget Review*
*** As a percentage of GDP

Source: National Treasury

The expected consolidated government revenue of R1 921 billion (27.3% of GDP) in fiscal 2023/24 represented a downward revision of R37.5 billion relative to the *2023 Budget Review* due to weak economic conditions and the resultant lower CIT and net VAT collections.

Major sources of consolidated government revenue in fiscal 2024/25



Sources: National Treasury and SARS

In fiscal 2024/25, personal income tax (PIT), VAT and CIT are expected to remain the main sources of government revenue, contributing 74.5% to the total revenue of consolidated government. Two long-term tax reforms – the two-pot retirement system and the global minimum corporate tax rate – will be implemented in fiscal 2024/25. The main tax proposals for fiscal 2024/25 include:

- no inflation adjustments to the PIT brackets, rebates and medical tax credits, raising additional revenue of R18.2 billion from direct taxes;
- an above-inflation adjustment on excise duties on alcohol of between 6.7% and 7.2%, while duties on certain tobacco products will increase by between 4.7% and 8.2%;
- no adjustment to the general fuel levy or the Road Accident Fund (RAF) levy, resulting in R4.0 billion in tax relief;
- an increase in the carbon fuel levy to 11c per litre for petrol and 14c per litre for diesel, effective from 3 April 2024, as required under the Carbon Tax Act 15 of 2019;
- the introduction of a global minimum corporate tax, with multinational corporations subject to an effective tax rate of at least 15%, regardless of where their profits are generated; and
- the availability of an investment allowance for new investments in electric vehicle manufacturing from 1 March 2026 that would allow producers of such vehicles to claim 150% of their qualifying investment spending as an incentive to encourage the production of electric vehicles and aid the transition to new-energy vehicles.

Consolidated fiscal framework indicators*

R billions

	2021/22	2022/23	2023/24			2024/25	2025/26	2026/27
	Outcome		2023 Budget	*2023 MTBPS*	2024 Budget	Medium-term estimates**		
Consolidated revenue	1 752	1 896	1 959	1 916	1 921	2 037	2 176	2 324
Percentage of GDP	*27.8*	*28.2*	*28.0*	*27.3*	*27.3*	*27.3*	*27.5*	*27.6*
Consolidated expenditure	2 044	2 141	2 243	2 262	2 269	2 369	2 471	2 598
Percentage of GDP	*32.4*	*31.9*	*32.0*	*32.3*	*32.2*	*31.8*	*31.2*	*30.8*
Consolidated budget balance	-292	-245	-284	-347	-347	-332	-295	-274
Percentage of GDP	*-4.6*	*-3.6*	*-4.0*	*-4.9*	*-4.9*	*-4.5*	*-3.7*	*-3.3*
Primary balance	-16	71	66	8.0	17	59	128	174
Percentage of GDP	*-0.3*	*1.1*	*0.9*	*0.1*	*0.2*	*0.8*	*1.6*	*2.1*
Gross loan debt***	4 277	4 765	5 060	5 238	5 207	5 522	5 959	6 293
Percentage of GDP	*67.8*	*70.9*	*72.2*	*74.7*	*73.9*	*74.1*	*75.3*	*74.7*
Net loan debt***	4 011	4 516	4 913	5 088	5 057	5 432	5 890	6 219
Percentage of GDP	*63.5*	*67.2*	*70.1*	*72.6*	*71.7*	*72.9*	*74.4*	*73.8*

* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.
** *2024 Budget Review*
*** Refers to national government, or main budget

Source: National Treasury

Consolidated government expenditure is expected to reach R2 269 billion (32.2% of GDP) in fiscal 2023/24 and increase to R2 598 billion (30.8% of GDP) in fiscal 2026/27. Over the medium term, government's priority is to enhance the effectiveness and efficiency of spending. The 2024 Budget allocates R1.4 *trillion* to social services programmes, R481 billion to learning and culture, R387 billion to social development, R272 billion to health and R265 billion to community development programmes over the medium term.

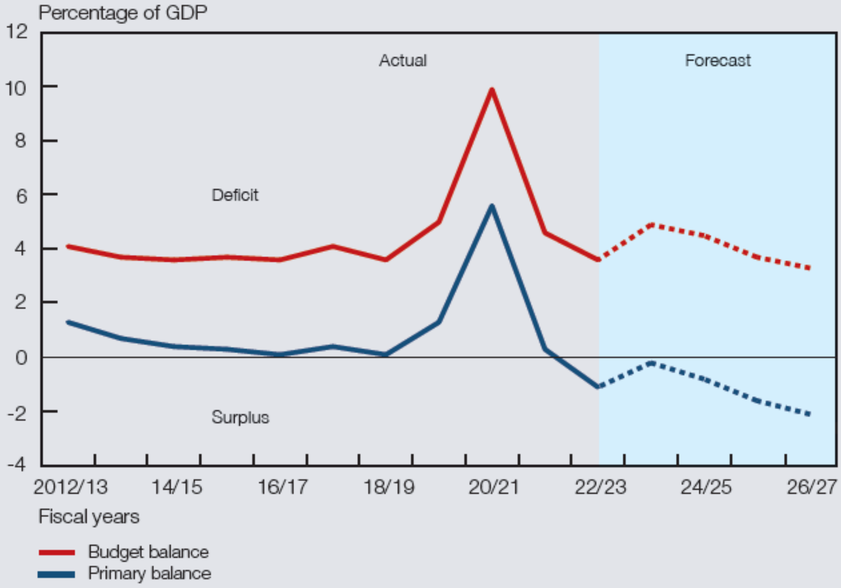
Over the medium term, these increases include an additional allocation of R251 billion to health, education, peace and security, and social development to provide for the carry-through costs of the 2023/24 wage increase, the extension of the COVID-19 social relief of distress grant as well as additional funding for election-related activities. An amount of R7.4 billion was set aside for the Presidential Youth Employment Initiative (PYEI) in fiscal 2024/25 through a combination of reprioritisation, provisional allocations and funding from the Unemployment Insurance Fund's (UIF) Labour Activation Programme.

Payments for capital assets, the fastest growing expenditure item, are expected to average annual growth of 10% over the medium term, mainly due to infrastructure allocations for transport and water projects. Similarly, debt-service costs are projected to increase from R356 billion (5.1% of GDP) in fiscal 2023/24 to R440 billion (5.2% of GDP) in fiscal 2026/27, representing annual average growth of 7.3%. Meanwhile, the social wage[3] is expected to constitute, on average, 60.2% of total non-interest spending over the next three years. Compensation of employees, which is a significant expenditure item, is expected to increase by 4.5%, on average – the third-fastest growing expenditure item.

The revised revenue and expenditure projections are expected to reduce the consolidated budget deficit from 4.9% of GDP in fiscal 2023/24 to 3.3% of GDP in fiscal 2026/27. The primary balance of consolidated government is expected to revert from a *deficit* of 0.3% of GDP in fiscal 2021/22 to a *surplus* of 0.2% of GDP in fiscal 2023/24 and 2.1% of GDP in fiscal 2026/27. The higher consolidated budget deficit for 2023/24 led to an upward revision of R84.1 billion in the public sector's borrowing requirement to R470 billion (6.7% of GDP) compared with the initial expectations in the *2023 Budget Review*. The borrowing requirement will be financed through a combination of domestic short- and long-term loans, foreign currency-denominated instruments and cash balances. The gross loan debt of national government is projected to increase from R5.2 *trillion* (73.9% of GDP) at the end of fiscal 2023/24 to R6.3 *trillion* (74.7% of GDP) at the end of fiscal 2026/27. The increase in gross loan debt will be driven by the projected budget deficit and the financing of the Eskom debt relief programme, which will be partially offset by the funds accessed from the accumulated balances in GFECRA. Over the next three years, the government will transfer R76.0 billion, R64.2 billion and R40.2 billion respectively to Eskom for capital and interest payments. In fiscal 2025/26, the government will also take over a maximum of R70 billion of Eskom's debt by converting selected debt instruments into government debt.

3 The social wage refers to spending on health, education, social protection, community development and employment programmes.

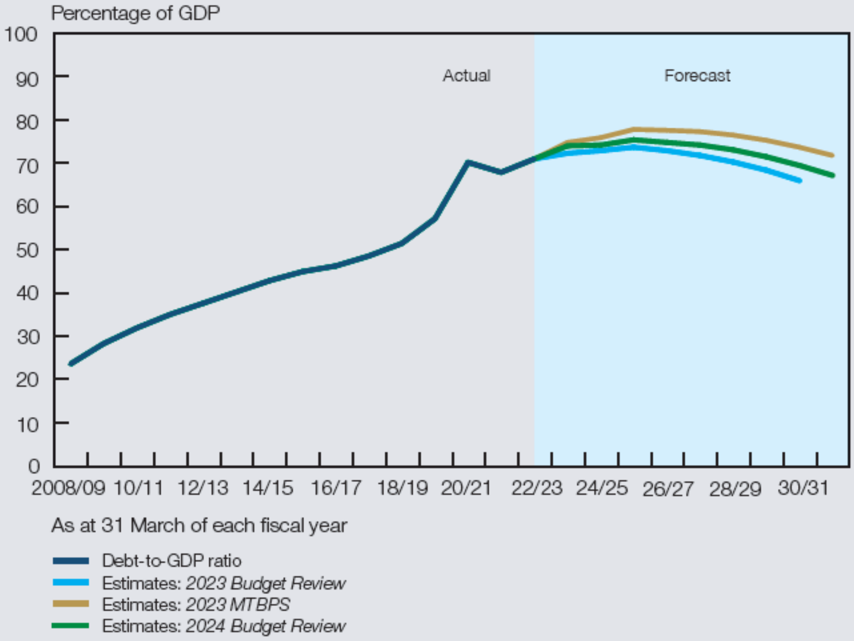
Consolidated fiscal balances



Source: National Treasury, *2024 Budget Review*

Government's total contingent liabilities – including guarantees to state-owned companies (SOCs), independent power producers (IPPs) and public-private partnerships (PPPs) – are projected at R1.1 *trillion* in fiscal 2023/24, almost unchanged from 2022/23. The total approved guarantees to SOCs are expected to increase by R33.0 billion to R503.3 billion by 31 March 2024, while the exposure amount will decrease by about R16.6 billion to R416.3 billion, with Eskom accounting for 85% of the exposure. The RAF remains the government's largest contingent liability.

National government's gross loan debt



Source: National Treasury

Despite the improved global outlook for 2024, South Africa's near-term economic growth remains constrained by lower international commodity prices and domestic structural constraints. Risks to the medium-term outlook include persistent electricity supply disruptions, freight rail and port infrastructure constraints, high sovereign credit risk and borrowing costs, slow revenue growth, an elevated public sector wage bill and the materialisation of contingent liabilities.