2024 MTBPS

MEDIUM TERM BUDGET POLICY STATEMENT

BUILDING MOMENTUM FOR INCLUSIVE GROWTH

#MTBPS2024

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

30 YEARS OF FREEDOM

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Overview

- Government is pursuing policies to achieve rapid, inclusive and sustainable economic growth.
- The economy is forecast to grow by an annual average of 1.8 per cent over the next three years, underscoring the need for continued implementation of structural reforms.
- The fiscal strategy remains on course.
- The consolidated budget deficit will narrow from 5 per cent of GDP in 2024/25 to 3.2 per cent of GDP in 2027/28 and debt will stabilise at 75.5 per cent of GDP in 2025/26.
- Economic reforms are beginning to bear fruit:
  - electricity availability has improved;
  - the logistics system is stabilising; and
  - the cost of doing business is declining in some areas of the economy.
- Stronger infrastructure investment will underpin the growth agenda.
- Risks to the fiscal outlook remain elevated in the near to medium term.

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Global economic outlook

Region/country Percentage	2022	2023	2024	2025
	Actual		Forecast	
World	**3.6**	**3.3**	**3.2**	**3.2**
Advanced economies	**2.9**	**1.7**	**1.8**	**1.8**
United States	2.5	2.9	2.8	2.2
Euro area	3.3	0.4	0.8	1.2
United Kingdom	4.8	0.3	1.1	1.5
Japan	1.2	1.7	0.3	1.1
Emerging and developing countries	**4.0**	**4.4**	**4.2**	**4.2**
Brazil	3.0	2.9	3.0	2.2
Russia	-1.2	3.6	3.6	1.3
India	7.0	8.2	7.0	6.5
China	3.0	5.2	4.8	4.5
Sub-Saharan Africa	**4.1**	**3.6**	**3.6**	**4.2**
Nigeria	3.3	2.9	2.9	3.2
South Africa[1]	1.9	0.7	1.1	1.7
World trade volumes	**5.7**	**0.8**	**3.1**	**3.4**

1. National Treasury forecasts

IMF World Economic Outlook, October 2024

- Global growth is expected to remain steady at 3.2 per cent in 2024 and 2025, and expected to converge to 3.1 per cent after 2025
- Persistent geopolitical challenges and the impact of elevated sovereign debt represent significant risks to the global outlook
- Structural constraints like low productivity and an aging population limit potential growth in many major economies.
- Inflation has continued to ease, paving way for the policy rate cutting cycle.
- However, services inflation and lagged wage adjustments continue to interrupt the normalisation in policy rates

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Domestic economic outlook

Calendar year	2021	2022	2023	2024	2025	2026	2027
Percentage change	Actual			Estimate	Forecast		
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	0.8	0.5	2.0	1.7	1.9
Exports	9.7	6.8	3.7	-1.6	3.1	3.1	3.1
Imports	9.6	15.0	3.9	-3.2	4.1	2.8	3.0
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	5.0	4.6	4.5
GDP at current prices (R billion)	**6,220.2**	**6,655.5**	**7,024.0**	**7,396.7**	**7,897.6**	**8,404.1**	**8,953.6**
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, Reserve Bank and Statistics South Africa

- Real GDP growth projected to average 1.1 per cent in 2024, up from 0.7 per cent in 2023
- A weaker first half has led a downward revision of the 2024 GDP forecast, with notable compositional shifts.
- Contractions in foreign trade and investment are now projected, while household and government consumption holding up.
- SA's economy faced challenges in the first half of 2024, including power cuts, freight rail and port failures, and high living costs.
- However, reduced power cuts, improved sentiment, and quicker inflation relief are expected to boost activity going forward.
- Medium-to-longer-term growth is dependent on resolving the supply constraints and reducing barriers to economic activity.

The four pillars of economic growth

- **Maintaining macroeconomic stability.** A stable, transparent and predictable macroeconomic framework remains fundamental for better growth outcomes.
- **Implementing structural reforms.** South Africa now has initial evidence of the effects of reforms that reduce economic bottlenecks, exemplified by Operation Vulindlela. The second phase of Operation Vulindlela will build on previous efforts.
- **Building state capability.** A capable state that delivers a reasonable and reliable standard of public services will foster the necessary environment for more growth and jobs.
- **Supporting growth-enhancing public infrastructure investment.** Investment in infrastructure will boost economic activity and enable higher growth over the medium term.

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Towards a “second wave” of structural economic reforms

- By alleviating load shedding, improving the performance of the logistics system, reducing the cost of data, improving water supply, and enabling the country to attract the skills it needs, **the reforms already underway through OV Phase I will provide a significant boost to the economy** in the medium term.
- Government will also **support the repositioning of strategic state-owned enterprises** by strengthening their balance sheets, enabling higher levels of private investment in infrastructure, and improving their operational performance.
- The immediate priority should be to sustain the momentum and **follow through on the implementation of existing reforms**
- To achieve not only higher, but more inclusive long-term growth, **a new phase of OV will target additional reforms**.
- These new reforms address both long-standing and emerging constraints, such as the **deteriorating performance of local government** and **spatial inequality.**
- Over the past six months, OV has undertaken a process of in-depth engagement within and beyond government (including with sector experts) to **identify priorities for Phase II based on their potential impact on growth and jobs**.

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Proposed new focus areas for Operation Vulindlela phase II

Following through on existing reforms

Transform the electricity sector to achieve energy security

Create a world-class logistics system to support export growth

Invest in water infrastructure to ensure water security

Reform the visa system to attract skills and investment

Expanding to new reform areas

Create dynamic and integrated cities to enable economic activity

Harness digital public infrastructure as a driver of growth and inclusion

Strengthen local government and improve the delivery of basic services

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Medium-term fiscal strategy

- The multi-pronged strategy focuses on achieving fiscal sustainability, supporting economic growth and critical social services, and addressing significant fiscal and economic risks.

The strategy prioritises:

- Stabilising government debt by maintaining sufficiently large primary surpluses over the rest of the decade
    - A debt-stabilising primary surplus will continue to anchor fiscal policy over the medium-term.
- Ensuring higher levels of capital investment by:
    - Stabilising and reducing borrowing costs
    - Directing a growing share of public spending towards capital projects and
    - Initiating wide-ranging infrastructure reforms
- Protecting critical services in the context of limited budget resources
    - The social wage averages 59.9 per cent of consolidated non-interest spending over the medium term.
- Controlling growth in the public-service wage bill by ensuring that public servants are compensated fairly while implementing measures to contain overall costs
- Limiting further financial support to state-owned companies, while completing the resolution of the debt obligations of Eskom and SANRAL
- Technical work on permanent measures to anchor fiscal policy and ensure debt sustainability continues, with updates to be presented in the 2025 Budget.

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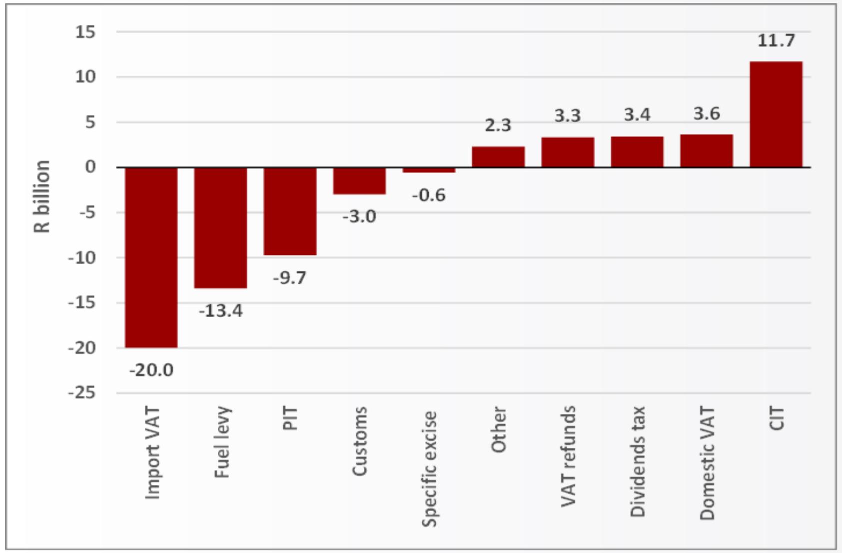
In-year revenue outlook

Gross tax revenue estimates compared to the 2024 Budget



- Revenue collections over the first half of 2024/25 were 5.2 per cent higher than the same period last year.
- Nevertheless, falling import VAT and fuel levy collections contribute to a weaker near-term revenue outlook.
- Compared to the 2024 Budget, the gross tax revenue estimate for 2024/25 is projected to be R22.3 billion lower.
- Import VAT collections contracted as stabilising power supply led to lower imports of energy-related components.
- Net fuel levy collections contracted as fuel demand fell sharply, with the outlook also revised lower due to an expected settlement of a large once-off diesel refund payment.
- The outlook for corporate profits and corporate tax collections has improved amid easing supply-side constraints.
- More sustainable economic growth is required for the tax-to-GDP ratio to increase beyond the 24.5 per cent estimated for 2024/25.

Medium-term revenue outlook

- Despite underperformance in near-term revenue collections; the tax-to-GDP ratio remains resilient and tax collections are expected to remain buoyant, averaging above 1 over the medium term.
- Slower renewable energy-related imports lowered import VAT collections, while weaker in-year fuel levy collection limits growth over the medium term.
- An improved profitability outlook raises expectations for medium-term corporate tax collections.
- Stronger tax revenue collections over the medium to long term are reliant on more sustainable economic growth and further gains in tax compliance and tax administration.

Revised gross tax revenue projections

R billion	2024/25	2025/26	2026/27	2027/28
2024 Budget	**1 863.0**	**1 991.2**	**2 133.0**	
Buoyancy	*1.33*	*1.11*	*1.11*	
Revised estimates	**1 840.8**	**1 971.8**	**2 111.1**	**2 255.2**
Buoyancy	*0.95*	*1.09*	*1.09*	*1.04*
Change since 2024 Budget	**-22.3**	**-19.4**	**-21.9**	

Source: National Treasury

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In-year expenditure adjustments since the 2024 budget

Revisions to non-interest expenditure for 2024/25

R million	2024/25
Non-interest expenditure (2024 Budget Review)	**1 753 784**
Upward expenditure adjustments	**19 090**
Rollovers	2 051
SANRAL GFIP phase 1 debt repayment	5 021
National government portion	*1 215*
Provincial government portion [1]	*3 806*
SANDF troop deployment in DRC	2 100
Unforeseeable and unavoidable expenditure	2 133
Announced in the 2024 Budget	2 661
Other allocations in the AENE [2]	5 124
Downward expenditure adjustments	**-8 726**
Drawdown on contingency reserve	-5 000
Provisional allocations not assigned to votes	-570
Projected underspending	-2 914
Declared unspent funds	-242
Revised non-interest expenditure (2024 MTBPS)	**1 764 148**
Change in non-interest expenditure from 2024 Budget	10 364

1. Includes R546 million for maintenance backlog
2. 2024 Adjusted Estimates of National Expenditure
Source: National Treasury

- Proposed spending adjustments for:
  - Rollovers
  - The South African National Defence Force (SANDF) troop deployment in the Democratic Republic of the Congo
  - Unforeseeable and unavoidable expenditure
  - The repayment of SANRAL debt relating to the Gauteng Freeway Improvement Project (GFIP) and
  - Spending announced in the 2024 Budget, which includes an increase in the *COVID-19 social relief of distress grant* from R350 to R370 per month.
- These increases are partially offset by:
  - Declared unspent funds
  - Projected underspending
  - contingency reserve drawdowns and
  - Provisional allocations not assigned to votes
- Relative to the 2024 Budget, main budget non-interest expenditure increases by a net R10.4 billion in 2024/25

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Changes in the next two years' main budget non-interest expenditure since the 2024 budget

Changes to main budget non-interest expenditure

R million	2025/26	2026/27	Total
Non-interest expenditure (2024 Budget)	**1 840 913**	**1 932 982**	**3 773 895**
Additions to baselines and provisional allocations	**16 824**	**16 793**	**33 616**
Local government elections	–	1 435	1 435
SANRAL GFIP phase 1 debt repayment[1] and maintenance backlog	8 681	4 639	13 320
SARS spending adjustments and further support	500	1 500	2 000
Early retirement costs	4 400	6 600	11 000
SANDF troop deployment in DRC carry-through costs	1 800	1 747	3 547
Other spending additions[2]	1 443	871	2 314
Technical adjustments	**-435**	**-771**	**-1 206**
Revised non-interest expenditure (2024 MTBPS)	**1 857 302**	**1 949 003**	**3 806 305**
Change in non-interest expenditure from 2024 Budget	16 389	16 021	32 410

1. *Includes the national government portion of R3.2 billion in 2025/26*
2. *Includes G20 and ICASA spectrum auction cost in 2025/26, new ministries and deputy ministries carry-through costs and financing of Parliament and Office of Chief Justice funding pressures and the International Court of Justice*

Source: National Treasury

- Main budget non-interest expenditure will increase by R32.4 billion over the next two years compared with the 2024 Budget, including proposed increases of:
  - R11 billion to implement early retirement measures over 2025/26 and 2026/27 to manage the public-service wage bill.
  - R3.2 billion for the contribution from national government to the repayment of SANRAL GFIP debt in 2025/26.
  - R10.1 billion for the provincial portion of SANRAL debt repayment relating to the GFIP and the maintenance backlog, which will be received from Gauteng Province and then transferred to SANRAL.
  - R3.5 billion for carry-through costs for the deployment of SANDF troops in the Democratic Republic of the Congo.

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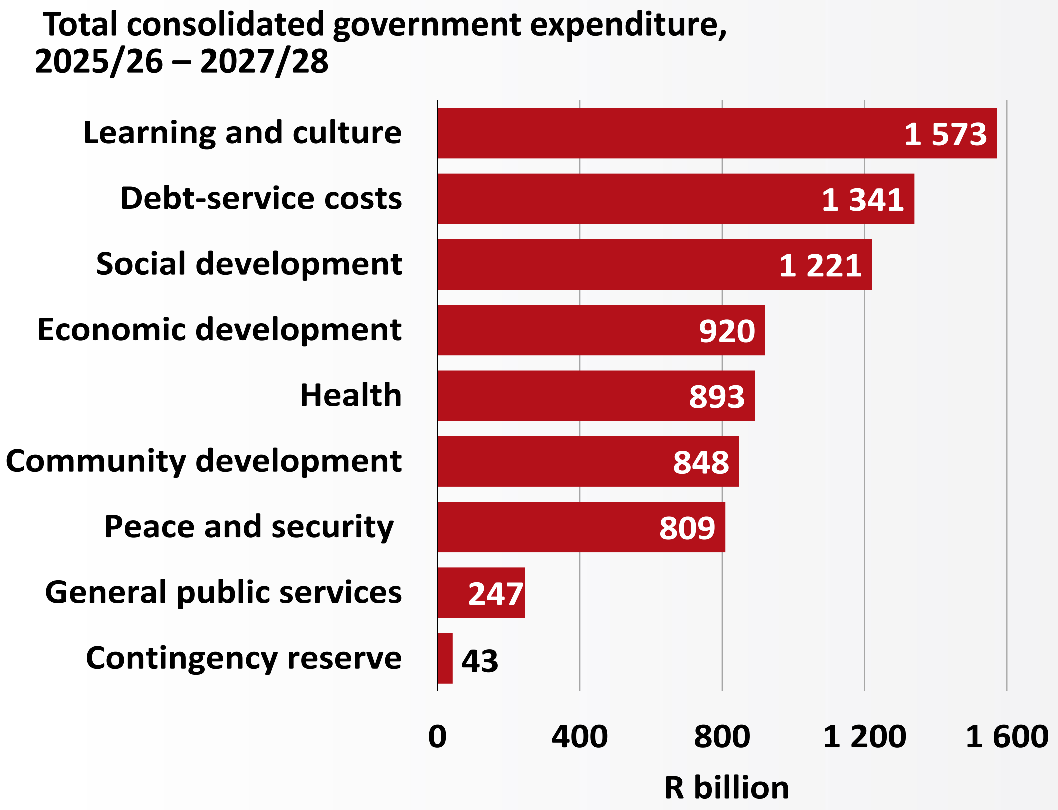
Government expenditure priorities



- Consolidated government spending is expected to increase from R2.4 trillion in 2024/25 to R2.77 trillion in 2027/28, growing by an annual average rate of 4.9 per cent.
- Over the same period, revenues are projected to underperform compared to the 2024 Budget projections.
- In this context, major spending pressures still need to be funded mainly from current baselines, reprioritisations or shifts between programmes.
- Over the medium term, economic development is the fastest-growing function at 7.8 per cent, driven by increased infrastructure allocations.

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Consolidated expenditure by economic classification

Consolidated expenditure by economic classification[1]

R billion	2023/24 Outcome	2024/25 Revised	2025/26 Medium-term estimates	2026/27	2027/28	Average annual growth 2024/25 – 2027/28
Current payments	**1 399.9**	**1 482.0**	**1 567.6**	**1 636.6**	**1 730.8**	**5.3%**
Compensation of employees	724.1	761.4	798.3	832.6	868.0	4.5%
Goods and services	312.7	323.1	341.7	350.2	378.6	5.4%
Interest and rent on land	363.1	397.5	427.6	453.8	484.1	6.8%
of which: debt-service costs	*356.1*	*388.9*	*419.1*	*445.7*	*475.7*	*6.9%*
Transfers and subsidies	**746.8**	**789.1**	**803.8**	**825.5**	**852.3**	**2.6%**
Provinces and municipalities	171.7	181.4	191.1	199.3	208.1	4.7%
Departmental agencies and accounts	33.6	29.1	33.4	29.3	25.9	-3.8%
Higher education institutions	51.0	54.4	55.5	58.0	60.6	3.7%
Foreign governments and international organisations	3.0	3.2	3.3	3.4	3.6	4.0%
Public corporations and private enterprises	39.6	39.5	38.9	40.3	42.4	2.3%
Non-profit institutions	42.2	40.2	43.3	46.4	49.8	7.4%
Households	405.7	441.3	438.3	448.8	461.9	1.5%
Payments for capital assets	**106.6**	**118.7**	**128.9**	**145.1**	**160.6**	**10.6%**
Buildings and other capital assets	78.1	88.7	100.7	117.1	131.1	13.9%
Machinery and equipment	28.5	30.0	28.2	28.0	29.5	-0.5%
Payments for financial assets	**5.4**	**5.2**	**2.4**	**2.6**	**2.6**	
Total	**2 258.8**	**2 395.0**	**2 502.7**	**2 609.9**	**2 746.3**	**4.7%**
Contingency reserve	–	–	7.6	14.5	20.8	
Consolidated expenditure	**2 258.8**	**2 395.0**	**2 510.3**	**2 624.4**	**2 767.1**	**4.9%**

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

- Spending on payments for capital assets is the fastest-growing item by economic classification, increasing at an annual average of 10.6 per cent over the three-year period.

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Consolidated budget framework

Consolidated government fiscal framework

R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome	Revised	Medium-term estimates		
Revenue	**1 941.4**	**2 021.5**	**2 166.6**	**2 314.3**	**2 471.8**
	27.4%	*26.9%*	*27.0%*	*27.1%*	*27.2%*
Expenditure	**2 258.8**	**2 395.0**	**2 510.3**	**2 624.4**	**2 767.1**
	31.8%	*31.8%*	*31.3%*	*30.8%*	*30.4%*
Budget balance	**-317.5**	**-373.5**	**-343.7**	**-310.1**	**-295.3**
	-4.5%	*-5.0%*	*-4.3%*	*-3.6%*	*-3.2%*
Total gross loan debt	**5 259.4**	**5 622.5**	**6 054.7**	**6 424.4**	**6 817.5**
	74.1%	*74.7%*	*75.5%*	*75.3%*	*75.0%*

Source: National Treasury

- The consolidated budget deficit is projected to narrow from 5 per cent of GDP in 2024/25 to 3.2 per cent of GDP in 2027/28.
- In 2025/26, public entities, social security funds and provinces are expected to have a small combined cash deficit, which adds to the main budget deficit.
- The combined cash surplus projected for these entities in 2026/27 and 2027/28 will help to reduce the overall budget deficit, supporting government's fiscal strategy.

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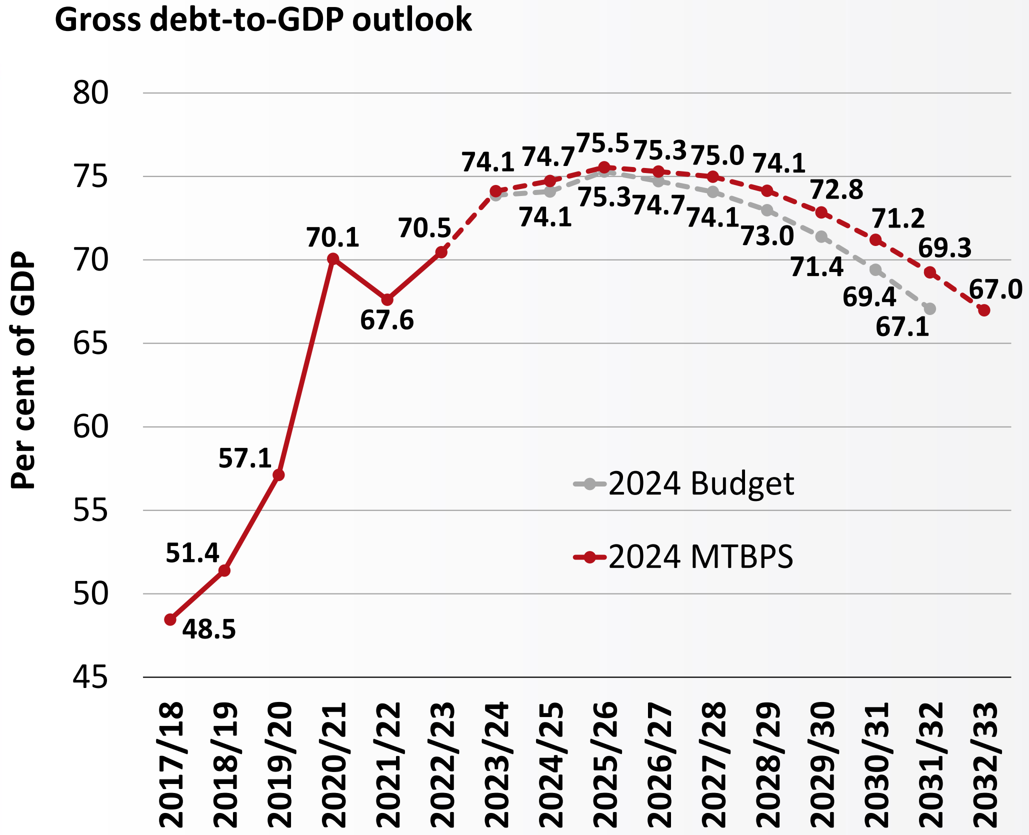
Gross debt outlook



- Despite slower-than-expected revenue growth, government is on track to achieve primary surpluses in 2024/25 and over the medium term.
- Debt is expected to stabilise at 75.5 per cent of GDP in 2025/26
- In turn, this will enable government to arrest the trend of mounting debt-service costs, which will peak as a proportion of revenue at 21.7 per cent in 2025/26 and decline thereafter.

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Financing and debt management strategy

- The funding environment has improved steadily in recent months.
  - Following the formation of the government of national unity, demand has increased, aided by global interest rate reductions.
  - The sovereign risk premium, which reflects investor concerns about economic and fiscal risks, has improved significantly between end-February and end-September 2024, from 327 basis points to 240 basis points.
  - Over the same period, the generic 10-year bond yield declined by 153 basis points, indicating improved investor sentiment.
- The gross borrowing requirement for 2024/25 – the sum of the budget deficit, maturing loans, the Eskom debt-relief arrangement and the Gold and Foreign Exchange Contingency Reserve Account settlement – decreased by R32.9 billion to R424.7 billion.
- The higher cash balances accumulated this year will be used to partially finance the higher gross borrowing requirement in 2025/26.
- Debt redemptions will increase from R173.7 billion in 2025/26 to R306 billion in 2027/28, averaging R211.5 billion over the medium term.
- To manage these redemptions, government will exchange some shorter-dated bonds for longer-dated bonds.
- Over the medium term, the gross borrowing requirement will average R557.5 billion or 6.5 per cent of GDP.
- Domestic long-term borrowing is expected to increase to R330.7 billion in 2025/26 (excluding the R70 billion Eskom debt takeover in the same year) and decline to R320.4 billion in 2026/27 before increasing to R472.2 billion in 2027/28.
- In 2024/25, government will raise US$3 billion from international financial institutions and international capital markets to meet its foreign-currency commitments.
- To help manage liquidity, government will draw down on its foreign exchange balances.
- Over the medium term, government will raise approximately US$15 billion from international financial institutions and international capital markets.

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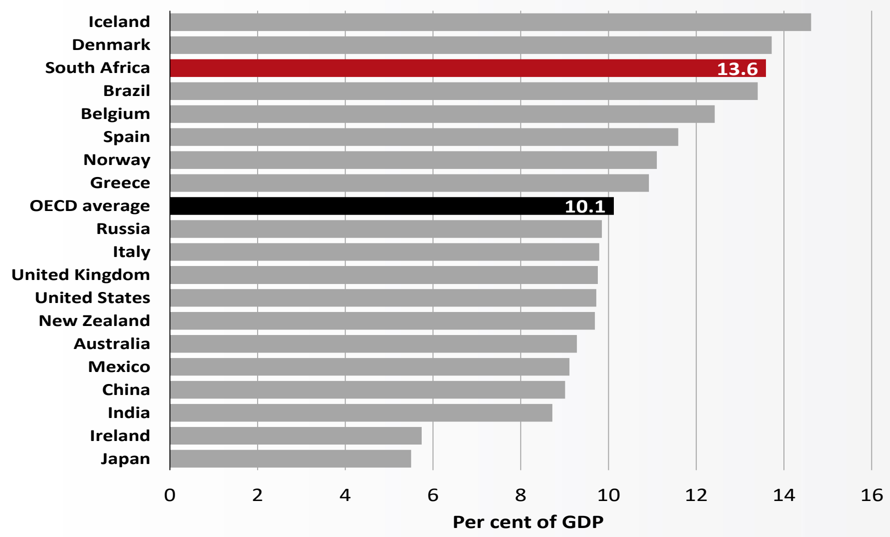
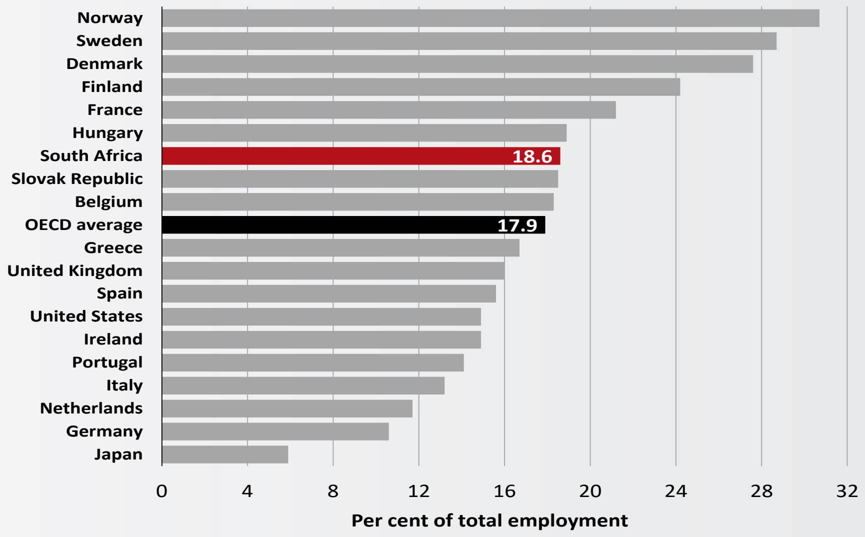
Managing the public-sector wage bill

General government wage bill, 2022



General government employment, 2022



Source: OECD Data Library

- South Africa's average spending on public-sector salaries is well above that of many countries.
- Cabinet has approved an early retirement programme to reduce government employment costs while retaining critical skills and promoting the entry of younger talent into the public service.
- Accounting officers and executive authorities will have the authority to approve early retirement applications that do not reduce the pool of highly skilled individuals within government agencies.

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Public sector infrastructure

Improving the management and regulation of infrastructure

Enhance private-sector participation	Implement budget reforms	Increase infrastructure finance
Revise public-private partnership regulations	Reconfigure capital budgeting	Enhance credit to de-risk projects and mobilise funding
Take a programmatic approach to private-sector participation	Reform infrastructure conditional grants to improve performance	Create an infrastructure asset class to crowd in new investors
Augment balance sheets of Eskom and Transnet	Increase efficiency in disbursement of immediate response disaster grants	Increase liquidity for immediate response to disasters

Infrastructure procurement

Monitor, review and evaluate

- Government is transforming the way it prepares and delivers infrastructure projects.
- It is mobilising private-sector resources that will augment public-sector capability and provide new channels for financing.
- In parallel, work is under way to improve government's capital budgeting process and strengthen institutional arrangements and governance across the ecosystem to facilitate private investment.

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Division of revenue

Division of revenue framework

R billion	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	**822.8**	**855.9**	**826.9**	**866.0**	**863.5**	**896.7**	**931.3**
of which:							
Provincial indirect grants	*3.8*	*3.5*	*4.1*	*3.9*	*4.2*	*4.2*	*4.6*
Local indirect grants	*5.7*	*7.0*	*8.1*	*7.1*	*7.5*	*8.0*	*8.4*
Provinces	**660.8**	**694.1**	**706.3**	**730.7**	**762.8**	**794.0**	**831.0**
Equitable share	544.8	570.9	585.1	600.5	627.4	655.7	685.1
Conditional grants	116.0	123.3	121.2	130.2	135.4	138.3	145.8
Local government	**135.6**	**150.7**	**157.6**	**170.5**	**177.2**	**183.8**	**189.5**
Equitable share	76.2	83.9	92.3	101.2	106.1	110.7	115.7
General fuel levy sharing with metropolitan municipalities	14.6	15.3	15.4	16.1	16.8	17.6	18.4
Conditional grants	44.8	51.4	50.0	53.1	54.3	55.5	55.4
Provisional allocations not assigned to votes[1]	–	–	–	–	46.1	60.1	63.5
Projected underspending	–	–	–	-2.9	–	–	–
Non-interest allocations	**1 619.2**	**1 700.7**	**1 690.8**	**1 764.1**	**1 849.7**	**1 934.5**	**2 015.2**
Debt-service costs	268.1	308.5	356.1	388.9	419.1	445.7	475.7
Contingency reserve	–	–	–	–	7.6	14.5	20.8
Main budget expenditure	**1 887.3**	**2 009.2**	**2 046.9**	**2 153.0**	**2 276.4**	**2 394.7**	**2 511.8**
Percentage shares							
National departments	50.8%	50.3%	48.9%	49.0%	47.9%	47.8%	47.7%
Provinces	40.8%	40.8%	41.8%	41.3%	42.3%	42.4%	42.6%
Local government	8.4%	8.9%	9.3%	9.6%	9.8%	9.8%	9.7%

1. Includes amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations
Source: National Treasury

- The Division of Revenue reflects the following vertical split:
  - 47.8 per cent of available non-interest spending to national departments,
  - 42.4 per cent to provinces and
  - 9.8 per cent to local government.
- Provinces and municipalities face spending pressures from the rising costs of basic and social services, alongside revenue pressures due to lower economic growth and insufficient revenue collection.
- Municipalities are particularly affected by higher borrowing costs and revenue under-collection.
- These challenges underscore the need for greater spending efficiency and stronger financial management.

Risks to the fiscal outlook

- Risks to the fiscal outlook remain elevated in the near to medium term.

Key risks include:

- Lower revenue growth due to an unexpected global or domestic slowdown.
- A higher-than-anticipated public-service wage settlement.
- Higher borrowing costs driven by a prolonged elevation of the risk premium and a slower-than-expected reduction in global interest rates.
- Persistent deficits and the accumulation of liabilities in other areas of the public sector, such as state-owned companies, potentially leading to increased demands for budgetary support.

Conclusion

- Government's pro-growth agenda aims to create jobs, reduce inequality and improve the fiscal position.
- The path to higher growth requires an increase in energy production; more reliable transport, logistics and water supply; and stronger investment.
- In this regard, reforms will promote partnerships between the public and private sectors, lower the cost of doing business and introduce an infrastructure delivery model that will improve implementation and create jobs.
- Government continues to execute and make progress on the balanced fiscal strategy, which stabilises debt in 2025/26 and complements government's economic growth reforms.
- Government needs to continue improving efficiency and identifying opportunities to reprioritise and downscale programmes that are ineffective.
- In addition, the wage bill needs to be managed prudently.