Macro Trends in South Africa

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SUSTAINABLE DEVELOPMENT GOALS

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This note gives the highlights of the Medium-Term Budget Policy Statement 2023, presented to the Parliament of South Africa on 01 November 2023.

I. Introduction

The 2023 Medium-Term Budget Policy Statement (MTBPS), titled *"Staying the course for growth and sound public finances"*, lays out the priorities of the government for the next three years, with the foremost focus being on improving GDP growth, stabilizing public finance, and strengthening state capability for quality service delivery. South Africa's economic growth prospects remain constrained by the ongoing energy crisis, declining freight rail capacity and weakening global outlook.

Public debt is expected to stabilize in 2025/26 as stated in the 2023 Budget Review back in February, albeit at 77.7 per cent and no longer at 73.6 per cent of GDP as previously forecast, but still a feat that will allow the government to prevent the rise in debt-service costs. The fiscal strategy of the MTBPS further commits the government to obtaining a primary budget surplus in the current year and over the medium term, and towards reconfiguring the State and/or government functions. Other reform opportunities will be proposed in the 2024 Budget Review, including the establishment of an "Infrastructure Finance and Implementation Support Agency" that will tackle the need to assemble private sector finance and expertise into the public infrastructure programme.

An update from the National Treasury regarding the development of new fiscal anchors, with the purpose of securing sustainable public finances and strengthening fiscal credibility will also be provided in the 2024 Budget. The public service wage agreement of 2023, another key challenge, resulted in higher than planned remuneration increases. Therefore, national and provincial governments have been advised to assume intentional control measures, such as recruitment restrictions and personnel budgets, to best mitigate the impacts of elevated costs on the fiscal framework.

The 2023 MTBPS reconfirmed that the COVID-19 Social Relief of Distress (SRD) grant of R350 will be continued in its current form for an additional financial year, i.e. until March 2025. Simultaneously, the government plans to perform an extensive review of the social grant system towards the adoption of a new social protection policy and funding framework.

II. GDP Growth

The MTBPS has projected a 0.8 per cent real GDP growth in 2023, compared to the 0.9 per cent forecasted in the 2023 Budget Review. Overall growth is expected to average 1.4 per cent over the period of 2024 – 2026. The weaker growth projection for 2023 is indicative of lower household consumption expenditure resulting from higher inflation and interest rates, as well as lower net exports.

The removal of the energy and logistical constraints remain critical in improving economic growth. South Africa indicates GDP growth forecasts of 1.0, 1.6, and 1.8 per cent for the years 2024, 2025, and 2026 respectively.

With considerably lower growth projections, the country will continue to underperform compared with emerging and developing economies as well as the group of Sub-Saharan African countries – a trend that has been ongoing for several years (see Table 1).

Table 1: Real GDP Growth %

	2021[1]	2022[1]	2023[2]	2024[2]	2025[2]
South Africa	4.7	1.9	0.8	1.0	1.6
Sub-Saharan Africa	4.7	4.0	3.3	4.0	4.1
Emerging and Developing Economies	6.9	4.1	4.0	4.0	4.1
World	6.3	3.5	3.0	2.9	3.2

Source: November Mid-Term Budget Policy Statment, SA National Tresury.[1] Actual.[2] Forecast.

Annual CPI Inflation was registered at 6.9 per cent in 2022 and is expected to fall to 6.0 per cent in 2023 and further down to 4.9 per cent in 2024 and 4.6 per cent and 4.5 per cent respectively for the subsequent two-year period. The current account of the balance of payments indicates a deficit of 0.5 per cent of GDP in 2022 and is projected to increase to 2.4 and 3 per cent of GDP in 2023 and 2024 respectively – reflecting the rise in imports over exports.

III. Main Fiscal Indicators

The medium-term fiscal policy of South Africa's government continues to focus on accomplishing fiscal sustainability, encouraging economic growth, and easing fiscal and economic risks. Fiscal consolidation will be applied through spending reductions, efficiency methods within government and moderate tax revenue processes. The National Treasury expects a consolidated budget deficit equal to 4.9 per cent of GDP in 2023/24 (see Table 2). This is particularly weak in relation to the projection of 4.0 per cent of GDP made in the 2023 Budget Review. The consolidated budget deficit is forecast to narrow down to 3.6 per cent by 2026/27. The main driver of this deficit includes the projected two-year cash deficits from public entities, social security funds and provinces.

Table 2: Fiscal accounts SA % GDP – Revised estimates

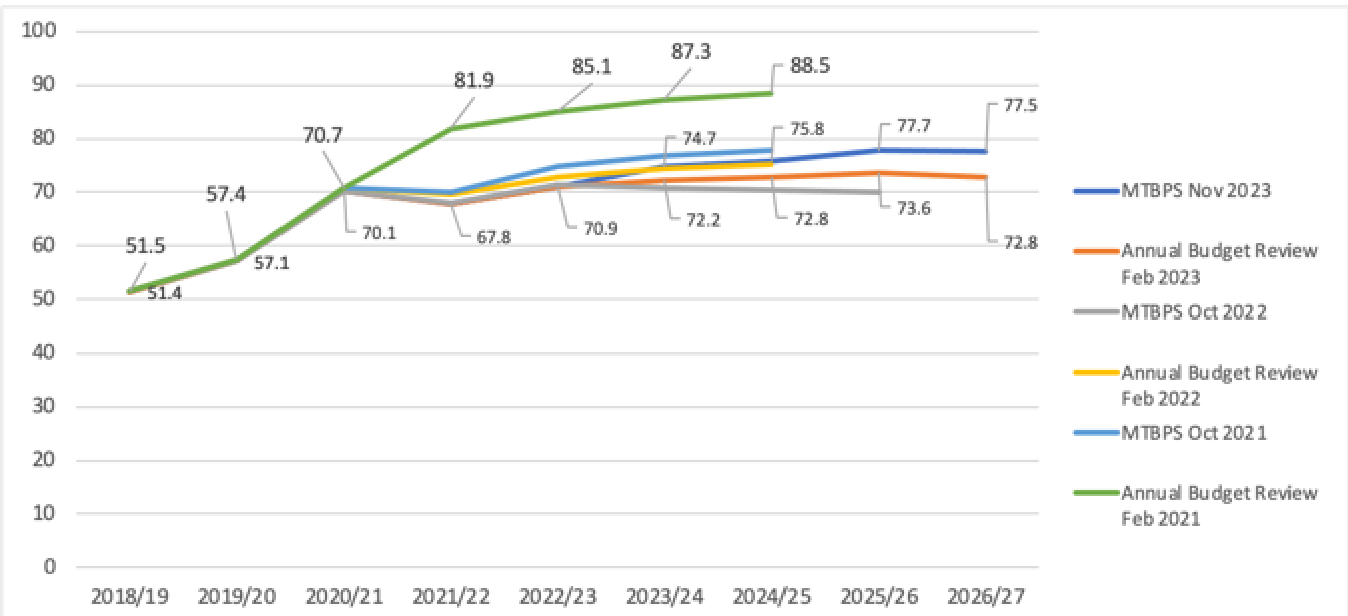
	2022/23	2023/24	2024/25	2025/26	2026/27
Fiscal deficit	4.6	4.9	4.0	3.8	3.6
Gross debt	70.9	74.7	75.8	77.7	77.5
Gross debt (Annual Budget 2023)	71.1	72.2	72.8	73.6	72.8
Gross debt (MTBPS 2022)	71.4	70.8.	70.4	70.0	

Source: 2023 MTBPS, SA National Treasury.

Gross debt will increase from R4.8 trillion in 2023/24 to R5.24 trillion in 2024/25 and reach R6.52 trillion in 2026/27. The increase is mainly due to continued budget deficits, fluctuations in the interest, inflation, and exchange rates. The gross loan debt is expected to stabilize at 77.7 per cent of GDP in the financial year 2025/26 as stated earlier (see Figure 1).

In the fiscal year 2023/24, debt-service costs are estimated at R354.5 billion, R385.9 billion in 2024/25 and predicted to reach R455.9 billion by 2026/27. For the next three-years, as a share of the main budget expenditure, debt-service costs will rise from 17.3 per cent in 2023/24 to 19.2 per in 2026/27. With a total estimation of R1.3 trillion[1], the debt-service cost is significantly higher than most consolidated spending sectors and reflects the tendency to "crowd-out" important social spending on basic services and other policy priority areas. Over the medium term, with the higher annual budget deficits, the South African government is expected to borrow an average of R553.7 billion per year. This borrowing will finance the gap between government expenditure and revenues collected; refund the redemption of maturing debt; and fund the Eskom debt-relief arrangement that was first announced in the 2023 Budget Review.

Figure 1: Gross public debt in South Africa[1] (percentage as a proportion of GDP)



Source: National Treasury, various budgets. [1] Years 2024-2027: Projections.

Tax revenues are projected to rise to R2.1 trillion (25.1 per cent of GDP) by 2026/27. However, revenue collection is expected to fall short of the 2023 Budget Review estimates by R56.8 billion in 2023/24 and R121.4 billion between 2023/25 and 2025/26. While revenue collections were 2.4 percent higher in the early part of 2023/24 compared to the same period in 2022, lower commodity prices, weaker global growth, increased frequency of power cuts and logistical constraints continue to affect corporate tax collections.

[1] The sum of R385.9 in 2024/25, R425.5 in 2025/26 and R455.9 in 2026/27.

For the 2024 medium-term expenditure framework (MTEF) period, 61 per cent of consolidated non-interest spending will apply towards the social wage – which includes pooled public spending on education, employment, health, housing, transport, social protection, and local amenities. South Africa's social protection expenditure programme continues to be one of the largest within developing countries. In comparison to the 2023 Budget Review, the main budget non-interest expenditure declined by R3.7 billion in 2023/24, echoing the proposed reductions to department baselines, declared unspent funds and projected underspending.

For the next two-year period, the main budget non-interest expenditure will be reduced by a total of R85 billion compared to the current fiscal year, even once an additional spending allocation of R128.4 billion that will be provided is taken into account, which incorporates the 2023/24 wage increase of R57.2 billion and the R33.6 billion to extend the SRD grant by one more year.

The government is expected to spend R7.41 trillion for the next three years. Spending will grow annually in nominal terms by an average rate of 4.6 per cent, increasing from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27. The biggest expenditure items will be learning and culture, which will account for R1.48 trillion of the total consolidated non-interest expenditure budget, followed by debt service costs (R 1.27 trillion), social development (R1.17 trillion) and health (R836 billion).

Overall, the MTBPS recommends that with a weaker global outlook and growing risks to South Africa's prospects, the integration of a balanced macroeconomic framework, with the rapid adoption of economic and structural reforms, and expansion in state capacity are critical to attaining higher and sustainable growth.

VI. References

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