2024 Budget Analysis
Joint Finance and Appropriations committee meeting
Date: 27 February 2024
Outline

• Introduction
• Background
• Gender based budgeting
• Policy and funding priorities
• Spending trends
• Economic overview
• Fiscal framework
• Revenue trends and changes to tax policy
• Risks to public finances
Introduction

- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009.
- The purpose and focus of this presentation is to provide an analysis of the 2024 Budget Review, particularly to analyse and comment on the fiscal framework within the context of:
  - The progress made in realising the Nation Development Plan targets
  - Achieving fiscal sustainability
  - Supporting economic growth
  - Reducing fiscal and economic risks
  - Stabilising debt is a central policy objective
  - Fiscal consolidation that balances the needs of the most vulnerable in society and protects the public finances for future generations
  - The extent to which the proposed fiscal framework can help achieve the government’s stated goals of reducing unemployment, poverty and inequality (UPI)
- The focus of the presentation on 5 March 2024 will include comments on the 2023/24 second Adjustments Appropriations Bill, Appropriations Bill and DORA.
Background

The National Development Plan (NDP) is government’s blueprint to address the triple challenges of unemployment, poverty, and inequality (UPI) by 2030, which is also a key objective of the 6th Parliament.

One of the pressing problems facing South Africa is the absence of faster and sustained inclusive growth. South Africa needs to improve productive capacity, human capital, and state capability mainly through investments to address unemployment and livelihood insecurities facing citizens. However, performance on targets set for NDP 2030, shows slow progress.

- According to a 2020 World Bank report, approximately 55.5 per cent (30.3 million people) of the population was living in poverty at the national upper poverty line (R992) while a total of 13.8 million people (25%) experienced food poverty.

  ▪ Progress made is slow in realising the NDP goal to eliminate poverty by 2030.

- South Africa has the highest income inequality in the world, with a Gini coefficient of around 0.67 (Imraan Valodia, September: 2023).

  ▪ Progress made in realising NDP 2030 target of 0.6, but much more still to be realised.

- The official unemployment rate is 32.1 per cent in the fourth quarter of 2023.

- GDP per capita was R76 000 in 2021 (NT), against a target of R120 000 for 2030.
In 2020 the bottom 40 per cent of the population held 7 per cent of income (compared to 16 per cent for other emerging markets) against the target of 10 per cent in 2030.

The 2016 International Reading Literacy Study showed that 78 per cent of children had not learned to read with effective comprehension by the time they reached grade 4. In 2021 it has deteriorated to 81 per cent.

Progress on the phase-in of the national health insurance, with a focus on upgrading public health facilities, producing more health professionals, and reducing the relative cost of private health care is slow and phase 1 has been moved to 2023-2026 from 2017-2022.

Public infrastructure investment is currently less than 2 per cent of GDP against the NDP target of 10 per cent.

Investment accounted for 17 per cent of South Africa’s Nominal GDP in June 2023 against a target of 30 per cent for 2030.

The analysis of the 2024 budget is based on the above performance of government.

The aim is to determine whether the 2024 Budget supports the outcomes envisaged by the NDP.
Gender Responsive Budgeting

• Budget 2024 does not speak to Gender Responsive Budgeting, except in the Appendix
• The Gender Responsive Planning, Budgeting, Monitoring, Evaluation, and Auditing Framework (GRBPBMEAF) was formally approved by Cabinet in March 2019 as a policy for implementation for the sixth administration
• The framework emerged after the 2019 Presidential Review Committee (PRC) on Women’s Emancipation and Gender Equality which undertook a 25-year review
• In the 2022 Budget, the Treasury announced that they will begin implementing GRB in the 2023/24 Medium Term Budget Policy Statement
• In the 2024 MTEF guidelines, government noted that “Departments selected to participate in the Gender Responsive Budgeting (GRB) pilots must include in their submission a paragraph of the reallocation to these priorities and the policy imperative being addressed"
• The DWYPD has continued to host workshops with government officials, civil society and academia on GRBPBMEA
• South Africa has had two GRB initiatives in the 1990s: one involving civil society and parliament, and another within the national government led by the Finance Ministry
• In 2018, the DWYPD has previously highlighted that the lack sustainability in the lack of a central directive by the National Treasury and fragmented efforts by gender units or gender focus points for the regression of GRB in the 1990s
• An update on GRB initiatives is required
Policy and funding priorities

- 5-year review of Presidential strategic priorities
- Policy priorities
- Funding priorities 2024
- Consolidated budget funding priorities
## 5-year review of Presidential strategic priorities

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<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td><strong>Accelerate</strong> inclusive economic growth and create jobs</td>
<td><strong>Fixing commuter rail</strong></td>
<td><strong>Defeat the coronavirus pandemic</strong></td>
<td>A new, redesigned loan guarantee scheme is being introduced to enable small businesses to bounce back from the pandemic and civic unrest</td>
<td><strong>Government restructuring to improve efficiency: Reducing Red tape/Improve the ease of doing business</strong></td>
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<tr>
<td>Improve the education system and develop the skills that are needed now and into the future</td>
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<td>Go毫不客气 to infrastructure projects to support economic growth and better livelihoods, especially in energy, roads and water management</td>
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<tr>
<td>• Building nine new TVET college campuses</td>
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<td>Unemployment</td>
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<tr>
<td>• Establishing a new University of Science and Innovation in Ekurhuleni</td>
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<td>• The provision of R800 million from the National Skills to increase the number of students entering artisan training in TVET colleges from 17 000 to 30 000 in the 2023 academic year.</td>
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<td></td>
<td>o The aim is also to place 20 000 students in employment in 2023</td>
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<td>• The Social Employment Fund is recruiting 50 000 participants in its next phase to undertake work for the common good</td>
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<td>• The National Youth Service will create a further 36 000 opportunities</td>
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<td></td>
<td>• Undertake the just transition in a way that opens up the possibility of new investments, new industrialisation and that, above all, creates new jobs</td>
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## 5-year review of Presidential strategic priorities (cont’d)

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<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td><strong>Improve the conditions of life for all South Africans, especially the poor</strong></td>
<td><strong>Initiatives to deal with growing problem of criminal groups</strong></td>
<td><strong>Implement economic reforms to create sustainable jobs and drive inclusive growth</strong></td>
<td><strong>The first two phases of the Presidential Employment Stimulus programmes have supported over 850 000 opportunities</strong></td>
<td><strong>Poverty</strong>&lt;br&gt;• Urgent measures to mitigate the impact of load shedding on food prices</td>
</tr>
<tr>
<td><strong>Fight corruption and state capture</strong></td>
<td><strong>Taking actions to reduce youth unemployment</strong></td>
<td><strong>Fight corruption and strengthen the state</strong></td>
<td><strong>Government will extend the R350 Covid-19 Social Relief of Distress Grant for one further year, to the end of March 2023</strong></td>
<td><strong>Load shedding/energy generation</strong>&lt;br&gt;• Fix Eskom’s coal-fired power stations and improve the availability of existing supply&lt;br&gt;• Accelerate procurement of new capacity from renewables, gas and battery storage&lt;br&gt;• Unleash businesses and households to invest in rooftop solar</td>
</tr>
<tr>
<td><strong>Strengthen capability of the state to address the needs of the people</strong></td>
<td><strong>Student accommodation</strong></td>
<td><strong>Government will make resources available to recruit and train an additional 12 000 new police personnel</strong></td>
<td><strong>Government will make resources available to recruit and train an additional 12 000 new police personnel</strong></td>
<td><strong>Government will make resources available to recruit and train an additional 12 000 new police personnel</strong></td>
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</tbody>
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## Funding priorities 2024

<table>
<thead>
<tr>
<th>Function Groups</th>
<th>Pronouncements from SONA 2024</th>
<th>Budget Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning and culture</td>
<td>• Over the next five years, the focus will be on expanding access to early childhood development and improving early grade reading</td>
<td>• Compensation of employees in provincial education departments accounts for 50.3 per cent of total function group spending and 77 per cent of provincial education budgets</td>
</tr>
<tr>
<td></td>
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<td>• R69.4 billion is added to this function for the carry-through costs of the 2023 public-service wage agreement over the medium term, there are baseline reductions of R49.8 billion in other areas</td>
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<tr>
<td></td>
<td></td>
<td>• Student enrolment growth may be affected by reductions in subsidies to universities and the NSFAS over the MTEF period</td>
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<td></td>
<td></td>
<td>• The arts, culture, sport and recreation sector set to receive R35.9 billion over the medium term</td>
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<tr>
<td>Peace and security</td>
<td>• Tackling crime and insecurity is a key priority</td>
<td>• The peace and security function is allocated R765 billion over the medium term to combat crime and ensure territorial integrity</td>
</tr>
<tr>
<td></td>
<td>• The SAPS has launched Operation Shanela as a new approach to target crime hotspots</td>
<td>• This total includes additional allocations of R39.4 billion to selected departments to cover the carry-through costs of the 2023/24 public-service wage increase</td>
</tr>
<tr>
<td></td>
<td>• New Border Management Authority was launched last year to improve the security of our borders</td>
<td>o Of this, R22 billion is allocated to the Department of Police</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The function will prioritise greater efficiency, better management of commuted overtime and intensified promotion of preventative care</td>
</tr>
<tr>
<td>Health</td>
<td>• Government working to improve both the quality of healthcare and equality of access</td>
<td>• The Department of Health and its provincial counterparts will prioritise building tertiary services like oncology through earmarked funds in the national tertiary services grant in provinces with inadequate services</td>
</tr>
<tr>
<td></td>
<td>• Government plan to incrementally implement the NHI, dealing with issues like health system financing, the health workforce, medical products, vaccines and technologies, and health information systems</td>
<td></td>
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</tbody>
</table>
## Funding priorities 2024 (cont’d)

<table>
<thead>
<tr>
<th>Function Groups</th>
<th>Pronouncements from SONA 2024</th>
<th>Budget Response</th>
</tr>
</thead>
</table>
| Social development               | • Provide social protection to the vulnerable  
• We have seen the benefits of the SRD grant and will extend it and improve it as the next step towards income support for the unemployed                                                                                     | • R1.17 trillion is allocated for social grants and welfare services, and to strengthen advocacy for women, youth and people living with disabilities  
• Expenditure on social grants (excluding the COVID-19 SRD grant) will increase from R217.1 billion in 2023/24 to R259.3 billion in 2026/27 to keep pace with inflation and increase access for the eligible population  
• The SRD grant is allocated R33.6 billion in 2024/25                                                                                                                                                                                                                                        |
| Community development            | • We will revive the performance of our ports and rail network  
• Together with civil society, we developed the National Strategic Plan on Gender-based Violence, together with civil society, as a society wide response to this pandemic.                                                                                                                                         | • The rail recovery programme of the PRASA is continuing  
  o This will increase the number of passengers on Metrorail from 15.6 million in 2022/23 to an estimated 48.6 million by 2026/27  
• Urban settlements development grant providing financing for water infrastructure services rehabilitation in 2024/25                                                                                                                                                                                                                     |
| Economic development             | • We will see through the work underway with our partners to end load-shedding  
• We will continue to position our economy to grow and compete in a fast-changing world:  
  o To support small businesses  
  o To give young people economic opportunities                                                                                           | • The Department of Trade, Industry and Competition has reprioritised R964 million for the transition to electric vehicles, in line with the New Energy Vehicles White Paper approved by Cabinet in 2023, and R600 million for the global business services incentive for offshore business processing  
• The Department of Small Business Development plans to support 120 000 township and rural enterprises                                                                                                                                                                                                                           |
| General public services          | • The DDM has proven to be an effective instrument to enhance cooperative governance and collaboration  
• Government continue to strengthen local government, professionalise the public service and ensure that public officials are held accountable for their actions                                                                                                                                       | • Spending in this function is expected to increase from R76.9 billion in 2023/24 to R79.3 billion in 2026/27  
• This funding will enhance information and communications technology, fund key policy initiatives, meet international commitments and cover exchange rate fluctuations                                                                                                                                                        |
Consolidated budget funding priorities

• The largest proportion of the budget in 2024/25 is allocated towards Learning and culture
• Second largest Social development
• Third is Debt-service cost followed by Health

Proportion of total spending per function group

Learning and culture: 20.3%
Basic education: 13.7%
Post-school education and training: 6.1%
Health: 11.5%
Social development: 16.3%
Community development: 11.2%
Economic development: 10.8%
Peace and security: 10.3%
General public services: 3.2%
Debt-service costs: 16.1%

• 2022/23 Outcome
• 2023/24 Revised estimate
• 2024/25 Estimate
• 2025/26 Estimate
• 2026/27 Estimate
Net change to function budgets over the MTEF (R billion)

- Government’s priority is to enhance spending quality and minimise inefficiency within all budget items, while ensuring sustainable public finances.
- Reprioritisation of funds are mainly from equitable shares and conditional grants in the community and economic development functions to the other function groups for compensation of employees.

### Nominal changes over the MTEF

<table>
<thead>
<tr>
<th>Function</th>
<th>Net change R(^b) billion</th>
<th>Growth rate per function (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social development</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Learning and culture</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Health</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Peace and security</td>
<td>-0.5</td>
<td>-0.5</td>
</tr>
<tr>
<td>General public services</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Community development</td>
<td>-R11bn</td>
<td>-R11bn</td>
</tr>
<tr>
<td>Economic development</td>
<td>-R48bn</td>
<td>-R48bn</td>
</tr>
<tr>
<td></td>
<td>-R50bn</td>
<td>-R50bn</td>
</tr>
</tbody>
</table>

- The government's priority is to enhance spending quality and minimise inefficiency within all budget items, while ensuring sustainable public finances.
- Reprioritisation of funds are mainly from equitable shares and conditional grants in the community and economic development functions to the other function groups for compensation of employees.
Main changes to function budgets over the MTEF

• Social development:
  ▪ The R29.7 billion net increase is mainly attributed to the extension of the COVID-19 social relief of distress grant

• Learning and culture:
  ▪ The net increase of R21.4 billion over the MTEF period is mainly due to an increase of R51.2 billion in the provincial equitable share, for compensation of employees
  ▪ Higher education institutions are reduced by R11.4 billion
  ▪ National Student Financial Aid Scheme is reduced by R16.1 billion

• Health:
  ▪ The R12.4 billion net increase is mainly due to an increase of R15.8 billion in the provincial equitable share, mostly for compensation of employees
  ▪ R1.9 billion is added to the national tertiary services grant (also for salaries)
  ▪ R554 million to the district health component of the district health programmes grant
  ▪ R132.8 million to the human resources and training grant
  ▪ The national health insurance grant is reduced by R860.1 million
  ▪ The health facility revitalisation grant is reduced by R1.1 billion
  ▪ The comprehensive HIV/AIDS component of the district health programmes grant is reduced by R2.9 billion
Main changes to function budgets over the MTEF

• General public services:
  - The **R11 billion net decrease** is mainly due to a decrease of R7.6 billion in the provincial equitable share within this function. Goods and services budgets are reduced by R5.6 billion

• Community development:
  - The **R47.7 billion net decrease** is due to a R9.6 billion decrease in the local government equitable share and a R5.2 billion decrease in the provincial equitable share
  - The informal settlements upgrading partnership grant for provinces is reduced by R7.2 billion
  - The human settlements development grant is reduced by R5.2 billion and the municipal infrastructure grant is reduced by R3.1 billion
  - The integrated national electrification programme (Eskom) grant is reduced by R5.6 billion
  - **The Passenger Rail Agency of South Africa’s rolling stock fleet renewal programme is reduced by R6.1 billion**

• Economic development:
  - The **R50 billion net decrease** is mainly due to reductions over the MTEF period of R10.3 billion on the transfer to the South African National Roads Agency for its non-toll network,
  - R10.1 billion on the provincial equitable share
  - R3 billion on restitution grants
  - R2.7 billion on the roads maintenance component of the provincial roads maintenance grant
  - R2.5 billion on various special economic zone institutions
  - Reductions to expenditure on goods and services amounting to R6.9 billion over the medium term are implemented on the departments of cooperative governance (R4.3 billion), and forestry, fisheries and the environment (R2.6 billion)
Main changes to function budgets over the MTEF

- The question is whether the reduction or reprioritisation of specific budgets will enhance spending quality and minimise inefficiencies, while still taking the identified critical actions to achieve the goals of the NDP, for example:
  - Is government taking the actions to ensure an education accountability chain, with lines of responsibility from state to classroom by reducing the National Student Financial Aid Scheme or should other steps be taken?
- The PBO compiled two briefs that identified strategic, operational and several other inefficiencies, which include:
  - Poor planning and reporting
  - The 2021/22 financial statements received an adverse opinion (meaning that it do not present the financial position fairly)
  - The entity did not have the necessary systems and processes in place that were fit for purpose
  - The entity did not have the necessary capacity to carry out its operations in both finance and information systems
  - Other matters include exorbitant bank charges, housing needs and defunding of students
Main changes to function budgets

- Is government making progress to upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care by reducing the National health insurance grant and the Health facility revitalisation grant?

- Current status on the NDP targets for the health sector is the progress made with the NHI Bill, that:
  - Establishes and maintains a National Health Insurance Fund in the Republic funded through mandatory prepayment that aims to achieve sustainable and affordable universal access to quality health care services
  - The NHI fund will be registered as a Public Entity
  - The Fund will have a Board and various governance structures as required by the Public Finance Management Act (PFMA)
  - The NHI Fund will be funded from
    - General tax revenue, including the shifting of funds from national government departments and agencies and the provincial equitable share and conditional grants into the fund
    - Reallocation of funding for medical scheme tax credits paid to various medical schemes towards the funding of national health insurance;
    - Payroll tax
    - Surcharges on personal income tax
Main changes to function budgets

• Is government making progress in building a state that is capable of playing a developmental and transformative role and invest in infrastructure to support economic growth and job creation?

• Do we have evidence of efficiency and effectiveness in expenditure on steps taken by the state, specifically the general public sector, community and economic development functions, to:
  ▪ Professionalise the public service
  ▪ Strengthen accountability
  ▪ Improve co-ordination
  ▪ Prosecute corruption
  ▪ Train and develop relevant skills
  ▪ Spend on infrastructure
  ▪ Create jobs
Spending trends

- Real per capita spending per function group
- Real per capita spending per economic classification
Real per capita spending per function group

- Total real per capita expenditure declines in the medium term. In 2016/17 total real expenditure per capita was estimated at R23 116, by 2026/27 the projection is that it will decline to R22 262 (slightly higher than the 2023 MTBPS projection of R22 019).
- In 2023/24, total real per capita spend has been revised to R22 917, an upward revision from the R22 850 in the 2023 MTBPS and a decline from the projected R22 964 in the 2022 MTBPS and R23 402 in Budget 2023. The revised estimate is lower than the real per capita spend in 2016/17 (R23 116).
- Fiscal consolidation has caused reductions in real per capita expenditure on health, education, and other sectors critical to the basic survival of the majority who rely on public services.

Source: PBO calculations based on National Treasury and Stats SA population data.
Real per capita spending per economic classification (2016=100)

- In 2016/17 total real expenditure per capita was R25 721, in the 2023 MTBPS, it was projected that by 2026/27 it would increase to R26 758. The 2024 Budget projection is slightly higher at R26 836.
- In 2023/24, total real per capita spend is revised upward to R27 184. The 2023 MTBPS projection was R27 097.
- Notably, transfers and subsidies to households decline in real terms in the medium term. This is due to the projected discontinuation of the social relief of distress grants in 2025.

Source: PBO calculations based on National Treasury and Stats SA population data
Economic overview

- The 2024 Budget is silent about, “where will growth come from”
- According to NT, government spending crowds out private investment
- GDP growth is not a good measure of progress
- Lack of evidence that government borrowing crowd out private sector borrowing
The evidence shows that the National Treasury’s (NT) fiscal policy approach will constrain economic development and exacerbates UPI over the medium term.

The 2024 Budget is silent about where will growth come from.

- The PBO has consistently responded to the NT's Budget Reviews and MTBPSs with the question, “Where will growth come from?”
- Fiscal consolidation is generally understood to decrease growth and increase debt levels, does not support economic growth.
- Prominent mainstream macroeconomists Fatas and Summers (2018) argue that “Attempts to reduce debt via fiscal consolidations have very likely resulted in a higher debt to GDP ratio.... As GDP falls permanently, attempts to reduce debt via reductions in spending or increases in taxes lead to a higher debt to GDP ratio”
The 2024 Budget is silent about where will growth come from

- The 2024 Budget review (p.11) presents this view of stability and growth:
  - “A sound macroeconomic framework promotes stable prices, lower interest rates and more predictable exchange rate movements. It also proactively manages the risks of macroeconomic imbalances such as high budget deficits and is resilient to external shocks.”
  - “This stability and resilience supports savings, investment decision-making and job creation.”
  - “The inflation-targeting framework helps keep the cost of living stable, while a prudent fiscal policy strategy that stabilises public finances can reduce the costs associated with a high sovereign credit risk premium.”
- This neoclassical economics approach to stability in the 2024 BR incorrectly focuses on price stability without taking into account the instability and deleterious impact on the economy, society and growth of high UPI and low levels of investment
- Empirical evidence from mainstream and heterodox economists shows that:

The inflation targeting regime may give the impression that inflation is low and stable, but it comes at the cost of a volatile exchange rate and high real interest rates

Announcing an inflation target does not reduce the sacrifice ratio with regard to how much growth and jobs should be forfeited to reduce inflation - it just leads to lower growth and increases unemployment

Open capital markets and reliance on short-term foreign capital flows open an economy to exchange rate and price volatility irrespective of the size of the deficit
The 2024 Budget is silent about where will growth come from

- The neoclassical mainstream macroeconomic theories and models are based on unrealistic assumptions that make them unsuitable for producing evidence-based research to inform government policy and budgeting:

  - While they may point to infrastructure problems and talk about business confidence, their macroeconomic theories focus on markets, exchange and prices and not processes of production and reproduction in firms and households.
  - They focus on markets and prices within a theoretical default economy that does not include the state and generally treats state actions as distorting markets.
  - They generally pay inadequate attention to market concentration and inequality.
  - Their theory has a narrow perspective of rationality where people and firms are reduced to utility and profit-maximising robot-like creatures devoid of historical and institutional context.
  - Their theory and models treat the financial sector and money as if it does not affect outcomes in the real economy.
According to NT government spending crowds out private investment

“Budget deficits are financed through borrowing in credit markets where government competes with the private sector for the available savings in the economy. Large budget deficits therefore reduce savings in the economy, with gross savings averaging 14.6 per cent of GDP since 2010 (Figure 2.3) compared to a world average of 26.8 per cent. Higher savings are needed to finance private investment, which accounts for over 70 per cent of total investment in 2023, to support faster economic growth.” (p.12 of the 2024 BR)

In reality, investment leads to income from which workers and firms can save. Neoclassical theory incorrectly believes that investors depend on savings to invest.

The NT differentiates between government investment and consumption as if the government’s expenditure to support productivity, innovation, industrial development, better education and healthcare is purely consumption and not investment.

In a country with sophisticated financial markets, large financial institutions, financial instruments such as derivatives and open capital markets, the NT somehow seems to believe that investors can borrow only if another person has deposited savings.

By this logic, government investment to build a hospital means more than government’s expenditure on employing staff to operate the hospital.

The government’s consumption and investment spends money into the pockets of workers and firms in the private sector, from which they can increase their savings.

Failure to recognizes government expenditure as an investment means NT is unable to adequately account for path dependence of economies.
GDP growth is not a good measure of progress

- The PBO has stressed the importance of focusing on UPI and building household and economic resilience in the face of many interrelated crises facing the World
- The Commission on the Measurement of Economic Performance and Social Progress
- "It has long been clear that GDP is an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability" (2008)
- However, the 2024 BR, particularly the Economic Outlook chapter, focuses on GDP growth
- Arguments for increasing aggregate demand are dismissed with reference to mainstream economics studies that estimate a small fiscal multiplier on GDP growth
- There is limited focus or concern with the high levels of market concentration and the obscene level of inequality that affect the distribution of GDP in South Africa
- Importantly, the 2024 BR and the studies estimating the fiscal multiplier ignore unpaid and reproductive work, which is work done mostly by women in households and communities that is not counted in GDP
- It is, therefore, to understand the link between improving aggregate demand and an inclusive developmental vision to transform the economy
- Over time, the government, in partnership with the private sector, can shift the country onto a new developmental path, whereas the NT's proposed structural reforms seem likely to exacerbate the current dysfunction
Lack of evidence that government borrowing crowd out private sector borrowing

- Does the 2024 BR mixes up stocks with flows of debt?
- Interest rates are high because of inflation targeting, not government debt levels

Credit extension by all monetary institutions (percentages of GDP)
The reasons for the current poor economic growth are more complex than those in the 2024 BR.

Economies are path dependent and governments, through planning, policies, and budgets, can effect change to the distribution of income, the allocation of finance towards productive investment and industrial transformation.

Fiscal policy focused on levels of deficits and debt force the government into short-term thinking and incapable of implementing a vision for long-term development and resilience.

Source: Quantec
Fiscal Framework

- Credibility and sustainability of the fiscal framework
- Fiscal anchors are likely to worsen SA’s fiscal challenges
The Fiscal Framework

### Main budget revenue (nominal, R billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 2023</th>
<th>MTBPS 2023</th>
<th>Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>1,200</td>
<td>1,300</td>
<td>1,400</td>
</tr>
<tr>
<td>2020/21</td>
<td>1,300</td>
<td>1,400</td>
<td>1,500</td>
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<tr>
<td>2021/22</td>
<td>1,400</td>
<td>1,500</td>
<td>1,600</td>
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<tr>
<td>2022/23</td>
<td>1,500</td>
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<td>2023/24</td>
<td>1,600</td>
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<tr>
<td>2024/25</td>
<td>1,700</td>
<td>1,800</td>
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<tr>
<td>2025/26</td>
<td>1,800</td>
<td>1,900</td>
<td>2,000</td>
</tr>
<tr>
<td>2026/27</td>
<td>1,900</td>
<td>2,000</td>
<td>2,100</td>
</tr>
</tbody>
</table>

### Main budget expenditure (nominal, R billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 2023</th>
<th>MTBPS 2023</th>
<th>Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>2,000</td>
<td>2,100</td>
<td>2,200</td>
</tr>
<tr>
<td>2020/21</td>
<td>2,100</td>
<td>2,200</td>
<td>2,300</td>
</tr>
<tr>
<td>2021/22</td>
<td>2,200</td>
<td>2,300</td>
<td>2,400</td>
</tr>
<tr>
<td>2022/23</td>
<td>2,300</td>
<td>2,400</td>
<td>2,500</td>
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<tr>
<td>2023/24</td>
<td>2,400</td>
<td>2,500</td>
<td>2,600</td>
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<tr>
<td>2024/25</td>
<td>2,500</td>
<td>2,600</td>
<td>2,700</td>
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<tr>
<td>2025/26</td>
<td>2,600</td>
<td>2,700</td>
<td>2,800</td>
</tr>
<tr>
<td>2026/27</td>
<td>2,700</td>
<td>2,800</td>
<td>2,900</td>
</tr>
</tbody>
</table>

### Primary balance (% of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget 2023</th>
<th>MTBPS 2023</th>
<th>Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>-8%</td>
<td>-6%</td>
<td>-4%</td>
</tr>
<tr>
<td>2020/21</td>
<td>-6%</td>
<td>-4%</td>
<td>-2%</td>
</tr>
<tr>
<td>2021/22</td>
<td>-4%</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>2022/23</td>
<td>-2%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>2023/24</td>
<td>0%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>2024/25</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>2025/26</td>
<td>4%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>2026/27</td>
<td>6%</td>
<td>8%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: National Treasury
Credibility and sustainability of the fiscal framework

- The PBO has argued that fiscal sustainability has to be seen beyond decreasing the budget deficit and managing the debt-to-GDP ratio
  - The use of fiscal framework as an important tool to drive structural economic transformation and achieve socioeconomic rights has to also be seen as to provide fiscal sustainability
- Despite NT’s commitment to fiscal consolidation since 2012, both the budget deficit and debt-to-GDP ratio have consistently increased
- Given this experience, the PBO is concerned that the continued fiscal consolidation and introducing fiscal anchors, will likely cause even higher deficits and debt levels and worsen UPI
- The PBO has cautioned about the disproportional impact of fiscal consolidation on vulnerable populations, income inequality, social disparities, and the negative consequences for employment and long-term economic development and growth
- A fiscal framework that fails to consider this context is unlikely to be credible nor be able to promote sustainable development goals
Credibility and sustainability of the fiscal framework (Cont.)

- The PBO is concerned that aiming for a budget surplus in the current socioeconomic environment means the government will provide fewer doctors, teachers, nurses and police officials.
- The PBO provided evidence that there are alternative economic policies to grow the economy and reduce debt without implementing fiscal consolidation.
- The government has viable, sustainable alternative policy and budgetary options at its disposal to steer the country’s fiscal and developmental trajectory onto a new economically just path.
- The budget could contribute towards achieving inclusive economic growth and fiscal sustainability by directing more resources towards struggling poor households, public services, and infrastructure development in pursuit of a new demand-led growth trajectory.
- As seen with the deployment of GFECRA, the government is always able to leverage its full public sector balance sheet, including the Unemployment Insurance Fund (UIF) reserves and the Government Employees Pension Fund (GEPF), to fund a targeted fiscal stimulus for the economy.
- Other consideration for reducing high debt service costs could include; yield curve management (more short-term borrowing), targeted debt renegotiation, preferential or prescribed lending, and accessing capital on more favourable terms, including via the South African Reserve Bank (SARB).
Fiscal anchors are likely to worsen SA’s fiscal challenges

- The PBO is concerned that the NT intends to introduce arbitrary fiscal rules/anchors that are not supported by empirical evidence or economic realities for their effectiveness.
- An arbitrary fiscal anchor would compel the government to repeatedly revise expenditure and undermine the efficacy of government's ability to plan and implement programmes over a long term.
- Fiscal anchors may hamper the flexibility of fiscal policy to respond to challenges during economic crises.
- The increasing risk of future crises and contagion related to the possibility of future pandemics, climate change-related events, financial instability, and political turmoil reinforces the case for fiscal flexibility.
- A narrow focus on budgetary-related variables, such as the deficit and debt, blinkers the government to the important developmental role the budget could play in reducing UPIs and enhancing the quality of people's lives, services, and infrastructure.
- Fiscal anchors could lead to expenditure cuts that negatively impact economic growth and cause debt-to-GDP levels to increase.
  - Particularly in recessions and crises where private sector household consumption and business investment are likely to remain low.
Revenue trends and tax policy changes

- Revenue trends and tax policy changes over the last 5 years
- Expected impact of tax proposals on 2024/25 revenue
- What does implementing Global Minimum Corporate Tax (GLoBE) mean?
Revenue trends and tax policy changes over the last 5 years

- Personal income tax has been adjusted above inflation in 2020 and 2021 and in line with inflation in 2022 and 2023
  - PIT largest share tax revenue and has recovered consistently post-COVID-19
- Value Added Tax has remained the second largest share of tax revenue
  - VAT collection have seen slow recovery post-covid-19
- Corporate Income tax third largest share of tax revenue
  - CIT rate was reduced to 27 per cent (from 28%) from 01 April 2022
  - CIT collection inconsistent recovery post-COVID 19
- General fuel and road accident levies increased by 1 per cent between 2020 and 2021
  - There has been no modification of fuel and road accident levy since 2022
- Excise duties increase by inflation or above inflation
- In 2022, the health promotion levy increased by 0.1 cents to 2.31 cents. Subsequently delayed to April 2025
- Expansion and extension of the Employment Tax Incentive
- Tax incentives for renewable energy introduced in 2023
  - An expanded tax incentive for businesses
  - A tax rebate to individuals for solar PV panels

Source: National Treasury data compiled by the PBO
Expected impact of tax proposals on 2024/25 revenue

Budget 2024 tax changes:

- R15 billion in additional tax collection
- The additional tax revenue is largely affected through direct taxes
- An electrical and hydrogen powered vehicle tax incentive has been proposed for manufacturers
- There are no inflationary adjustments to the tax brackets as well as medical aid credits
- These changes are projected for the next three years, which has not been the norm in previous budgets
- The PBO has previously highlighted how tax changes can have progressive and regressive impacts on various income groups
- Non-inflationary adjustments disproportionately impact those at lower income levels
- The non-adjustment to the fuel levies will provide significant relief in the context of high inflation and an exacerbated cost of living crisis

<table>
<thead>
<tr>
<th>Effect of tax proposals</th>
<th>R billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross tax revenue (before tax proposals)</td>
<td>1848.0</td>
</tr>
<tr>
<td>Budget 2024/25 proposals</td>
<td>15.0</td>
</tr>
<tr>
<td>Direct taxes</td>
<td>18.2</td>
</tr>
<tr>
<td>Personal income tax</td>
<td></td>
</tr>
<tr>
<td>No inflationary adjustment to tax brackets</td>
<td>16.3</td>
</tr>
<tr>
<td>No inflationary adjustment to medical aid tax credits</td>
<td>1.9</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td></td>
</tr>
<tr>
<td>Electric vehicles tax incentive</td>
<td>-3.2</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td></td>
</tr>
<tr>
<td>Fuel levy</td>
<td></td>
</tr>
<tr>
<td>No adjustment to general fuel levy</td>
<td>-4.0</td>
</tr>
<tr>
<td>Specific excise duties</td>
<td></td>
</tr>
<tr>
<td>Above inflation increase in excise duties on alcohol by inflation</td>
<td>0.8</td>
</tr>
<tr>
<td>Gross tax revenue (after tax proposals)</td>
<td>1863.0</td>
</tr>
</tbody>
</table>

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation. Source: National Treasury
What does implementing Global Minimum Corporate Tax (GLoBE) mean?

• Budget 2024 outlines how South Africa plans to implement the global minimum effective tax rate of 15 per cent to apply effective 01 January 2024

• National Treasury expects the new minimum effective tax will increase corporate tax collection by R8 billion in 2026/27

• Global minimum corporate tax rate agreed at OECD/G20 Inclusive Framework on BEPS led by the OECD

• South Africa is not an OECD member but signed up through G20 in October 2021

• Concerns from developing countries’ perspective
  ▪ More reliant on income tax (incl. Corporate Income Tax) than developed countries
  ▪ Generally, Corporate Income Taxes are higher than 15 per cent, therefore the global minimum rate is lower

• Global proposals from developing countries’ perspective to counter 15 per cent
  ▪ ATAF/ AU – at least 20 per cent
  ▪ ICRICT - set at 25 per cent
  ▪ FACTI- between 20 per cent and 30 per cent

• In response, countries have opted for top-up taxes to make up for losses

• Implementing this rate may mean some incentives become ineffective (meant to attract investment)
  ▪ What are the RSA government approaches and consideration?
What does implementing GLoBE mean?

- There is a concern that the GLoBE may not lead to additional revenue, more so for developing countries
  - The aim is to stop abuse and base erosion and profit shifting (BEPS) by MNE
  - What does this mean for tax treaties, investment agreements and local tax law?
- A UCT study shows that in South Africa:
  - There are 234 MNEs headquartered in SA, and only 17 (7.3%) meet the threshold for application of GLoBE rules (EU 750 million)
  - Of the 17 MNEs, half may be required the top-up tax adjustment to mitigate revenue loss
- South Africa corporate tax rate is currently 27 per cent
  - Is the effective tax rate below or above 15 per cent (due to tax incentives and concessions)?
  - Should government embark on a process to reconsider tax expenses
  - The GLoBE introduces a parallel domestic tax regime for the qualifying MNEs?
- Having signed up for GLoBE, South Africa will be able to collect top-up revenue from other African countries
  - What does this mean politically and practically?
  - What are the implications for regional integration and cooperation process currently unfolding?
- Cost-benefit analysis?
  - Human and institutional capacity requirements to deal with complexities related to GLoBE
  - Limited fiscal benefit compared to the cost of implementation?
Risks to the fiscus

• Contingent liabilities and guarantees
• The cost of inadequate investment into SOEs
• Public private partnerships (PPPs)
Contingent liabilities and guarantees

• The guarantee portfolio to SOEs is expected to increase by R33 billion to R503.3 billion by end of March 2024
• Exposure decreases by R16.6 billion to R416.3 billion (Eskom accounts for 85 per cent of exposure)
• Several major SOEs continue to rely on government bailouts and dominate the guaranteed portfolio
• SANRAL exposure decreased by R8.7 billion to R29.5 billion in the current financial year due to redemptions
• Transnet is granted a new guarantee of R47 billion to address liquidity challenges and supply chain backlogs (R22.8 billion is available immediately)
• Guarantees to Denel of R5.9 billion have been withdrawn due to the expiration of part of guarantees and the non-use of another portion
• SAPO has reported a net loss for the past 10 years due to a high fixed cost base, with a notable net loss of R2.2 billion in 2022/23. SAPO is in business rescue, insolvent and cannot pay creditors

Source: National Treasury, BR 2024
*Excludes Eskom, ACSA, Denel, SANRAL and Trans-Caledon tunnel Authority
The cost of inadequate investment into SOEs

• NT in the 2024 BR states that “SOE support has become a drain on the fiscus”, however, this overlooks crucial factors
  ▪ SOEs have a critical role to play in economic growth and development and in some transition economies including China, the SOE sector contributes one quarter to one third of GDP (World Bank)
• Many of the South African SOEs are underperforming due to chronic under-investment relative to other nations.
  ▪ This has had and continues to have real negative economic implications for households and businesses
• Decades of under-investment in new power generation capacity and maintenance of existing infrastructure led to load-shedding, severely impacting the economy
  ▪ Transnet’s outdated rail infrastructure and port inefficiencies significantly hinder export potential and cost the economy
• Presidential Review Committee (PRC) of SOEs: Funding models for social and economic development mandates of SOEs are blurred and confusing, leading in some instances to undercapitalisation
Public private partnerships (PPPs)

- NT indicated that capital investment will grow as government increases the use of PPPs, and new institutional arrangements crowd in private funding for public infrastructure.
- This shows that government’s strategy for infrastructure delivery hinges on private sector involvement (also through PPPs).
- There is evidence that suggests that PPPs remain a highly contested vehicle for infrastructure financing and delivery.
- A 2019 investigation into PPPs in the UK, concluded that PPPs in that country are the most expensive method of financing and significantly increase the costs borne by the government.
- Public sector capital investment only rose by 3.8 per cent in 2021 to 4.1 per cent in 2022. It averaged 5.4 per cent of GDP between 2012 and 2022, far below the NDP target of 10 per cent of GDP by 2030.

<table>
<thead>
<tr>
<th>R’ billion</th>
<th>2022/23</th>
<th>2023/24</th>
<th>2023/24</th>
<th>2024/25</th>
<th>2025/26</th>
<th>2026/27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for capital assets</td>
<td>16,431</td>
<td>17,176</td>
<td>16,659</td>
<td>15,171</td>
<td>15,404</td>
<td><strong>15,276</strong></td>
</tr>
<tr>
<td>Buildings and other structures</td>
<td>9,126</td>
<td>11,464</td>
<td>11,006</td>
<td>10,681</td>
<td>11,209</td>
<td>10,870</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>4,998</td>
<td>5,084</td>
<td>5,026</td>
<td>3,783</td>
<td>3,620</td>
<td>3,799</td>
</tr>
<tr>
<td>Other capital assets</td>
<td>2,307</td>
<td>0,628</td>
<td>0,627</td>
<td>0,707</td>
<td>0,575</td>
<td>0,607</td>
</tr>
</tbody>
</table>

Source: National Treasury, BR 2024
Conclusion

- Given the changes to function budgets over the 2024 MTEF, the PBO is concerned about the government’s performance to achieve the NDP targets set for 2030.
- The expectation has been that the implementation plan for the last 5-years would be fully integrated into departmental annual performance plans to ensure funding and reporting for monitoring purposes. This has not adequately materialised.
- Fiscal consolidation has resulted in reductions to real per capita expenditure critical to the basic survival of the majority of citizens who rely on public services.
- Total real per capita expenditure declines in the medium term.
- The PBO is concerned that the government’s fiscal policy approach will constrain economic development and exacerbate unemployment, poverty and inequality (UPI) over the medium term.
- We are further concerned that there is a lack of evidence that the current or proposed macroeconomic policy will stabilise the economy.
- The mainstream macroeconomic theories and models used in the 2024 Budget are not suitable for producing evidence-based research to inform government policy and budgeting.
- Contrary to the views in the 2024 Budget, there is strong evidence about fiscal policy as an effective tool to address UPI, and there is a lack of evidence that government debt crowds out private sector investment.
- Fiscal sustainability has to be seen beyond just decreasing the budget deficit and managing the debt-to-GDP ratio. Fiscal sustainability must include addressing UPI.
Conclusion

• The PBO has cautioned about the disproportional impact of fiscal consolidation on vulnerable populations, income inequality, social disparities, and the negative consequences for employment and long-term economic development
• Fiscal anchors are likely to worsen SA’s fiscal challenges rather than ensure fiscal sustainability
• Since 2020, gross tax revenue outcomes have been better than expected
• The implementation of the GLoBE will require reforms to the tax policies
• The state of key SOEs should be seen as a lesson on how insufficient government financing over a long period causes institutional erosion
• The government should allocate sufficient funding and resources to SOEs to enable economic development and growth
• The government should focus on enhancing its own capacity to ensure effective infrastructure delivery
• The PBO has produced several briefs that should support Members to make recommendations to the executive regarding the slow progress made with the implementation of the NDP
• These briefs focus on:
  ▪ SA debt and the fiscal framework
  ▪ Socio economic situation in the country
  ▪ An update on the fees must fall movement
  ▪ Skills development and training development initiatives in government
  ▪ Linking Priority 2 Outcome 1: More decent jobs sustained with budget programmes
Additional slides
Main changes to function budgets over the MTEF

Given the main changes to function budget over the 2024 MTEF, government is to provide further details to Parliament;

• Provide evidence that reduction or reprioritising spending will lead enhance spending quality and ensure NDP goals are realised

• Provide evidence that reducing the National health insurance grant and the Health facility revitalisation grant will lead to progress in upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care

• Provide evidence about progress in building a state that is capable of playing a developmental and transformative role and invest in infrastructure to support economic growth and job creation
The “social wage” is declining in real per capita

- Treasury states that “The social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years”. This is lower than the 61 per cent projected in the 2023 MTBPS.
- The “social wage” in the 2024 Budget is not protected from inflation and population growth.
Priority spending in terms of economic classification

- Current payments
- Compensation of employees
- Goods and services
- Transfers and subsidies
- Municipalities
- Higher education institutions
- Households
- Payments for capital assets
- Buildings and other fixed structures

2022/23 Outcome  2023/24 Revised estimate  2024/25 MTEF  2025/26 MTEF  2026/27 MTEF
## Taxes policy changes during the 6th administration

<table>
<thead>
<tr>
<th></th>
<th>Budget 2020</th>
<th>Budget 2021</th>
<th>Budget 2022</th>
<th>Budget 2023</th>
<th>Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal income tax</strong></td>
<td>Above inflation adjustment of tax brackets and rebates, resulting in real personal income tax relief for individual</td>
<td>Granting above inflation personal income tax relief of R2.2 billion by adjusting brackets and rebates</td>
<td>Granting tax relief by adjusting personal income tax brackets and rebates for the effect of inflation</td>
<td>Granting tax relief by adjusting personal income tax brackets and rebates for the effect of inflation</td>
<td>No change to personal income tax brackets, rebates and medical tax credits</td>
</tr>
<tr>
<td><strong>Fuel Levy</strong></td>
<td>General fuel levy increases by 16 cents per litre, and the road accident fund levy increases by 9 cents per litre on 1 April 2020</td>
<td>General fuel levy increases by 15 cents per litre, and the road accident fund levy increases by 11 cents per litre on 7 April 2021</td>
<td>No changes to the general fuel levy and road accident fund levy.</td>
<td>No changes to the general fuel levy and road accident fund levy.</td>
<td>No change to the general fuel levy and road accident levy.</td>
</tr>
<tr>
<td><strong>Transfer duty rate: purchase of property</strong></td>
<td>Inflation adjustments to transfer duty rate structure. No transfer duty is payable on the purchase of property up to a value of R1 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Excise duties</strong></td>
<td>Increased excise duties on tobacco and alcohol</td>
<td>Increase of 8 per cent in specific excise duties on tobacco and alcohol</td>
<td>Increases of between 4.5 and 6.5 per cent in excise duties on alcohol and tobacco</td>
<td>Increases of 4.9% in excise duties on alcohol and tobacco.</td>
<td>Increase of between 6.7 and 7.2% in excise duties on alcoholic beverages. Increase of between 4.7 and 8.2% in excise duties on tobacco products</td>
</tr>
<tr>
<td><strong>Pensions, provident funds, savings, unemployment insurance</strong></td>
<td>Allowable contributions to tax free savings accounts increase to R36 000 per annum</td>
<td>Unemployment Insurance Fund contribution ceiling will be increased to R17 711.58 per month from 1 March 2021</td>
<td></td>
<td>Adjustments to tax tables for transfer duty, retirement fund lump sum benefits and retirement fund lump sum withdrawal benefits, to take account for the effect of inflation.</td>
<td>Two-pot retirement reform to be implemented on 1 September 2024</td>
</tr>
</tbody>
</table>

Source: National Treasury data compiled by the PBO
# Taxes policy changes during the 6th administration

<table>
<thead>
<tr>
<th></th>
<th>Budget 2020</th>
<th>Budget 2021</th>
<th>Budget 2022</th>
<th>Budget 2023</th>
<th>Budget 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plastic bag levy</strong></td>
<td>Plastic bag levy increases to 25 cents per bag</td>
<td>Plastic bag levy will be reduced to 12.5c per bag for bio-based plastic bags, from a date to be announced later in the year</td>
<td>Plastic bag levy is increased by 3 cents to 28 cents per bag from 1 April 2022</td>
<td></td>
<td>Plastic bag levy to increase to 32 cents per bag from 1 April 2024</td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
<td>Introduce sunset dates for corporate tax incentives and review incentives Inflation adjustments to transfer duty rate structure. No transfer duty is payable on the purchase of property up to a value of R1 million Limit companies’ use of assessed losses, and further limit their interest deductions</td>
<td>No extension of the venture capital company tax incentive after 30 June 2021</td>
<td>Increasing the monthly benefits for employers under the employment tax incentive by 50 per cent</td>
<td>An expanded tax incentive for businesses of 125% of the cost of renewable energy assets used for electricity generation, brought into use during a period of 2 years from 1 March 2023</td>
<td>Electrical and hydrogenpowered vehicle tax incentive to be introduced for manufacturers in 2026</td>
</tr>
<tr>
<td><strong>Company tax</strong></td>
<td></td>
<td>Reduction in company income tax rate to 27 per cent for tax years ending on or after 31 March 2023</td>
<td></td>
<td>Global minimum tax at 15% applies to large multinational groups of companies from 1 January 2024</td>
<td></td>
</tr>
<tr>
<td><strong>Health Promotion on beverages levy</strong></td>
<td></td>
<td>Health promotion levy on beverages is increased by 0.1 cent to 2.31 cents per gram of sugar from 1 April 2022</td>
<td>The increase of the health promotion levy on beverages to 2.3 cents per gram of sugar is delayed until 1 April 2025</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: National Treasury data compiled by the PBO
Percentage breakdown of tax over the last 5 years

- **Personal Income Tax (PIT)** as a share of gross tax revenue has increased post-COVID-19 and is projected to be slightly higher in 2024/25 (39.7%) than it 2019/20 (38.9%)

- **Value Added Tax (VAT)** as a share of gross tax revenue increased between 2019/20(25.6%) and 2021/22 (28.8%) . This was followed by a decline in 2022/23 (25.0%) and a spike upwards in 2023/24 (32.8%). The projection for 2024/25 (25.6%) brings VAT to the 2019/20 level

- **Corporate Income Tax (CIT)** as a share of gross revenue increased between 2019/20 and 2021/22, peaking at 23.6 per cent in 2021/22. In 2022/23 it dropped to 20.4 per cent as a result of a decline in windfall tax receipts due to higher commodity prices. The revised estimate for 2023/24 for CIT as a share of gross tax revenue is 22.2 per cent, and the project for CIT decreases to 16.2 per cent in 2024/25

Source: National Treasury data compiled by the PBO
Revenue trends by tax instrument over the last 5 years

- PIT, VAT and CIT remain the largest contributors to gross tax revenue
- PIT has increased from R527.6 billion in 2019/20 to R649.8 billion (revised) in 2023/24. The estimate for 2024/25 is R738.8 billion
- VAT has increased from R346.8 billion to R445.3 billion (revised) in 2023/24. The estimate for 2024/25 R476.8 billion
- Despite an increase to R344.7 billion in 2022/23, CIT is projected to decline to R301.4 in 2023/24 (revised) and to slightly increase to R302.7 billion in 2024/25 (estimate)

Source: National Treasury data compiled by the PBO