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**PARLIAMENTARY
BUDGET OFFICE**

**2024 DORA,
2024 Second Adjustments
Appropriation (2023/24 Financial
Year) Bill,
2024 Gold and Foreign Exchange
Contingency Reserve Account
Defrayal Amendment Bill**

Date: 27 March 2024

Outline



- Introduction
- Background
- Situation analysis: The bigger picture
- Division of Revenue
- Efficiency and effectiveness
- The Gold and Foreign Exchange Contingency Reserve Account
- The 2023 Second Adjustments Appropriations Bill
- Conclusion

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 presentation includes an assessment of the socio economic and service delivery situation in the country, the 2024 Division of Revenue Bill and provides additional information on the 2023/24 second Adjustments Appropriations Bill
- Background information includes:
 - The functions of the three spheres of government
 - Revenue raising ability of the three spheres of government
 - An analysis of the needs of citizens
- The discussions include:
 - The equitable division of nationally raised revenue between the national, provincial and local spheres of government
 - Changes to the consolidated budget
 - National, provincial and local government spending trends
 - Efficiency and effectiveness
 - The Gold and Foreign Exchange Contingency Reserve Account

Background

Functions of the three spheres of government

Revenue raising capacity

The 2024 Budget projected slower growth than required to achieve the NDP target of 5.4 per cent by 2030

Functions of the three spheres of government



- The national and provincial governments have concurrent responsibility for a range of functions such as school education, health services, social welfare services, housing and agriculture. For these functions, the national government is mainly responsible for providing:
 - Leadership, formulating policy (including setting norms and standards)
 - Providing oversight and monitoring
- The provincial government is mainly responsible for implementation in line with the nationally determined framework
- The national government is exclusively responsible for functions that serve the national interest and are best centralised for providing:
 - National defence
 - The criminal justice system (safety and security, courts)
 - Higher education and administrative functions (home affairs, collection of national taxes)

Functions of the three spheres of government (cont.)



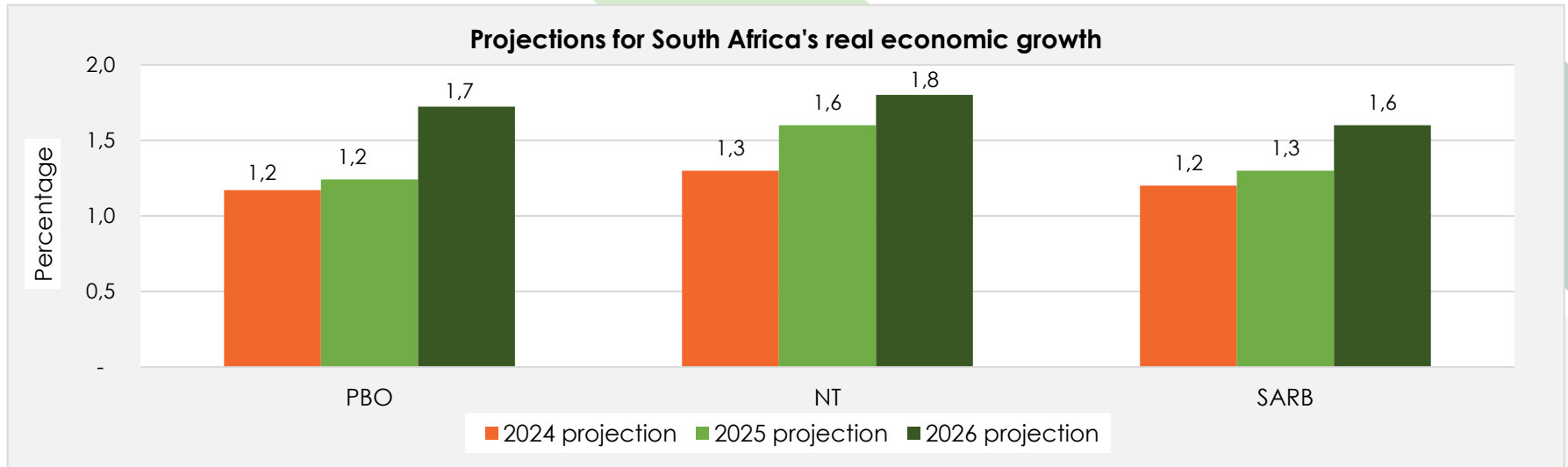
- The provincial and local governments receive equitable shares and conditional grants to enable them to provide basic services and perform their functions such as:
 - Education
 - Health
 - Social development
 - Housing
 - Roads
 - Electricity
 - Water
 - Municipal infrastructure services
- The division of revenue provides equitable shares to provinces and local governments to enable them to meet their basic service obligations. In addition, conditional grants are provided to enable them to improve and expand the provision of services

Revenue Raising capacity



- The national government has the largest revenue-raising capacity
- The revenue generated by the national government is shared with other spheres to support various services and initiatives
- The national government has large spending responsibilities, and therefore receives the largest share of nationally raised revenue
- Provinces have limited revenue-raising capacity but significant spending responsibilities, therefore, they receive the second-largest share of nationally raised revenue
- Municipalities can collect revenue through property rates, user charges, tariffs for services and fees
 - This revenue contributes towards their costs in providing basic services, such as sanitation, waste management, electricity and water
 - Despite these revenue raising powers, municipal budgets are under tremendous pressure and they face many challenges implementing programmes efficiently

The 2024 Budget projected medium growth slower than required by the NDP

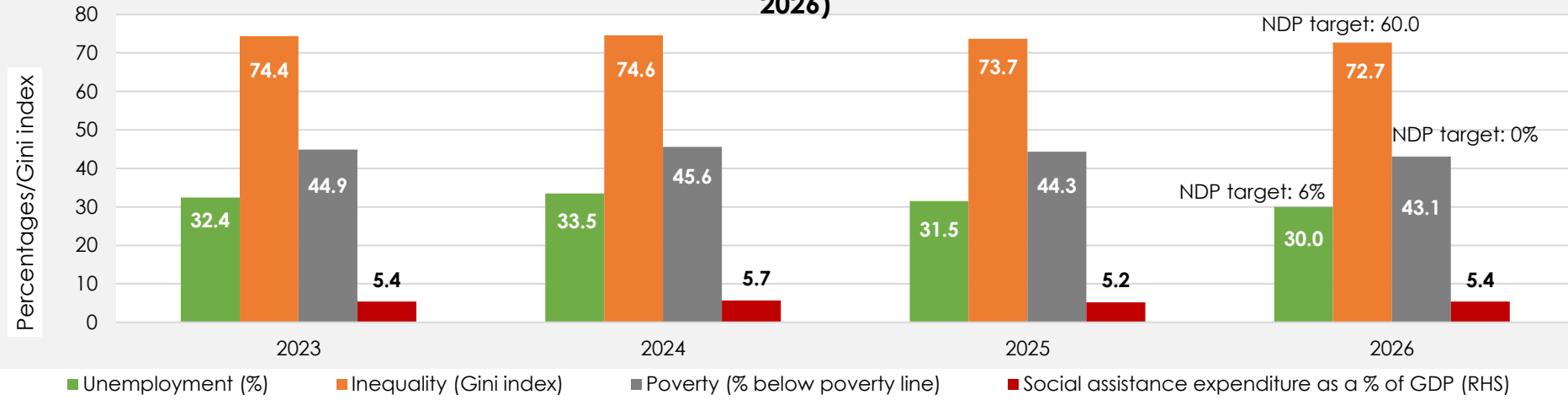


- the PBO projections show that the GDP growth outlook over the medium term is significantly below the NDP target of 5.4 per cent, and inadequate to tackle the high levels of UPI that are constraining aggregate demand in the economy
- There is insufficient support for economic development in the 2024 Budget with aggregate demand and investment likely to remain low
- The South African economy remains extremely concentrated (in terms of market share and wealth) with a high level of financialisation
 - Therefore, structural economic transformation rather than fiscal consolidation is required to steer the economy 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

The 2024 Budget projected to change the current UPI outlook slightly



PBO projections of unemployment, poverty and inequality based on 2024 Budget estimates (2023-2026)



- South Africa unemployment and inequality rates have worsened during the period of fiscal consolidation.
- PBO is concerned that the government focuses on constraining expenditure over the MTEF rather than taking a longer-term perspective on the reduction of UPI
- The PBO argued in its 2024 fiscal framework presentation that the fiscal policy approach undertaken by the NT will constrain economic development and exacerbate UPI over the MTEF
- The PBO's projections for UPI point to this reality, underscoring the inadequacy of appropriations for social support for the most vulnerable in society
- This implies that the government will lag far behind in reaching NDP targets by 2026 (4 years before 2030)
- Moreover, it also raises concerns regarding the misalignment between appropriations and development objectives set-out in the NDP

Situational analysis: The bigger picture

- National
- Provincial
- Local

National sphere of government: Cost of living



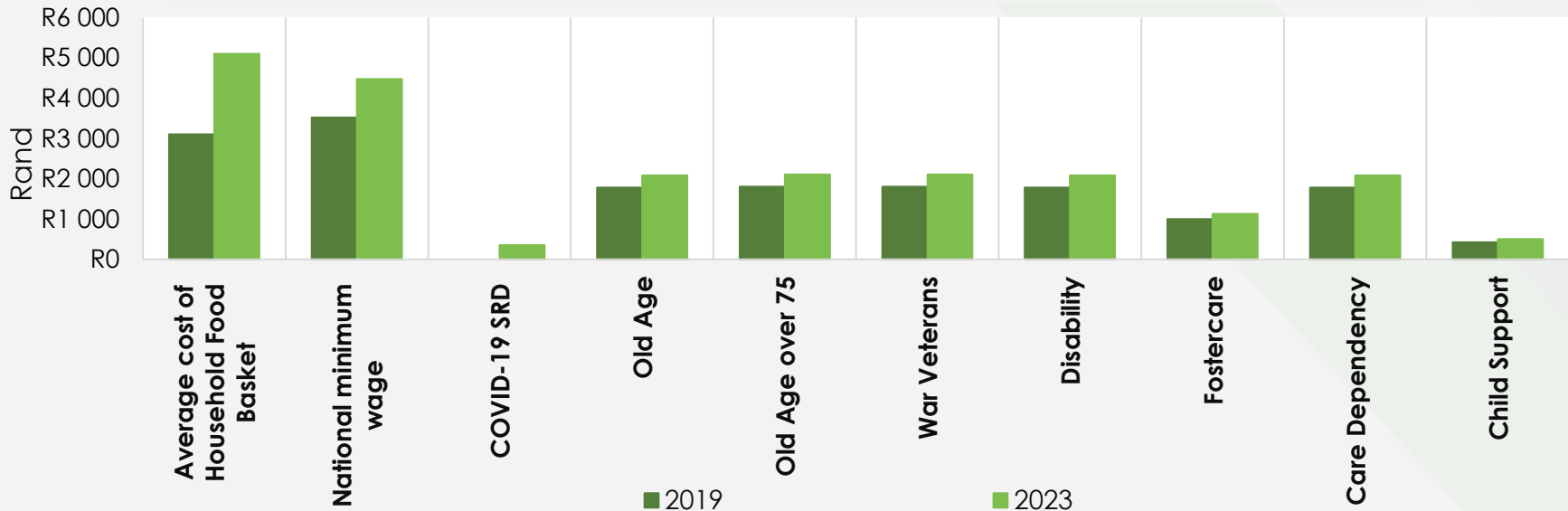
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- The 2020s has been a period of overwhelming crises, including the COVID-19 pandemic, climate change shocks and a cost-of-living crisis that negatively impacted households
- Underpinning the cost-of-living crisis in South Africa is an economy that continues to suffer high unemployment, inequality and pervasive poverty
- The annual average cost of a household food basket increased by 64 per cent between 2019 (R3 103) and 2023 (R5 098)
- The average cost of a household food basket is above the 2023 average national minimum wage of general workers R3 993 (in real terms), and the average monthly social grants for 2024/25
- Social grants have been an essential safety net for many poor individuals and households

National sphere of government: Cost of living

- In the 2024 Budget, the National Treasury has allocated R33.6 billion for the fiscal year 2024/25, a decrease from the R36.1 billion allocated in 2023/24
- The monthly grant of R350 that will be received by beneficiaries falls short of the inflation-adjusted national food poverty line, which stands at R760 per person per month

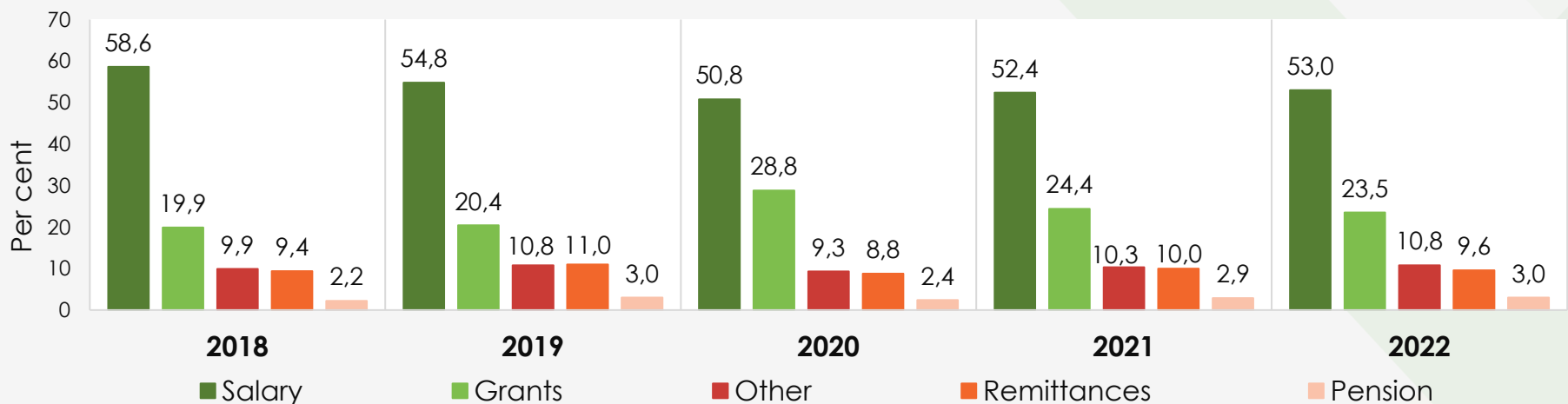
Average food basket against the National Minimum wage and social grants



National sphere of government: The need for social protection

- Amid extremely high levels of poverty, inequality, and unemployment, grants have supported the livelihoods of the most vulnerable
- According to Stats SA's General Household Survey (GHS), after salaries (53.0 per cent), grants (23.5 per cent) were the second most important source of income for households in 2022
- With a number of people who experienced hunger increasing from 6.5 million in 2018 to 7.8 million in 2022 (see next slide), social grants have contributed to improving food security for millions of poor individuals

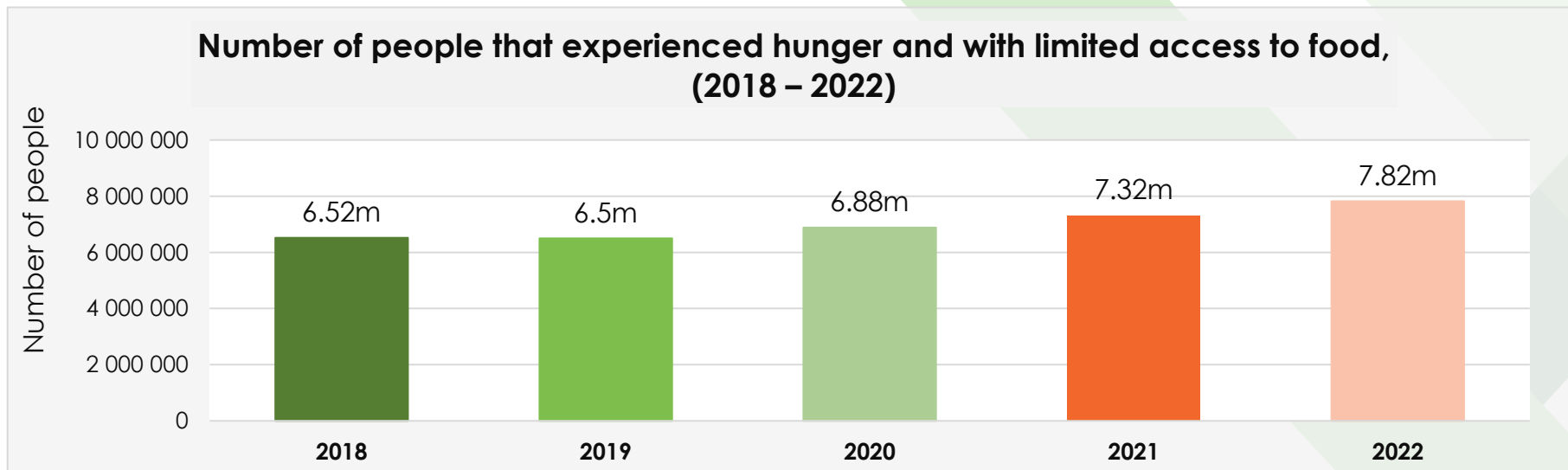
Percentage distribution of main sources of household income (2018 – 2022)



National sphere of government: The need for social protection



- The government's social security system remains a vital intervention to fight the effects of poverty and to increase economic activity
- **Budget 2024:** funding for the COVID-19 SRD grant for 2025/26 and 2026/27 is only provisionally allocated pending a decision on the continuity and funding sources of the grant beyond March 2025



Source: SA, General Household Survey, 2022 , Mid-year population estimates, 2022

National sphere of government: Economic security



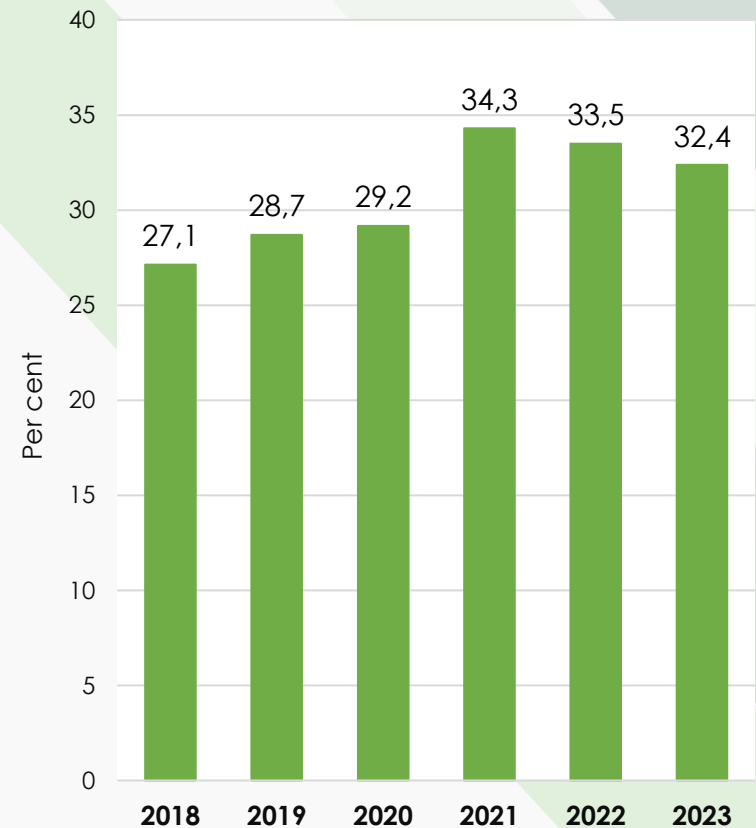
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- The extreme level of structural unemployment and inequality has depleted the resilience of the majority of the population
- South Africa's average annual unemployment rate increased from 27.1 per cent in 2018 to 32.4 per cent in 2023
- A closer analysis of the quarterly figures shows that unemployment stood at 32.1 per cent in the fourth quarter of 2023
- According to Stats SA, the number of individuals with tertiary qualifications who were unemployed increased from 724 894 in the third quarter of 2023 to 726 804 in the fourth quarter of 2023, marking a 0.3 per cent increase
- Youth unemployment has been described as a 'ticking time bomb' in South Africa due to its obscenely high rates
 - In the fourth quarter of 2023, the youth unemployment rate grew from 43.4 per cent in the third quarter to 44.3 per cent (this translates to 4.7 million unemployed youth)

**Average annual unemployment rate
(2018 – 2023)**



Source: Quantec Data (using Quarterly Labour Force Survey data)

National sphere of government: Justice & Protection Services



- South Africa had a 6 per cent increase in violent crimes between 2018 (617 210) and 2022 (654 053)
 - Murder and attempted murder increased by more than 30 per cent between the two periods
- A closer examination of the latest quarterly figures shows on average, crime increased by 2.65 per cent (year-on-year) between December 2022 and December 2023
 - Police Minister Bheki Cele has previously expressed concern about the killing of law enforcement officers and high levels of gender-based violence in the country
- In 2022/23, there was one police officer – excluding administrative staff – for every 417 people
- **Budget 2024:**
 - An additional R350 million has been allocated to police and defence to support elections
 - 10 000 new police recruits will be trained in the next financial year
 - The Budget is silent on funding to implement the National Strategic Plan on GBVF (NSP on GBVF)

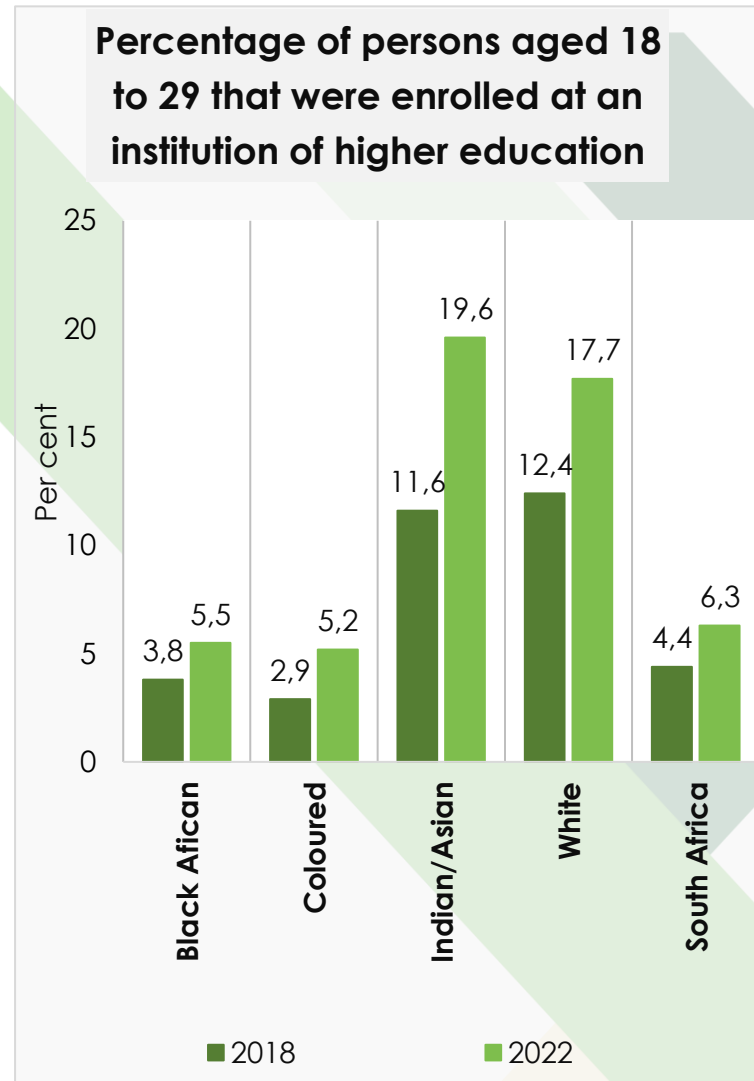
Quarterly crime statistics by Category	Oct-Dec 2022 (Q3)	Oct-Dec 2023 (Q3)	Y-on-Y Change
Contact Crimes	184 020	190 973	3.8%
Contact-related Crimes	32 187	31 347	-2.6%
Property-related Crimes	98 004	95 194	-2.9%
Other Serious Crimes	112 580	115 674	2.7%
Crime detected as a result of police action	60 169	66 694	10.8%
Total	486 960	499 882	2.7%

Source: South African Police Service (SAPS), Third Quarter Stats

National sphere of government: Higher education



- Inequality in access and quality of education is an important contributing factor to inequality in South Africa
- This disparity in educational opportunities is evident at all levels of education but is especially unequal for tertiary education
- Although notable progress has been made in broadening access to education, intense disparities still exist
- According to Stats SA, enrolment at a higher education institution in 2022 was most common among Indian/Asian (19.6 per cent) and whites (17.7 per cent) for persons aged 18 to 29
- By comparison, 5.2 per cent of the coloured and 5.5 per cent of the black population groups were enrolled in institutions of higher education
 - Of the R480.6 billion allocated to learning and culture in the 2024 Budget, 30 per cent is allocated towards post-school education and training
 - NSFAS had received more than 1.5 million applications for the 2024 academic year, as at 21 January 2024



Provincial sphere of government: The provision of education



- According to Stats SA, the percentage of individuals who attended primary or secondary school declined from 87.7 per cent in 2018 to 86.8 per cent in 2022
- This trend poses concern as the battle to strengthen the outcomes of the country's education system is usually lost or won at primary school
- The budget allocation is concerning for education outcomes, notably for the larger class sizes in public schools. Public schools have a 1:31 educator-to learner ratio compared to the 1:16 ratio found in private schools
- **Budget 2024:**
 - In the 2024/25 fiscal year, learning and culture have been allocated a budget of R480.6 billion. Of this, basic education is set to receive 68 per cent (R324.5 billion) of the total spending. This allocation marks a 3.4 per cent increase from the previous year's R313.7 billion
 - However, when adjusted for the projected CPI inflation rate of 4.9 per cent for the 2024/25 period, the real value of the budget allocation for basic education adjusts to R309.4 billion

Percentage distribution of individuals aged 5 years and older who are attending educational institutions by type of institution attended

Type of institution	2018	2022
Pre-school	3.1%	2.9%
School	87.7%	86.8%
Higher education institutions	4.5%	5.8%
TVET	2.3%	2.1%
Other colleges	1.3%	1.5%
Home Schooling	0.2%	0.2%
Other	0.4%	0.6%

Source: Stats SA, General Household Survey, 2018 and 2022

Provincial sphere of government: The provision of healthcare



- A total of 43 901 medical practitioners were registered in the Health Professions Council of South Africa (HPCSA) by 1 April 2020, of whom 20 926 (48%) were employed in the public health sector (see next slide)
- According to an analysis conducted by the DoH, there are a total of 43 doctors per 100 000 public sector population and 282 nurses per 100 000 public sector population in 2019 (see next slide)
- In February 2024, Health Minister Joe Phaahla revealed that 694 newly qualified medical doctors hadn't found jobs in the public sector since qualifying
- **Budget 2024**
 - National Treasury's has allocated R271.9 billion towards health in 2024/25
 - However, when adjusted for the projected CPI inflation rate of 4.9 per cent for the 2024/25 period, the real value of the budget allocation to the health function is R259.3 billion
 - National Treasury's allocation to the public health wage bill is R174.6 billion (or R166.5 billion in real terms) for 2024/25. This allocation represents a nominal 2.1 per cent increase from the R171.1 billion allocated in the previous year (or a 3.1 per cent increase real value)
 - The real per capita spending on health declines over the MTEF

Provincial sphere of government: The provision of healthcare

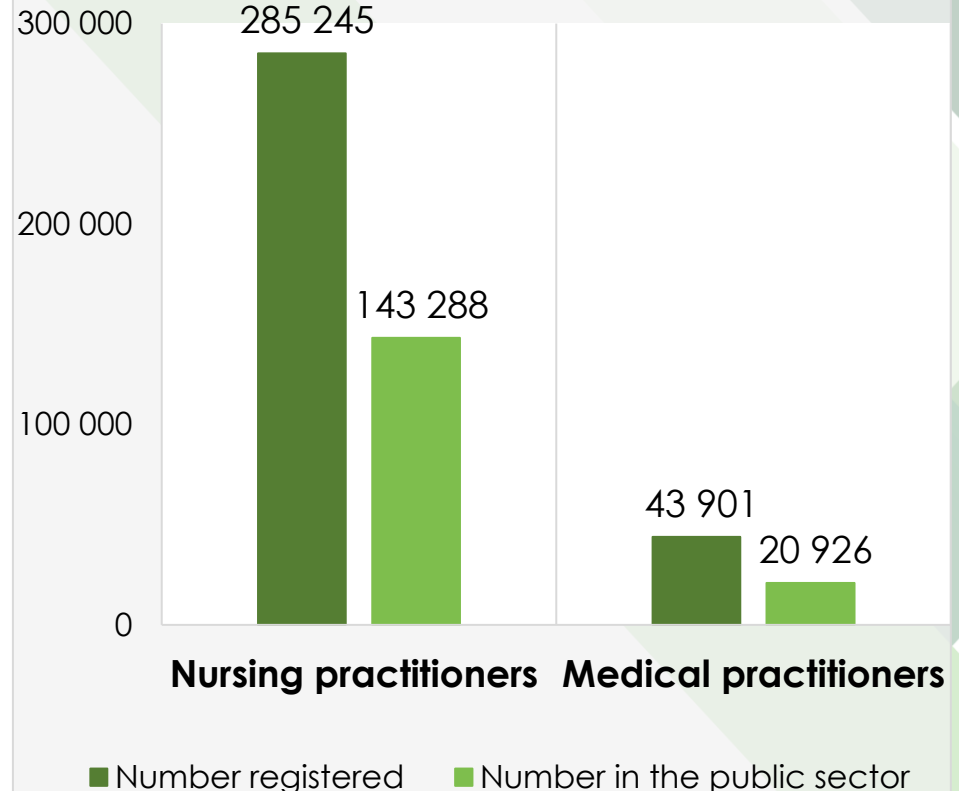


South African public sector health workforce, 2019

Group	Health worker category	National density (per 100 000 population)
Doctors	Medical Practitioners	33.11
	Medical Specialists	9.96
Nurses	Professional Nurses	147.95
	Enrolled Nurses	64.04
	Nursing assistants	69.78
Other health workers	Community health workers	111.79
	Clinical associates	0.77

Source: DoH, 2030 Human Resources for Health Strategy: Investing in the health workforce for Universal Health Coverage

Registration Statistics versus Workforce in the public health sector, by 1 April 2020

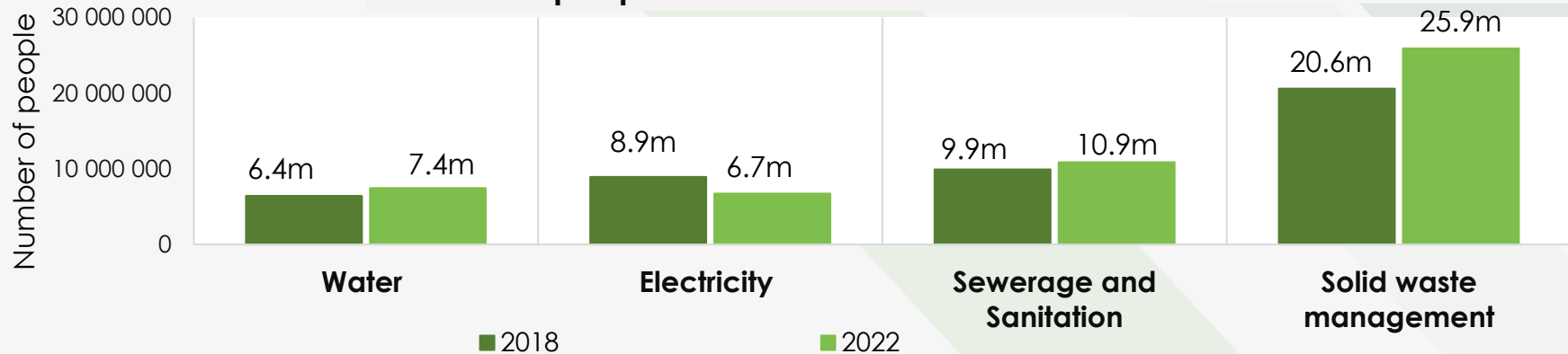


Source: M. Matseke, Taking Stock of the Healthcare Workforce in the Public Health Sector of South Africa during Covid-19: Implications for Future Pandemics, 2023

Local sphere of government: Basic services



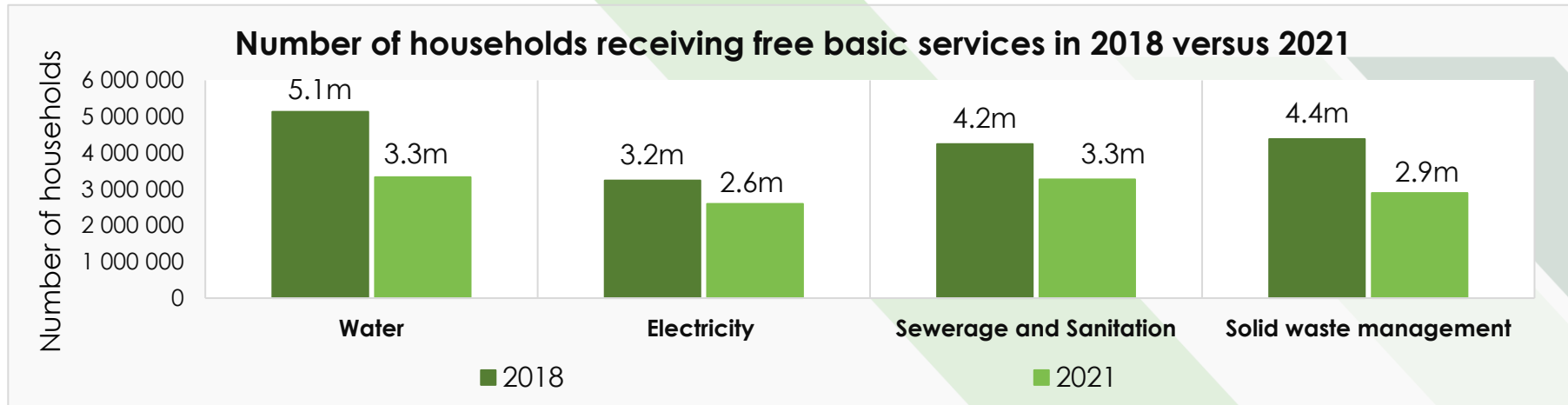
Number of people without access to basic services



Source: PBO calculations using Stats SA, General Household Survey, 2022 and Stats SA Census 2022

- Local government is the sphere of government closest to the people and has an important function in providing basic services to communities
- The provision of municipal services is not only an important building block towards achieving inclusive, sustainable developmental goals, but it is also an effective form of public intervention to promote economic growth
- The National Treasury's 2022 State of Local Government Finances report found that 169 (66 per cent) municipalities were in financial distress at the end of 2021/22
- According to the auditor general, only 38 (15 per cent) out of 257 municipalities achieved clean audits in 2021/22
- Government has made progress in providing households with some access to basic services
- However, the provision of quality services has been slow and, in some instances, deteriorated
- The figure above shows that the number of people who do not have access to water, sanitation facilities and refuse disposal has increased

Local sphere of government: Basic services



Source: Stats SA , PBO calculations using Stats SA, General Household Survey, 2022 and Non-financial census of municipalities

- The policy approach to basic services since 1994 has been that the government funded the capital costs of new services infrastructure while users covered operation and maintenance costs
- However, this approach proved untenable because it was clear that poverty, unemployment and the high running costs meant that poor people could not afford the charges
- services
- Therefore, in 2001, South Africa adopted the Free Basic Services Policy to provide free basic services to poorer households
- However, millions of households eligible for free services have not been getting them due to the onerous registration process among other factors
- In 2018, only 3.2 million households out of 10 million eligible poor households were able to access free electricity
- The figure above shows that fewer households are receiving free basic services in 2021

Division of Revenue

Changes to the consolidated budget

National trends

Provincial trends

Local government trends

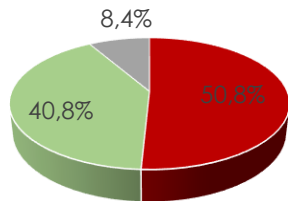
Note: Data source for this section is National Treasury

Division of Revenue



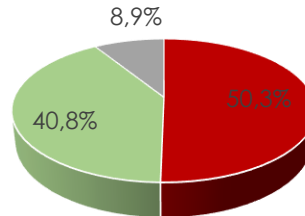
- The Division of revenue bill provides for the equitable division of nationally raised revenue between the national, provincial and local spheres of government
- The diagrams show the actual outcomes of 2021/22 and 2022/23 as well as the estimates for 2023/24 and 2024/25
- Government aims to increase the proportion of transfers to the provincial and local government spheres of government

2021/22



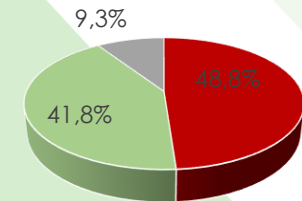
■ National ■ Provinces ■ Local government

2022/23



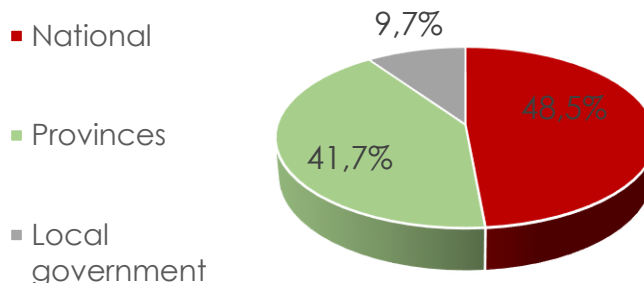
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2023/24



■ National ■ Provinces ■ Local government

2024/25

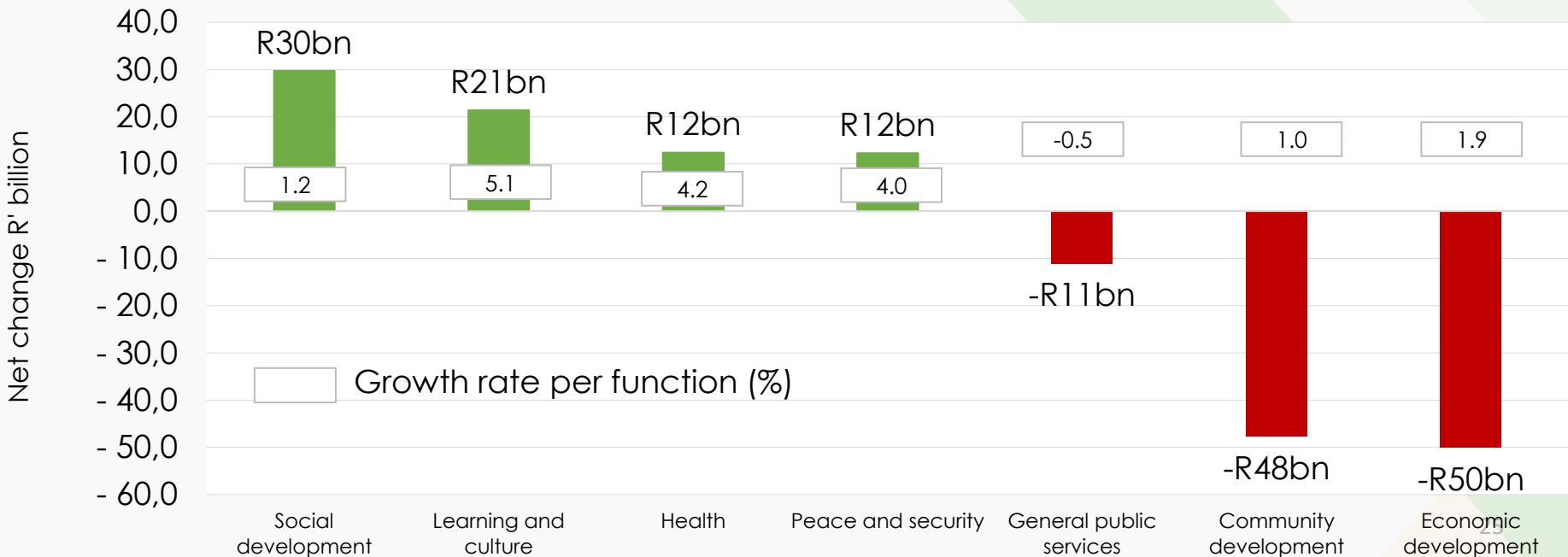


■ National
■ Provinces
■ Local government

Net change to function budgets over the MTEF (R billion)

- The government's stated priority is to enhance spending quality and minimise inefficiency within all budget items, while ensuring sustainable public finances
- Reprioritisation of funds is being implemented primarily from equitable shares and conditional grants in the community and economic development functions
 - This reallocation of funds is towards other function groups for compensation of employees

Nominal changes over the MTEF



National allocations per vote



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	To be appropriated	Current payments	Transfers and subsidies	Payments for capital assets 2024/25	Payments for financial assets	% change from 2023/24
R thousand						
1 The Presidency	612 205	595 106	558	16 541	–	-2.1%
2 Parliament ²	3 263 856	2 182 376	571 725	509 755	–	-16.2%
3 Cooperative Governance	125 183 266	3 936 392	121 173 216	73 658	–	2.9%
8 National Treasury	1 032 135 766	385 048 324	646 213 206	24 183	850 053	7.7%
13 Public Works and Infrastructure	7 612 081	1 256 878	6 345 281	9 922	–	-13.3%
16 Basic Education	32 258 698	3 327 073	27 633 180	1 298 445	–	1.5%
17 Higher Education and Training	137 515 561	12 487 327	124 631 672	396 562	–	2.8%
18 Health	62 218 899	2 397 161	58 377 475	1 444 263	–	3.5%
19 Social Development	275 141 088	899 691	274 227 017	14 380	–	4.6%
22 Correctional Services	27 757 635	26 673 919	748 126	335 590	–	6.7%
23 Defence	51 810 353	46 622 690	4 388 444	799 219	–	1.3%
28 Police	113 597 115	109 396 693	1 324 069	2 876 353	–	11.2%
30 Communications and Digital Tech	3 968 611	2 352 224	1 606 623	9 764	–	13.0%
31 Employment and Labour	3 854 842	2 131 036	1 615 316	108 490	–	-5.8%
32 Forestry, Fisheries and the Environr	8 740 937	6 602 921	2 001 735	136 281	–	-11.5%
33 Human Settlements	33 145 558	967 071	31 677 323	501 164	–	-5.1%
34 Mineral Resources and Energy	8 839 029	2 412 500	6 408 450	18 079	–	-17.4%
35 Science and Innovation	9 468 497	603 894	8 854 050	10 553	–	-12.9%
38 Tourism	2 380 908	883 150	1 427 610	70 148	–	-5.7%
39 Trade, Industry and Competition	9 600 229	1 790 425	7 791 864	17 940	–	-12.1%
40 Transport	80 634 269	1 520 258	78 903 693	6 318	204 000	1.3%
41 Water and Sanitation	24 074 579	3 825 149	15 905 889	4 343 541	–	8.2%
Total	2 130 396 470	667 858 994	1 446 312 965	15 170 458	1 054 053	5.0%
Percentage of total		31.3%	67.9%	0.7%	0.0%	

1. A positive number reflects an increase and a negative number reflects a decrease.

Conditional grants transferred from national departments



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Provincial	Audited outcome			Revised estimate	Medium-term expenditure estimates			
	2020/21	2021/22	2022/23	2023/24	2024/25	Change since 2023/24	2025/26	2026/27
R million								
3 Cooperative Governance	138	48	–	146	149	2.4%	151	158
13 Public Works and Infrastru	832	835	858	800	617	-22.8%	625	654
16 Basic Education	19 238	21 936	23 124	23 598	26 041	10.4%	27 505	28 251
18 Health	52 082	52 462	56 252	52 743	56 351	6.8%	57 450	60 087
29 Agriculture, Land Reform and Rural Development	1 688	2 235	2 294	2 166	2 280	5.3%	2 526	2 581
33 Human Settlements	15 343	17 303	18 803	17 081	16 906	-1.0%	16 919	15 262
37 Sport, Arts and Culture	1 521	2 087	2 176	2 064	2 230	8.1%	2 270	2 374
40 Transport	17 217	19 057	19 756	22 720	24 408	7.4%	25 965	25 731
Total	108 060	115 964	123 263	121 318	128 984	6.3%	133 411	135 098

	Audited outcome			Revised estimate	Medium-term expenditure estimates			
	2020/21	2021/22	2022/23	2023/24	2024/25	Change since 2023/24	2025/26	2026/27
R million								
3 Cooperative Governance	15 578	16 932	21 763	19 419	19 319	-0.5%	20 234	21 161
8 National Treasury	1 482	2 366	2 380	2 385	2 424	1.7%	1 822	1 906
13 Public Works and Infrastructure	748	759	778	749	560	-25.2%	567	593
33 Human Settlements	10 738	11 417	11 678	11 655	13 220	13.4%	13 967	14 753
34 Mineral Resources and Energy	1 551	2 223	2 343	2 256	1 982	-12.1%	1 943	1 912
40 Transport	4 498	5 284	6 128	6 310	7 594	20.4%	8 210	7 751
41 Water and Sanitation	5 373	5 858	6 357	6 878	7 890	14.7%	7 975	7 417
Total	39 969	44 839	51 426	49 652	52 990	6.7%	54 720	55 493

1. Details are provided in the 2024 Division of Revenue Bill.

Provincial Equitable Share (PES) allocations



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R million	2023/24 Estimate	2024/25 MTEF	Annual 2023/24 to 2024/25 growth	Average annual 2024 MTEF growth	Average annual MTEF 2023 MTBPS growth
Eastern Cape	75 605	78 093	3.3%	3.8%	3.1%
Free State	32 429	33 091	2.0%	3.7%	3.1%
Gauteng	124 465	127 992	2.8%	4.0%	3.4%
KwaZulu-Natal	119 722	121 145	1.2%	3.3%	2.7%
Limpopo	67 359	69 625	3.4%	4.3%	3.7%
Mpumalanga	48 051	49 499	3.0%	4.1%	3.5%
Northern Cape	15 573	16 143	3.7%	4.4%	3.8%
North West	41 289	42 816	3.7%	4.5%	3.9%
Western Cape	60 593	62 071	2.4%	3.7%	3.1%
Total	585 086	600 476	2.6%	3.9%	3.3%

Source: National Treasury

- Total average annual 2024 MTEF growth is 3.9 per cent versus the previous estimate of 3.3 per cent over the 2023 MTEF
- The increase from 2023/24 to 2024/25 is only 2.6 per cent
- In addition to the (PES) provinces receive conditional grants, amounting to R128 984 million, which bring the total allocation to R729 459 million²⁸

Changes to provincial allocations



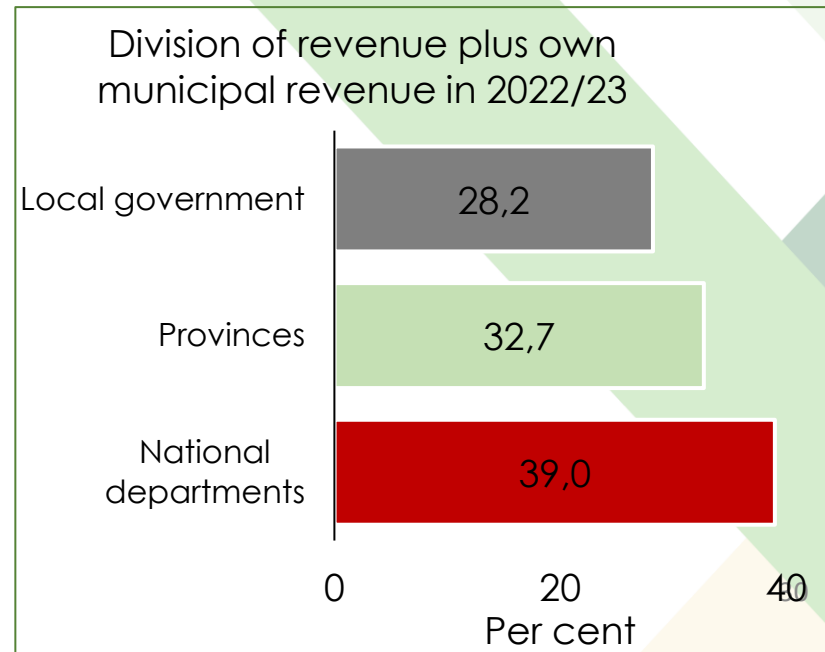
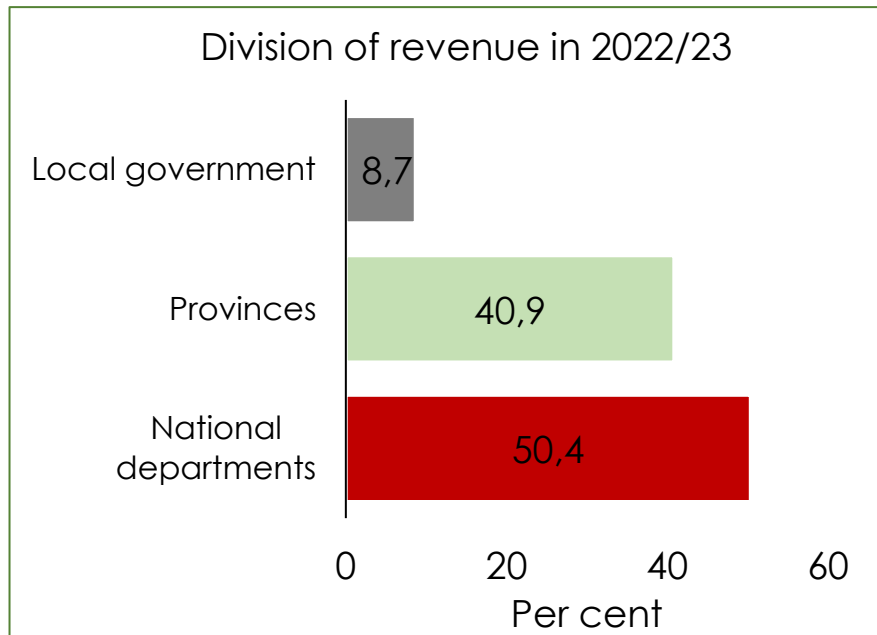
R million	2024/25	2025/26	2026/27	MTEF total revision
Additions to baseline	33 803	35 089	36 577	105 469
Direct transfers	33 803	35 089	36 577	105 469
Provincial equitable share	32 559	33 782	35 207	101 548
Conditional grants	1 244	1 307	1 371	3 921
Reduction to baselines	-25 564	-29 651	-33 180	-88 395
Direct transfers	-24 806	-28 909	-32 420	-86 135
Provincial equitable share	-19 583	-20 611	-21 337	-61 531
Comprehensive agricultural support programme grant	-36	-70	-73	-179
Ilima/Letsema projects grant	-200	-	-	-200
Early childhood development grant	-297	-396	-414	-1 107
Education infrastructure grant	-176	-217	-219	-611
District health programmes grant	-663	-1 684	-1 761	-4 108
Health facility revitalisation grant	-220	-460	-481	-1 161
Human resources and training grant	-107	-280	-293	-681
Human settlements development grant	-1 463	-1 647	-2 187	-5 297
Informal settlements upgrading partnership grant	-1 245	-1 928	-3 983	-7 155
Expanded public works programme	-283	-315	-329	-927
Provincial roads maintenance grant	-445	-1 093	-1 126	-2 664
Indirect transfers	-758	-742	-760	-2 260
School infrastructure backlogs grant	-530	-493	-503	-1 526
National health insurance indirect grant	-228	-249	-256	-733
Total change to provincial government allocations	8 239	5 438	3 398	17 075
Change to direct transfers	8 997	6 180	4 157	19 334
Change to indirect transfers	-758	-742	-760	-2 260
Net change to provincial government alloc	8 239	5 438	3 398	17 075

- ECD: Maintenance portion not allocated in 2025/26 and 2026/27 and the subsidy for nutritional support has been shifted to national
- Human resource and training: funds shifted to EC, LIM, MP, NC and NW meaning that other provinces must cut on the training of health sciences professionals, including specialists, registrars, their supervisors, internships and community service post
- The Human settlements development and informal settlements upgrading partnership grants:
 - Due to underspending
 - Needs are based on 2011 census data

Transfers to local government



- In 2022/23, local government received approximately R150.7 billion from the national government, which accounted on average for about 24 per cent of total municipal revenue
- Local government, which have significant revenue-raising powers, raised the balance of their revenue
- Transfers to local government generally contributes around 10 per cent of total revenue
- When own revenue raised by local government was included in the 2022/23 financial year local government's share accounts for 28 per cent of the total government revenue



Changes to allocations to local government

R million	2024/25	2025/26	2026/27	2024 MTEF total revisions
Technical adjustments	-200	-200	400	-
Additions	650	-	-	650
Direct transfers	650	-	-	650
Conditional grants	650	-	-	650
Neighbourhood development par	650	-	-	650
Reductions to baselines	-6 302	-7 193	-7 759	-21 253
Direct transfers	-3 814	-4 618	-5 093	-13 526
Local government equitable share	-2 594	-3 281	-3 717	-9 593
Conditional grants	-1 220	-1 337	-1 376	-3 933
Municipal infrastructure	-524	-558	-584	-1 666
Informal settlements upgrading partnership	-46	-48	-50	-143
Urban settlements development	-88	-93	-99	-281
Integrated national electrification programme	-65	-68	-71	-204
Public transport network	-79	-85	-74	-238
Regional bulk infrastructure	-81	-83	-77	-241
Municipal disaster response	-11	-12	-12	-35
Local government financial management	-12	-31	-32	-75
Programme and project preparation support	-8	-21	-22	-50
Expanded public works programme	-256	-286	-299	-841
Indirect transfers	-2 488	-2 575	-2 665	-7 728
Integrated national electrification programme	-1 797	-1 877	-1 963	-5 637
Regional bulk infrastructure	-672	-678	-681	-2 031
Total change to local government allocations	-5 088	-5 674	-5 710	-15 471
Change to direct transfers	-4 088	-5 674	-5 710	-15 471
Change to indirect transfers	-1 764	-1 719	-1 649	-5 132
Net change to local government allocations	-5 852	-7 393	-7 359	-20 603

- Allocations to local government decrease by R20.6 billion over the MTEF
- Direct transfers decrease by R13.5 billion over the 2024 MTEF period of which R9.6 billion is from the equitable share and R3.9 billion from conditional grants
- Some of the reprioritisations over the MTEF period include:
 - R841 million reduction in the EPWP
 - R1.7 billion from the municipal infrastructure grant is shifted to the municipal disaster recovery grant
 - R5.6 billion reduction in the integrated national electrification programme of which R432 million is reprioritised from the integrated national electrification programme Eskom grant to fund other priorities in the energy sector

Efficiency and effectiveness

Capacity to spend
Real per capita spending
Covid-19 SRD grant
Operational efficiency
Structural inefficiencies

Provincial expenditure as at 31 December 2023



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Provincial departments	2023/24				
	Main Budget	Adjustments	Adjusted Budget ¹	Actual Receipts/ Payments	% Actual Receipts/ Payments
	R'000	R'000	R'000	R'000	%
Receipts					
Transfers from National Revenue Fund	694 925 739	11 332 011	706 257 750	545 366 974	77.2%
Equitable share of revenue	567 527 713	17 558 206	585 085 919	445 544 389	76.2%
Conditional grants	127 398 026	(6 226 195)	121 171 831	99 822 585	82.4%
Provincial own receipts	22 923 208	360 282	23 283 490	19 407 517	83.4%
Total receipts	717 848 947	11 692 293	729 541 240	564 774 491	77.4%
Payments by provincial departments		-	-	-	
Education	304 045 739	6 408 193	310 453 932	236 905 558	76.3%
Health	242 889 567	7 941 155	250 830 722	191 194 604	76.2%
Social Development and Special Programmes	21 572 431	336 862	21 909 293	16 102 743	73.5%
Other	181 303 822	4 689 158	185 992 980	134 575 724	
Total payments	728 239 128	19 038 506	747 277 634	562 675 886	75.3%
Payments by economic classification		-	-	-	
Current payments	593 132 161	18 293 542	611 425 703	460 795 232	75.4%
Compensation of employees	438 218 248	12 366 001	450 584 250	337 852 988	75.0%
Goods and services	154 905 537	5 901 665	160 807 202	122 878 271	76.4%
Transfers and subsidies	94 221 226	1 534 349	95 755 575	75 835 004	79.2%
Provinces and municipalities	8 618 528	1 019 085	9 637 613	7 515 680	78.0%
Departmental agencies and accounts	13 266 770	448 846	13 715 616	11 649 431	84.9%
Higher education and institutions	157 687	890	158 577	84 890	53.5%
Public corporations and private enterprises	10 594 624	464 277	11 058 901	7 681 906	69.5%
Non profit institutions	38 326 947	546 605	38 873 552	33 005 232	84.9%
Households	23 256 001	(945 929)	22 310 072	15 897 499	71.3%
Payments for capital assets	40 879 917	(816 706)	40 063 211	26 007 682	64.9%
Buildings and other fixed structures	31 844 520	(2 103 592)	29 740 928	20 492 581	68.9%
Machinery and equipment	8 540 187	1 235 965	9 776 152	5 290 696	54.1%
Land and sub-soil assets	271 258	(877)	270 381	15 722	5.8%
Software and other intangible assets	208 248	52 890	261 138	198 348	76.0%
Total payments	728 239 127	19 038 506	747 277 634	562 675 886	75.3%

Provincial expenditure as at 31 December 2023



National departments administering the grants	Budget				Payments to Date	
	2023 DORA R'000	2023 DORA Amendment R'000	Provincial roll-overs R'000	Total Available R'000	Actual Payments R'000	% Actual %
Schedule 5, Part A Grants²						
Agriculture, Land Reform and Rural Development (Vote 29)	2 333 255	(167 229)	101 403	2 267 429	869 828	38.4%
(a) Comprehensive Agricultural Support Programme Grant	1 626 449	(124 859)	84 157	1 585 747	604 377	38.1%
(b) Ilima/Letsema Projects Grant	620 478	(35 500)	11 927	596 905	234 032	39.2%
(c) Land Care Programme Grant: Poverty Relief and Infrastructure	86 328	(6 870)	5 319	84 777	31 419	37.1%
Sports, Arts and Culture (Vote 37)	1 570 800	(68 000)	79 244	1 582 044	728 934	46.1%
Basic Education (Vote 16)	11 456 585	(135 647)	219 642	11 540 580	6 656 512	57.7%
(a) Early Childhood Development Grant	1 242 487	(58 053)	14 026	1 198 460	681 279	56.8%
(c) Learners with Profound Intellectual Disabilities Grant	260 424	-	15 116	275 540	134 783	48.9%
(d) Maths, Science and Technology Grant	433 079	(49 804)	23 098	406 373	208 856	51.4%
(e) National School Nutrition Programme Grant	9 278 942	-	165 146	9 444 088	5 478 825	58.0%
Health (Vote 18)	40 159 419	(1 440 000)	388 768	39 108 187	20 698 667	52.9%
(a) District Health Programmes Grant	26 865 861	(1 000 000)	45 621	25 911 482	14 074 896	54.3%
(b) Health Facility Revitalisation Grant	7 119 860	(440 000)	249 378	6 929 238	3 356 930	48.4%
(c) Human Resources and Training Grant	5 479 023	-	19 443	5 498 466	2 931 394	53.3%
Human Settlements (Vote 33)	19 246 370	(2 165 681)	875 142	17 955 831	8 051 381	44.8%
(a) Human Settlements Development Grant	14 943 649	(1 688 968)	513 034	13 767 715	6 865 311	49.9%
(b) Informal Settlements Upgrading Partnership Grant: Provinces	4 302 721	(476 713)	362 108	4 188 116	1 186 070	28.3%
Public Works and Infrastructure (Vote 13)	861 242	(61 727)	891	800 406	498 935	62.3%
(a) Expanded Public Works Programme Integrated Grant for Provinces	434 762	(31 270)	847	404 339	267 993	66.3%
(b) Social Sector Expanded Public Works Programme Incentive Grant	426 480	(30 457)	44	396 067	230 942	58.3%
Sports, Arts and Culture (Vote 37)	603 960	(43 000)	6 776	567 736	337 204	59.4%
Mass Participation and Sport Development Grant	603 960	(43 000)	6 776	567 736	337 204	59.4%
	-	-	-	-	-	-
Sub-Total	76 231 631	(4 081 284)	1 671 866	73 822 213	37 841 461	51.3%

Efficiency and effectiveness of public spending



- Government's initiatives:
 - To ensure the effective use of resources the rationalisation of entities, is anticipated to reduce the number of provincial and national entities from 281 to 264
 - The concern is not just about rationalisation, but also to standardise salary levels, specifically on executive management level
- Poor coordination between different programmes within departments and between departments for example:
 - Continuous under spending on agriculture conditional grants, specifically projects that are created to support beneficiaries of land reform
- In the 2024 budget, an amount of R7.4 billion is set aside for the presidential employment initiative of which:
 - R750 million is reprioritised towards the Food Security and Livelihoods Programme, which provides subsistence farmers with vouchers to purchase agricultural inputs, while the Ilima grant, with the same purpose, continuously underspend
 - About R4 billion will be made available for hiring more teacher assistants through the basic education schools employment initiative in provinces
 - This is not reflected in the 2024 DORA list of allocations outside of the PES formula, as previously

Efficiency and effectiveness of public spending (cont.)



- An amount of R1.1 billion is reprioritised towards the Social Employment Fund administered by the Industrial Development Corporation to promote work in local communities
- The Cities Public Employment Programme will receive R650 million to create employment in local communities and townships to assist with the upgrading of informal settlements, developing township economies, conducting maintenance, and developing and managing public spaces and assets
 - The question is whether this is now a trade-off with the informal settlements upgrading partnership grant that has been reduced
- The National Youth Service will receive R250 million to support youth employment initiatives
- The National Pathway Management Network will receive R250 million to help connect unemployed people to job opportunities, which is the responsibility of the Department of Employment and Labour
- In addition the allocation for the university subsidies: Presidential youth employment intervention (capital) is more than double in 2024/25 from 2023/24 and it is not clear whether this reprioritisation is also from the original presidential employment initiative

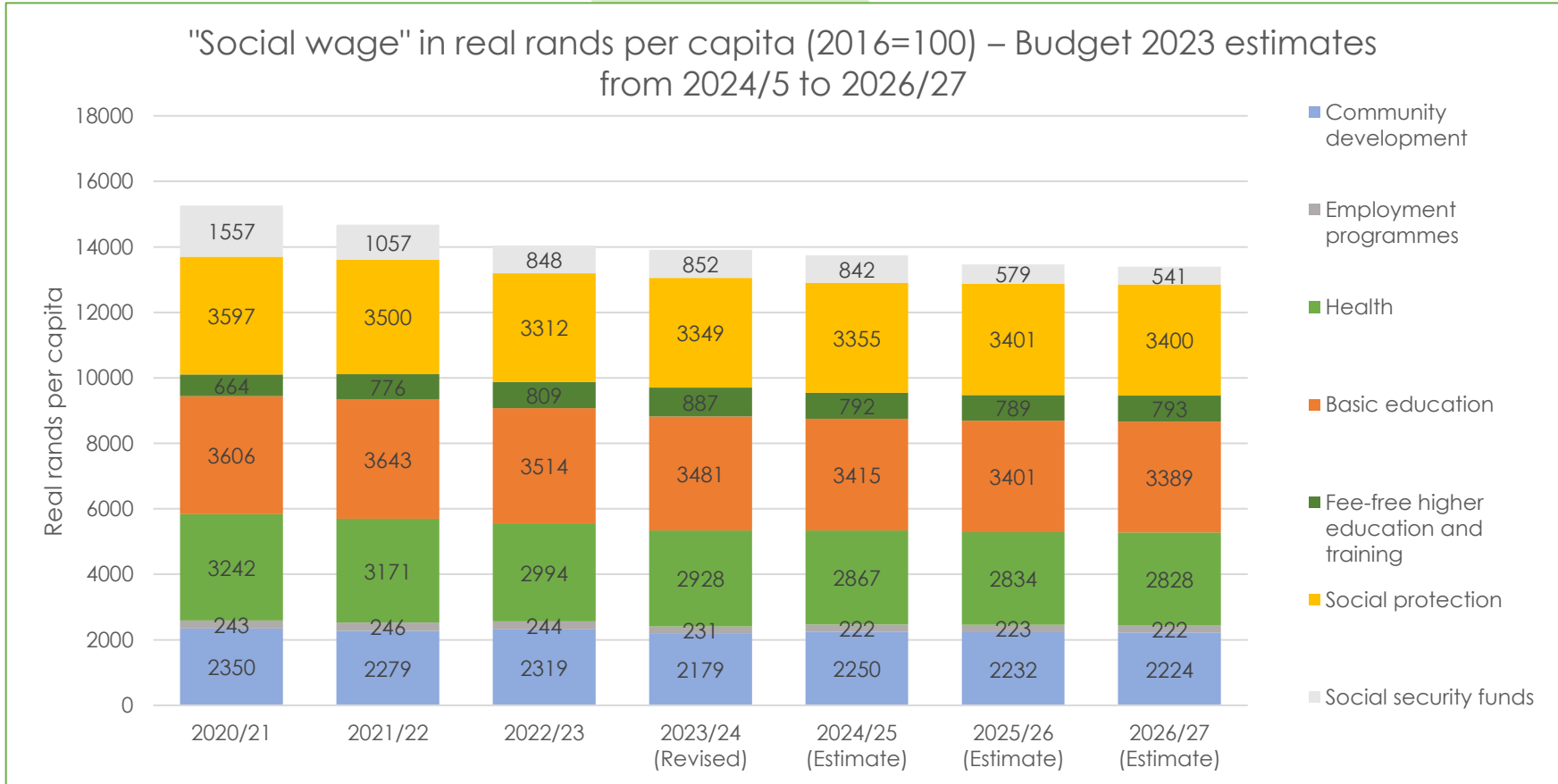
The “social wage” is declining in real per capita terms



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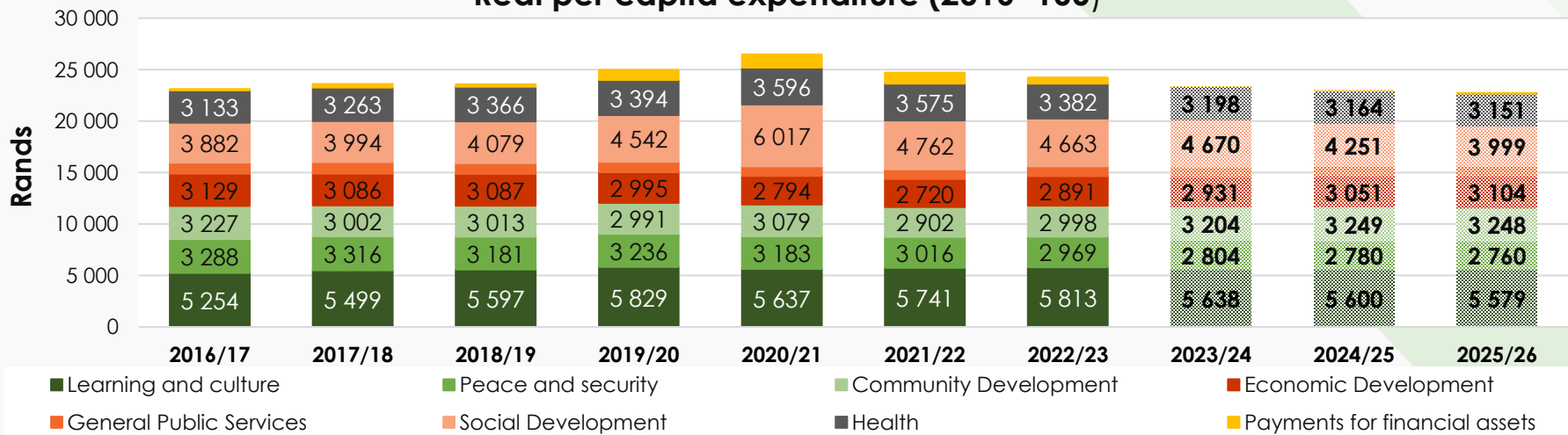
- The Treasury states that “The social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years”. This amount is lower than the 61 per cent projected in the 2023 MTBPS
- The “social wage” in the 2024 Budget is not protected from inflation and population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

Real per capita spending per function group



- Total real per capita expenditure declines in the medium term
- Total real expenditure per capita declines to R22 262 in 2026/27
 - The revised estimate is lower than the real per capita spend in 2016/17 (R23 116)
- In 2023/24, total real per capita spend has been revised to R22 917, an upward revision from the 2023 MTBPS amount of R22 850 and a decline from the projected R22 964 in the 2022 MTBPS and R23 402 in Budget 2023
- 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

Real per capita expenditure (2016=100)



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

Real per capita spending per economic classification (2016=100)

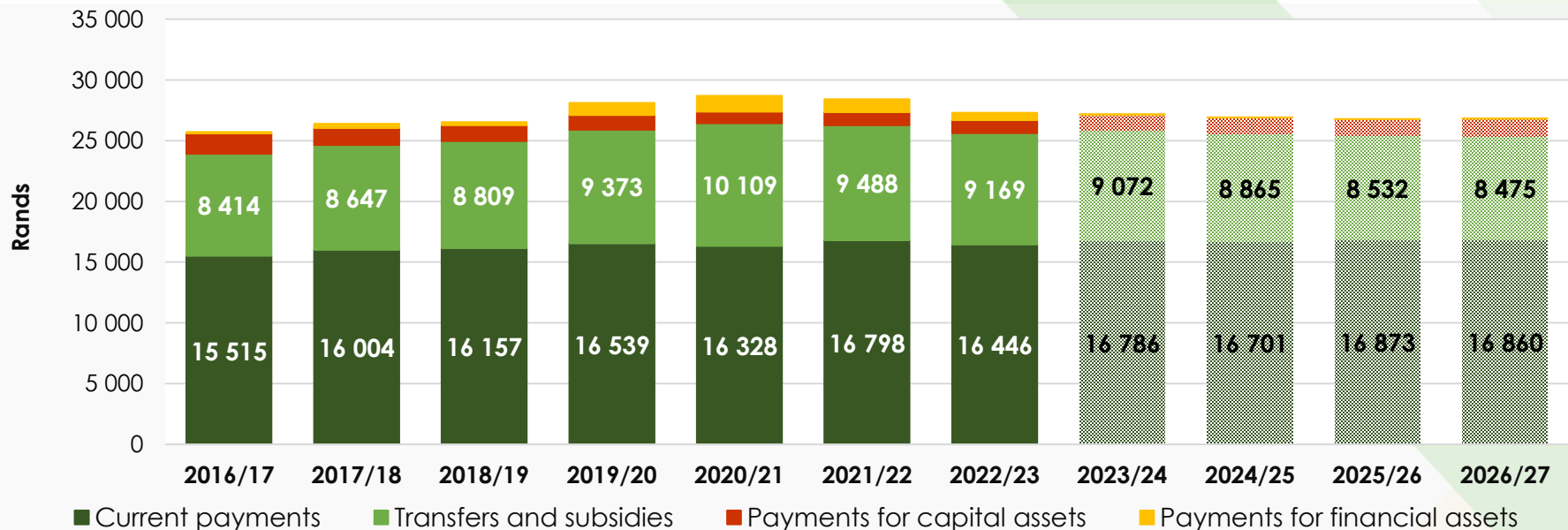


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- In 2016/17 total real expenditure per capita was R25 721
- In the 2023 MTBPS, it was projected that total real expenditure per capita for 2026/27 would increase to R26 758
 - The 2024 Budget projection is slightly higher at R26 836
- In 2023/24,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

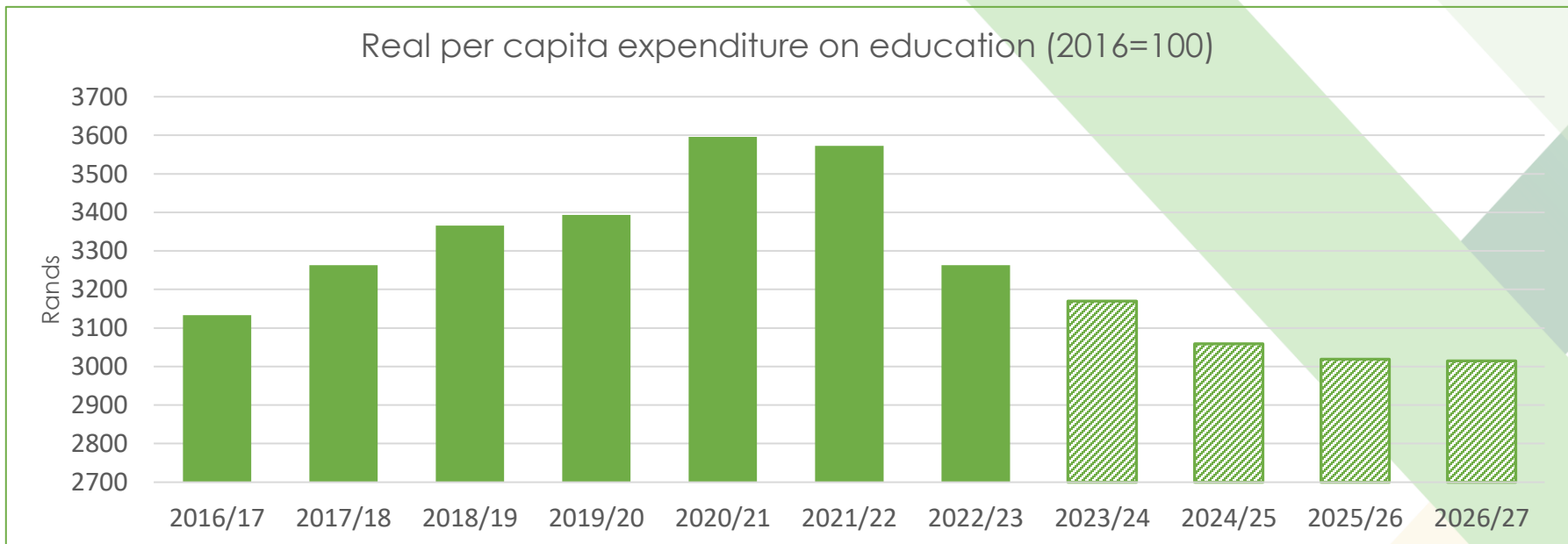


Source: PBO calculations based on National Treasury and Stats SA population

Real per capita spending on health



- NT states that “the health budget is anticipated to grow more slowly than inflation over the MTEF period due to the R23.7 billion baseline reductions over the medium term”
- Total real per capita expenditure on health declines in the medium term
- In 2016/17, the government spent R3 133 per person
- The projected spending per person in 2026/27 is R 3 067 in real per capita terms
- Without real increases to the funding of health, the healthcare system in South Africa will remain over-stretched, highly unequal and severely underfunded

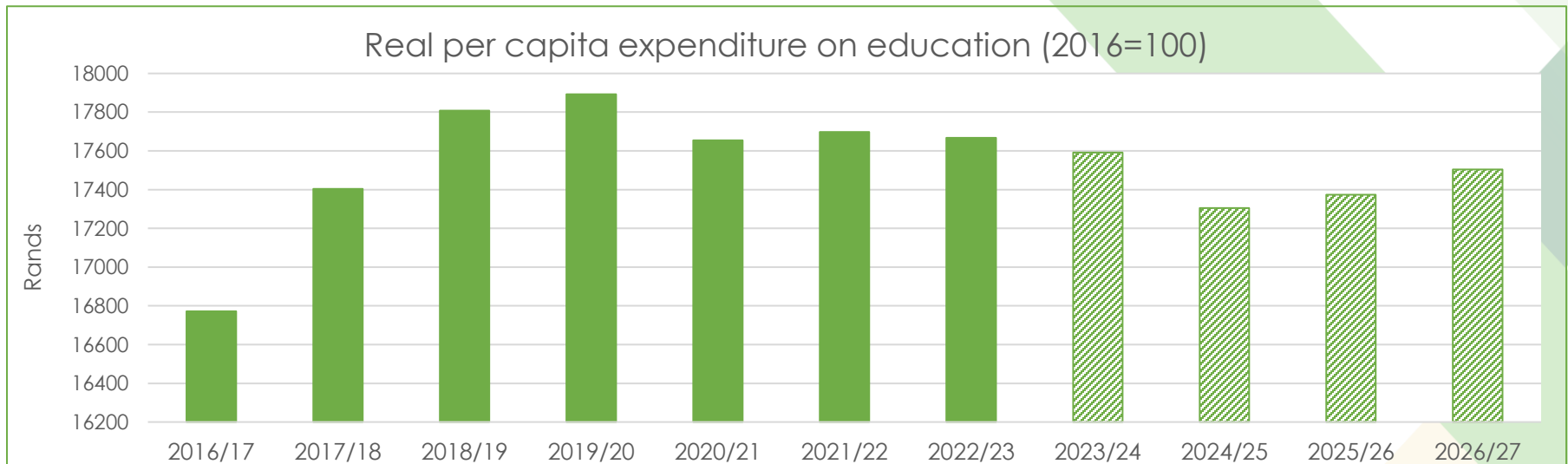


Source: PBO calculations based on National Treasury and Stats SA population data

Real per learner spending in education



- The 2023 MTBPS allocated less expenditure per student in 2025/26 than was spent in 2016/17
- Total real per learner expenditure on basic education is now projected to increase in the medium term
- In the 2024 Budget, spending per learner in 2024/25 is now projected to be R17 304 in real terms, which is lower than the 2023/24 value of R17 591
- Spending on the Early Childhood Development Grant increases significantly (24.5%) in real terms over the MTEF, which is a positive development because nearly 1.1million children from age three to five do not have access to any form of early learning programme
- The 2024 budget has caused inflationary cuts to subsidies of schools in the medium term (the projected average annual growth is 0.0%)

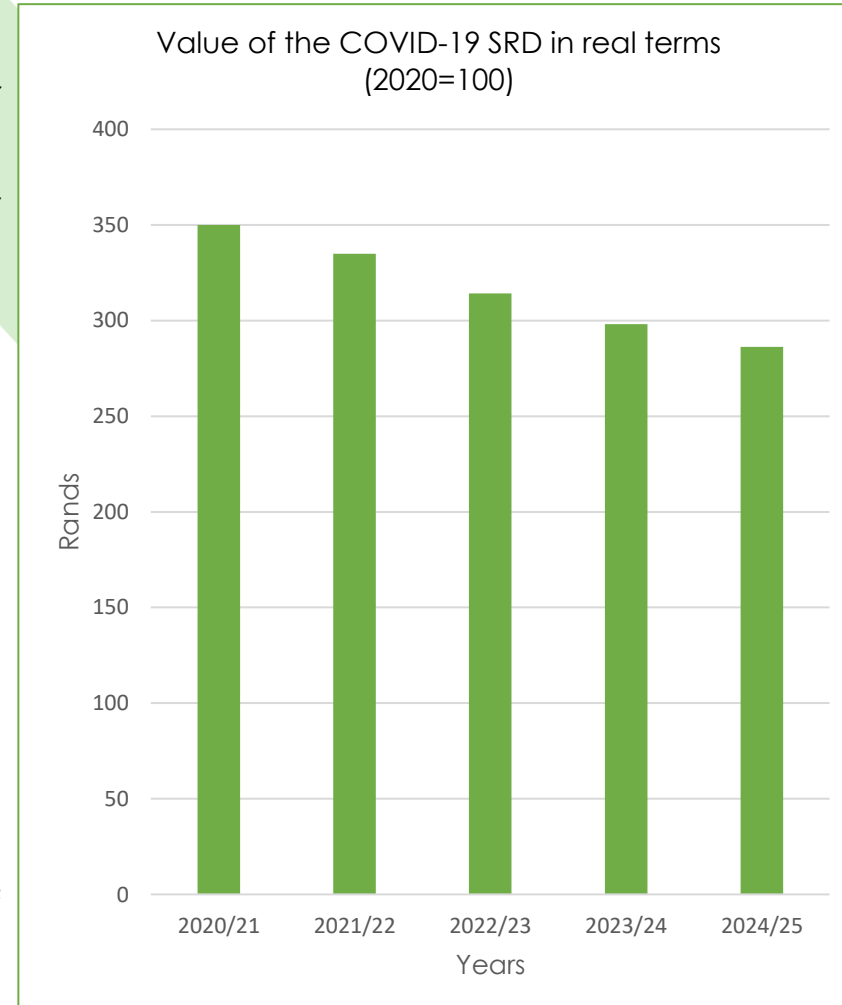


Source: PBO calculations using National Treasury and DSD data

The COVID-19 Social Relief of Distress (SRD) grant



- The government has chosen not to adjust the (COVID-19) SRD grant for inflation since it was introduced in 2020
- The buying power of the SRD grant when adjusted for CPI since 2020 is now only R286
- After the 2024 Budget was tabled, Minister Godongwana announced that the R350 will be increased to R370 by the 1st of April this year
- Allocations for the grant have been inadequate and budgets have been adjusted downward
- The PBO continues to highlight that the government's exclusion criteria unfairly excludes between 3.1 and 5.9 million people in the DSD identified target group (of 10.9 million) who should be receiving the SRD grant
- In Budget 2022, R44 billion was allocated to serve 10.5 million people
- The 2023/24 revised estimate (R33.9 billion) is higher than the 2024/25 estimate (R33.7 billion)
- At the same time, in the Budget Review, the number of beneficiaries is expected to increase from 9.02 million to 9.24 million beneficiaries
- It must be asked why the allocations decline, yet the number of beneficiaries are expected to increase



Source: PBO calculations using National Treasury data

2024 The Gold and Foreign Exchange Contingency Reserve Account (GFECRA)

Background

2024 Budget proposal

The principles of the new framework

Background on GFECRA



- The government's foreign exchange reserves can be thought of as a form of self insurance against instability, financial crises and contagion that may harm the South African economy, particularly the financial sector and other businesses
- South Africa maintains open financial accounts and a floating exchange rate, which means that we are vulnerable to sudden shifts in sentiment in global financial and exchange rate markets, including panic and herding behaviour
- The GFECRA can, therefore, be thought of as a service that the South African government through the South African Reserve Bank (SARB) provides to the economy, particularly the financial services sector
- GFECRA was established in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) to manage the account on behalf of the NT

Background on GFECRA



- Sections 25 to 27 of the SARB Act provide for the management by the South African Reserve Bank (“the Bank”) of a:
 - Gold Price Adjustment Account
 - Foreign Exchange Adjustment Account
 - Forward Exchange Contracts Adjustment Account
- The Acts allows the Minister of Finance and the SARB Governor to settle positive balances in the GFECRA by mutual agreement
- When there is a debit balance in GFECRA it counts as a loss to the government, which is paid to the account from the National Revenue Fund
- If the Minister and Governor agree, a credit balance on GFECRA would be paid into the National Revenue Fund (NRF)
- The government and SARB have reached an agreement on a new framework for managing GFECRA that will require an amendment to the 2003 GFECRA Settlement Act

2024 Budget proposal



- The 2024 Budget includes a proposal to withdraw R150 billion from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to lower the government's borrowing requirement over the MTEF
- R100 billion will be allocated in the fiscal year 2024/25, with an additional allocation of R25 billion earmarked for each of the subsequent fiscal years 2025/26 and 2026/27
- Concerns have been raised that the government is drawing on unrealised gains in the GFECRA account to reduce its debt
- The National Treasury (NT) and South African Reserve Bank (SARB) have explained that even after the R250 billion is withdrawn from GFECRA (and converted into realised gains by the SARB) that the size of South Africa's foreign exchange reserves will be large enough to ensure adequate reserves in the case of unforeseen events
- GFECRA has operated in a way where growth into the account went unsettled
- The NT and SARB have agreed to a new framework for distributing the GFECRA balances into a “waterfall arrangement” into 3 pools”:
 - A GFECRA buffer pool large enough to ensure that funds in the account will always be positive
 - SARB's contingency reserve as a buffer to the SARB and to cover interest payments
 - The remaining funds will be paid to the NT on an annual basis

The 3 pools (of the fountain) of the new framework



- A GFECRA buffer pool has to be large enough to ensure that funds in the account will always be positive and seems to be set at R250 billion at present
- SARB's contingency reserve acts as a buffer to the SARB and to cover interest payments:
 - However, this GFECRA reform affects how foreign currency reserves are financed
 - It is a concern that the SARB has decided not to sell foreign exchange reserves to finance the distribution to NT but finance these funds with new SARB liabilities, mainly in the form of bank reserves
 - Therefore, a part of the GFECRA funds flowing to the second pool will be used to pay interest to the banks and financial sector
 - The reserves deposited at the SARB by the banks are going to be remunerated at the policy rate
- Remaining funds will be paid to the NT on an annual basis
 - While the initial payments will be R150bn over the next 3 years, subsequent payments into this final pool will very likely be zero over a number of years or much lower because it took about 2 decades to build up the R500bn reserve

Some concerns with the GFECRA arrangement



- By holding large levels of foreign exchange, the government provides a free service to the entire economy from which the banks and financial sector gain disproportionately huge benefits
 - Therefore, the PBO is concerned that the SARB has chosen to pay for the transfer to the NT by increasing reserves of banks and financial institutions that will be remunerated at the high policy interest rate
- The PBO views the use of GFECRA as a positive step, as it illustrates the government's ability to utilise its entire public sector balance sheet to generate fiscal space
 - However, the NT and SARB's use of GFECRA does not indicate a move to consider the broader balance sheet to deal with the current UPI crisis and is negative on development and growth prospects
 - The current framework actually will create more constraints on the government accessing GFECRA to deal with other emergencies
- The PBO is also concerned with the use of the funds
 - It should not solely be earmarked for debt reduction
 - Instead, it should be strategically allocated to finance a targeted fiscal stimulus for the economy to reduce suffering related to high levels of poverty and to support a developmental approach that will increase growth and future revenue

2024 Second Adjustments Appropriation (2023/24 Financial Year) Bill

Revisions to the non-interest expenditure

Second Adjustments Appropriation Bill



Vote	Description	Additions (R'000)	Reductions (R'000)
Presidency	<ul style="list-style-type: none"> The Presidency has been allocated R70 million in the 2nd adjustment appropriation Bill to cover the cost of the Ministry of Electricity for the 2023/2024 financial year. Administration (R54 million) and Executive Support (R16 million). This will help address the challenge of fragmentation of responsibility across various departments and Ministers. The Minister of Electricity will facilitate coordination of departments involved in the crisis response, work with Eskom leadership to improve power station performance, and accelerate the procurement of new generation capacity. 	R70 000	
Cooperative Governance	<ul style="list-style-type: none"> The largest reduction in the Bill, amounting to R400 million is in respect of the Cooperative Governance Vote and the CWP. The Department of Cooperative Governance allocations have been adjusted downwardly by R400 million. These are reductions in allocations for the Community Work Programme realised as result of contract not being finalised on time with new implementing agents for the Community Work Programme. 		R400 000
Home Affairs	<ul style="list-style-type: none"> Represented Political Parties Fund. Department of Home Affairs has received R200 million in reallocation to increase Political Party Funding allocations as political parties prepare for the general elections in May 2024. The Electoral Commission established the Party Funding Unit to ensure adequate capacity for implementing the Public Funding of Represented Political Parties Act. Funds are provided annually from the National Revenue Fund and distributed to political parties in the National Assembly or provincial legislatures. The Commission pays the allocated amounts quarterly. 	R200 000	

Second Adjustments Appropriation Bill



Vote	Description	Additions (R'000)	Reductions (R'000)
International Relations and Cooperation	<ul style="list-style-type: none"> Public Diplomacy and Protocol Services. The Department of International Relations and Cooperation has been allocated an additional R80 million for hosting of the BRICS Summit in 2023/24. Owing to existing budget pressures and depreciation of the Rand, the department was unable to accommodate the costs of the Summit without the additional allocations. 	R80 000	
Public Service Commission	<ul style="list-style-type: none"> Administration (R3.1 million), Leadership & Management Practices (R1.8million), Monitoring & Evaluation (R2.5million) and Integrity & Anti-corruption (R4.7million) The Public Service Commission has been allocated an additional R12 million to augment existing allocations for compensation of employees due to the higher-than budgeted for 2023/24 public service wage bill and to fund vacancies. 	R12 000	
Public Works and Infrastructure	<ul style="list-style-type: none"> Administration (R12 million), EPWP (R8 million) and Property and Construction Industry Policy & Research (R50 million including R15 million related to PICC). Public Works and Infrastructure allocations have been adjusted downwardly by R70 million due to savings. The funding will be shifted to the Presidency for the Ministry of Electricity and the e-Cabinet system. The underspending was identified in three programs: Administration for employee compensation due to funded vacant posts (R12 million), The EPWP, located under the Public Works and Infrastructure vote is reduced by (R8 million), and Property and Construction Industry Policy and Research (R35 million) due to delays in appointing consultants for project preparation services by Infrastructure South Africa. 		R70 000

Second Adjustments Appropriation Bill



Vote	Description	Additions (R'000)	Reductions (R'000)
Women, Youth and Persons with Disabilities	<ul style="list-style-type: none"> Administration (R8million) and Commission for Gender Equity (R5 million). The Women, Youth and Persons with Disabilities (DWYPD) received an R13 million increase in general administration and allocations to the Commission for Gender Equality (CGE). The R8 million was used to alleviate pressure on goods and services. The R5 million is to enable the CGE to implement various projects such as, research on thematic areas on Gender based violence and femicide, commissioners project on female Traditional Leaders, and other projects that are planned to occur in 2023/24. 	R13 000	
Justice and Constitutional Development	<ul style="list-style-type: none"> Court Services (R30 million) and National Prosecuting Agency (R20million). R50 million has been allocated to cover the 2023/24 public service wage agreement increases for the Justice for Court Services and National Prosecuting Authority. 	R50 000	
Office of the Chief Justice	<ul style="list-style-type: none"> Administration (R3.1 million), Superior Court Services (R39.8 million) and Judicial Education and Support (R2.1 million). R45 million has been allocated to the Office of the Chief Justice to cover increases related to the 2023/24 public service wage agreement, these adjustments are for Court Services and Judicial Education and Support. 	R45 000	
Total		R470 000	R470 000

Conclusion



- The Division of Revenue Bill provides for the equitable division of nationally raised revenue between the national, provincial and local spheres of government, which is estimated at approximately 48.5, 41.7 and 9.7 per cent respectively for 2024/25
- Government aims to increase the proportions of transfers to the provincial and local government spheres of government
- The PBO projections show that the GDP growth outlook over the medium term is significantly below the NDP target of 5.4 per cent, and inadequate to tackle the high levels of UPI that are constraining aggregate demand in the economy
- The PBO's projections for UPI underscores the inadequacy of appropriations for social support to the vulnerable in society and the likelihood that the government will not achieve its 2030 NDP targets
- Reprioritisation of funds are being implemented primarily from equitable shares and conditional grants in the community and economic development functions towards other function groups for compensation of employees
- Over the 2024 MTEF government's stated priority is to enhance spending quality and minimise inefficiency within all budget items, while ensuring sustainable public finances

Conclusion



- Despite the priority to minimise inefficiencies, some of the reprioritisation of funding shows little evidence of enhancing spending quality
- Given the changes to function budgets over the 2024 MTEF and the decline in real per capita expenditure, the PBO is concerned about the government's performance to achieve the NDP targets set for 2030
- Despite several initiatives to enhance the government's own capacity to ensure effective service delivery and, specifically delivery on infrastructure, several challenges have also been identified by the Department of Planning Monitoring and Evaluation. These challenges include:
 - Ineffectiveness/unproductiveness
 - Lack of horizontal and vertical integration, co-ordination and prioritisation
 - Instability at top administrative leadership
 - Slow implementation of Cabinet decisions
 - The pace of the repurposing of Public Entities
 - Weaknesses within the state procurement system
 - Government spending is failing to stimulate economic growth and transformation

Conclusion



- The question then remains: If fiscal policy and the allocation of funds through the Appropriations and Division of Revenue Bills do not result in the outcomes envisaged by the NDP, what else needs to be done?
- The use of GFECRA is a positive step that illustrates the government's ability to draw on the entire public sector balance sheet to generate fiscal space
- The R150bn GFECRA injection should not solely be earmarked for debt reduction but should be strategically allocated to finance a targeted fiscal stimulus
- The PBO is concerned that banks and financial institutions will be remunerated at the high policy interest rate because the SARB has decided not to sell foreign exchange reserves to finance the distribution to NT but is financing these funds with new SARB liabilities, mainly in the form of bank reserves

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Thank you

Additional slides

Principles of the new GFECRA framework



- The NT and SARB say the new framework is governed by the following principles:
 - No settlement of any balance on the GFECRA shall, at any time, undermine the policy solvency of the SARB
 - There shall be no sales of the foreign exchange reserves to realise GFECRA gains as long as foreign exchange reserves are below the foreign exchange reserve estimated adequacy levels
 - There shall be no settlement of an unrealised balance on the GFECRA that could plausibly be unwound by future currency reversals
 - The settlement of the credit balance on the GFECRA to the National Treasury shall be used to reduce government's borrowing
 - Any future settlement of GFECRA funds shall be governed by an agreement and a relevant schedule