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OF THE REPUBLIC OF SOUTH AFRICA

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BUDGET OFFICE

MTBPS presentation

Date: 7 November 2023

Outline

- Introduction
- Policy
- Amendments to In-year
- Macroeconomic overview
- Fiscal Framework
- Expenditure
- Revenue
- State owned enterprises and infrastructure

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 of this presentation is to provide an analysis of the 2023 Medium Term Budget Policy Statement (MTBPS), particularly to examine, analyse and comment on the adjusted fiscal framework
- The presentation focuses on:
  - The extent to which the proposed fiscal framework can help achieve the government's stated goals of reducing unemployment, poverty and inequality(UPI)
  - Whether the proposed approach to fiscal stability will help secure future stability and prosperity in the context of severe levels of UPI
  - It examines the policy framework as well as the global and domestic economic outlooks that will impact SA's economy
  - Government revenue and expanding revenue sources
  - Government spending priorities and the impact of SOEs on public finances

Introduction

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- The 2023 MTBPS proposals do little to reflect or respond to the policy priorities set out in the SONA 2023, despite NT stating that the government is "keeping the composition of spending broadly in line with existing policy"
- The 2023 MTBPS notes that South Africa has one of the largest levels of social protection expenditure as a percentage of GDP compared to other developing economies without giving context with regard to performance of developmental indicators. For example, South Africa has the highest unemployment and inequality in the world and its poverty levels are also much higher than many of the developing countries that provide less social security spending
- Pursuing a budget surplus in the current economic, societal public finance environment will likely hurt the real economy, erode the state's capacity to deliver services and risk higher debt
- The cost of reducing expenditure on the performance of the economy is too high because the government, by its own admission, is unlikely to achieve many key NDP outcomes
- Extraordinarily high levels of structural unemployment, poverty and inequality (UPI), market concentration, financialisation, misallocation of capital, and inadequate state capacity to deliver infrastructure projects all point toward continued poor investment and economic growth performance
- The credibility of the fiscal policy framework will remain in question, unless the government acknowledges the urgent problems facing the economy and that electricity availability is but one of these urgent problems
- The experiences and challenges at Eskom should serve as a lesson that delaying adequate support to SOEs with financial difficulties exacerbates their future financial problems

Policy Priorities

2023 Pronouncements and Spending Priority Proposals

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2023 SONA

- Government is not presenting new plans, nor outlining in the SONA, the full programme of government
- Rather, Government is concentrating on those issues that concern South Africans the most:
- Load shedding
  - Immediate task for the year is to dramatically reduce the severity of load and ultimately end load shedding altogether
- Unemployment
  - The master plans that have been concluded are supporting the revival of the relevant sectors, the injection of investment by the private sector and the creation of new jobs and livelihoods
- Poverty and the rising cost of living
  - Government will continue the Social Relief of Distress Grant, which currently reaches around 7.8 million people, and ensure that existing social grants are increased to cushion the poor against rising inflation
- Crime and corruption
  - Government is strengthening the South African Police Service to prevent crime and improving the capacity of the National Prosecuting Authority and courts to ensure perpetrators are brought to justice

2023 Budget

- The 2023 Budget was framed by the three policy objectives set out in the 2022 MTBPS:
  - Reduce the budget deficit and stabilise debt as a percentage of GDP
  - Support economic growth by maintaining a prudent fiscal stance, directing resources towards infrastructure, and fighting crime and corruption
  - Reduce fiscal and economic risks, including through the Eskom debt-free arrangement
- The pursuit for higher growth remained anchored on three pillars:
  - Ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth
  - Implementing growth-enhancing reforms in key sectors, particularly in energy and transport
  - Strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption

2023 MTBPS

- Government's medium-term fiscal policy remains unchanged:
  - Achieve fiscal sustainability
  - Support economic growth
  - Reduce fiscal and economic risks
- This MTBPS outlines NT's resolve to:
  - Stabilise public finances while maintaining support for the most vulnerable and protecting front line services
  - Fast track growth-enhancing reforms. This includes a new financing mechanism for large infrastructure projects
  - Reconfiguring the structure and size of the state, while strengthening its capacity to deliver quality public services
- Key elements of the medium-term fiscal strategy include the following:
  - Realising a primary budget surplus in the current year
  - Stabilising debt to enable government to arrest the trend of rising debt service cost
  - Targeting spending revisions to protect critical frontline services
  - Implementing a reconfiguration of government functions
  - Keeping the composition of spending broadly in line with existing policy
  - Introducing moderate revenue increases to support fiscal consolidation
  - Developing new fiscal anchors to ensure sustainable public finances

Policy Framework for South Africa

- The National Development Plan (NDP) remains the country's blueprint to address the triple challenges of unemployment, inequality and poverty in South Africa
- The NDP Vision 2030, implemented in Feb. 2013 had aimed to:
  - Grow the economy at an annual average rate of 5.4 per cent per year
  - Reduce the unemployment rate from 24.9 per cent in 2012 to 14 per cent by 2020 and to 6 per cent by 2030
  - Increase gross fixed capital formation from 17 per cent to 30 per cent, with public sector fixed investment rising to 10 per cent of GDP by 2030
  - Reduce inequality as measured by the Gini Coefficient from 0.69 to 0.60
  - Totally eradicate poverty
- Ten years later, the government has to admit failure thus far and not only that it is unlikely to achieve any of these goals but that conditions have worsened
- The situation has been made more difficult by the COVID-19 crisis
- In addition to the seven priorities of the 2019-2024 Medium Term Strategic Framework (MTSF), the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP) are two initiatives that were aimed at providing immediate response to the severe economic impact of the coronavirus pandemic
- The following table indicates the current status in terms of the achievement of the Vision 2030 targets

Progress with the implementation of the National Development Plan

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2030 Targets	Current Status
• Eliminate income poverty • Reduce the proportion of households with a monthly income of below R419 a person (in 2009 prices) from 39 per cent to 0 per cent	• Approximately half (49.2%) of the adult population were living below the upper-bound poverty line (UBPL), StatsSA Living Conditions survey, 2014/15 • According to the 2017/18 South African Human Rights Commission (SAHRC) report, 64 per cent of blacks, 41 per cent of coloureds, 6 per cent of Indians and 1 per cent of white South Africans were living in poverty
• Reduce inequality – the Gini coefficient should fall from 0.69 to 0.6.	• South Africa has the highest income inequality in the world, with a Gini coefficient of around 0.67 (Imraan Valodia, September: 2023)
• Increasing employment from 13 million in 2010 to 24-million in 2030	• The number of employed persons increased to 16.3 million in Q2: 2023
• Raising per capita income from R50 000 in 2010 to R120 000 ($12 100) by 2030	• GDP per Capita in South Africa is expected to reach R110 471 ($6061) by the end of 2023 (Trading Economics global macro models and analysts expectations)
• Increasing the share of national income of the bottom 40 per cent from 6 per cent to 10 per cent	• The bottom 50 per cent earn only about 5 per cent of national income • The bottom 90 per cent earn only approximately 33 per cent of the income generated • The top 10 per cent capture 67 per cent of the total income
• Increasing the quality of education so that all children have at least two years of preschool education and all children in Grade 3 can read and write	• The last available PIRLS study (2016) showed that 78 per cent of children had not learned to read with effective comprehension by the time they reached grade 4
• Phase in national health insurance, with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care	• 2 046 PHC facilities qualify as ideal Clinics against a target of 2 200 in 2022/23 • In the 2022/23 financial year, the Department managed to allocate and appoint 10 913 (medical interns 2 721 and community service 8192) newly qualified health professionals required to perform a statutory employment obligation
• Public infrastructure investment at 10 per cent of GDP	• Less than 2 per cent in 2023 • GDP of R7 454 billion
• Investment targets as a share of GDP: 30 per cent growth in investment by 2030	• GFCF 14.1% in 2021, with a slight growth reaching 14.6% in Q3 2022/23FY • South Africa Investment accounted for 17.0 per cent of its Nominal GDP in June 2023

Budget response to the policy framework

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Function group	Spending priorities being considered for the 2023 MTEF period

Learning and culture	• Although additional funding has been provided to implement the 2023 public-service wage agreement, provincial education departments are constrained in hiring additional teachers
	  • This could lead to larger class sizes and higher learner-teacher ratios, possibly resulting in weaker educational outcomes
	• Post-school education and training sector Institutions and the National Student Financial Aid Scheme
	  • Need to bring their student enrolment and bursary allocations in line with their budgets
	  • Planned infrastructure spending will be brought in line with institutions' ability to spend

Health	• To minimise negative effects the sector need to improve efficiency in areas such as overtime payments, medical supplies and security services, and to delay infrastructure projects • The South African Law Reform Commission is finalising a report on legal reform to manage medico-legal claims, which constitute a significant financial risk • To address funding fragmentation for oncology services, allocations will be shifted from the national health insurance grant to the national tertiary services grant • A single grant is also proposed to consolidate the existing personal and non-personal services components of the national health insurance indirect grant • Funding is also redirected towards the Office of Health Standards Compliance to strengthen the Health Ombud
Social development	• The social grant baseline includes inflation-linked increases in 2024/25 and 2025/26 • The COVID-19 social relief of distress grant will be extended for another year until March 2025 while the government considers social security policy reforms and a funding model • Provincial budget allocations will not increase in line with inflation, leading to a funding gap for core services and transfers to non-profit organisations • The sector needs to reprioritise and realign resources to avoid adverse effects on service delivery

Community development	• Urgent intervention is required in the urban water business in metropolitan municipalities
	  • Turnaround plans will be implemented in 2024, including the provision of technical assistance and financing through the urban settlements development grant
	  • A clear investment strategy will be developed through the Cities Support Programme, enabling municipalities to become creditworthy and access commercial finance for water resources management

Budget response to the policy framework

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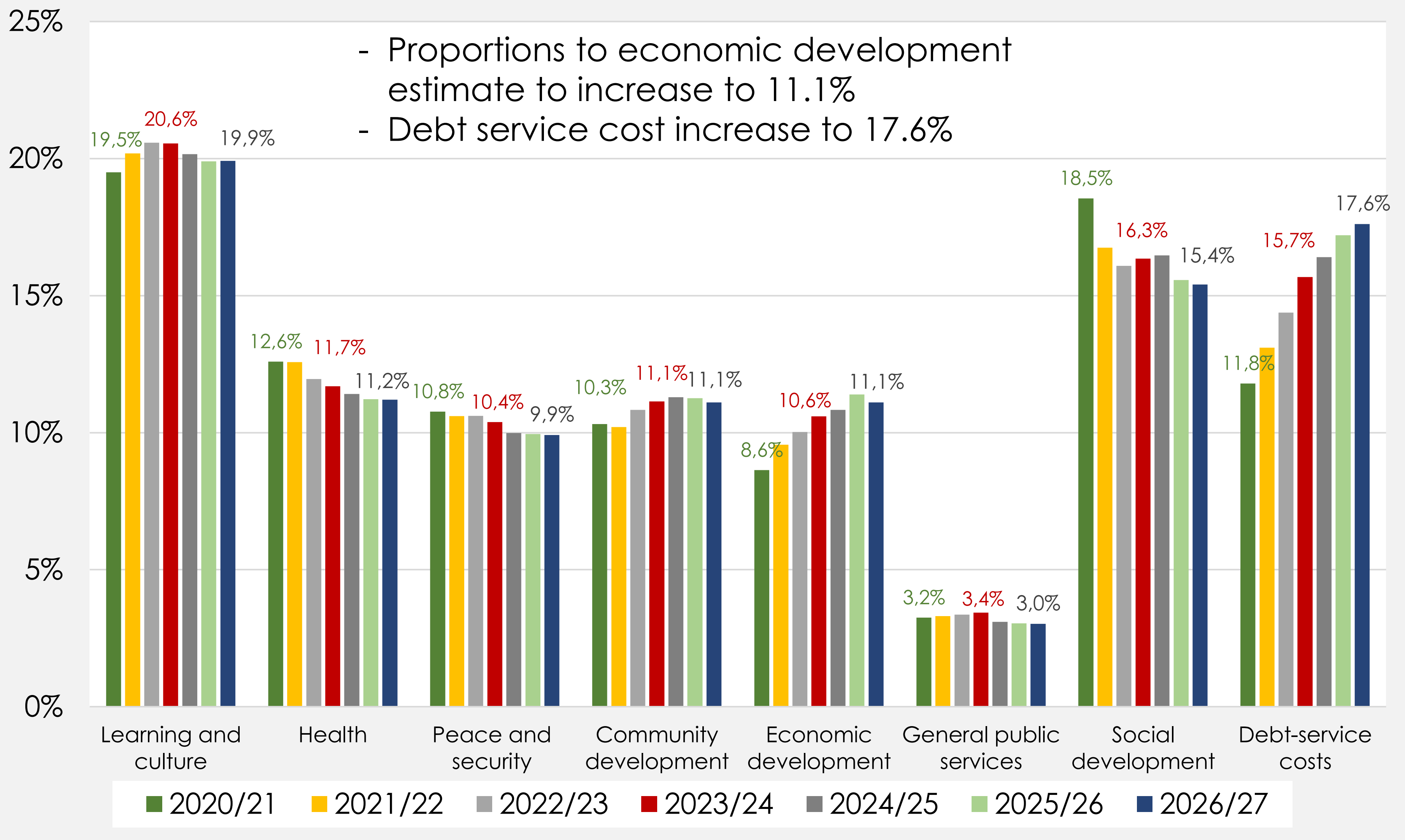
Function group	Spending priorities being considered for the 2022 MTEF period
Economic development	• Government will spend an annual average of R274.6 billion in this function over the 2024 MTEF period to enable inclusive economic growth and job creation • Over 7 per cent of this amount provides for transfers and subsidies to departmental agencies, public corporations and private enterprises

Peace and security	• Over the MTEF period, the focus is on improving efficiency and reprioritising funds towards key programmes
	  • SAPS will contain costs and streamline operations as headcounts decline due to natural attrition
	  • The Department of Justice and Constitutional Development will reallocate funds over the MTEF period to capacitate the Office of the Legal Services Ombud
	  • Funding will also be shifted from the Department of Agriculture, Land Reform and Rural Development to Legal Aid South Africa to improve its capacity to provide legal representation in land rights matters
	  • To strengthen its independence, the Judicial Inspectorate for Correctional Services will become a government component in 2024/25
	  • Concomitant resources, currently in the baseline of the Department of Correctional Services, will be transferred to the Inspectorate
	  • Government will continue to fill critical posts in the Border Management Agency and verify assets transferred from departments to the agency
	  • To reduce employee compensation pressure, the Department of Defence will implement human resource reforms and review commuted overtime and allowance policies
	  • Furthermore, funds will be reallocated to the Department of Defence to provide for day-to-day maintenance and emergency repairs

General public services	• In 2023/24,this function accounts for 3.4 per cent of consolidated spending • Budget reductions will be absorbed through cost-containment measures and realigning goods and services budgets

Proportions of consolidated spending per function group



Proportions of consolidated spending in the economy

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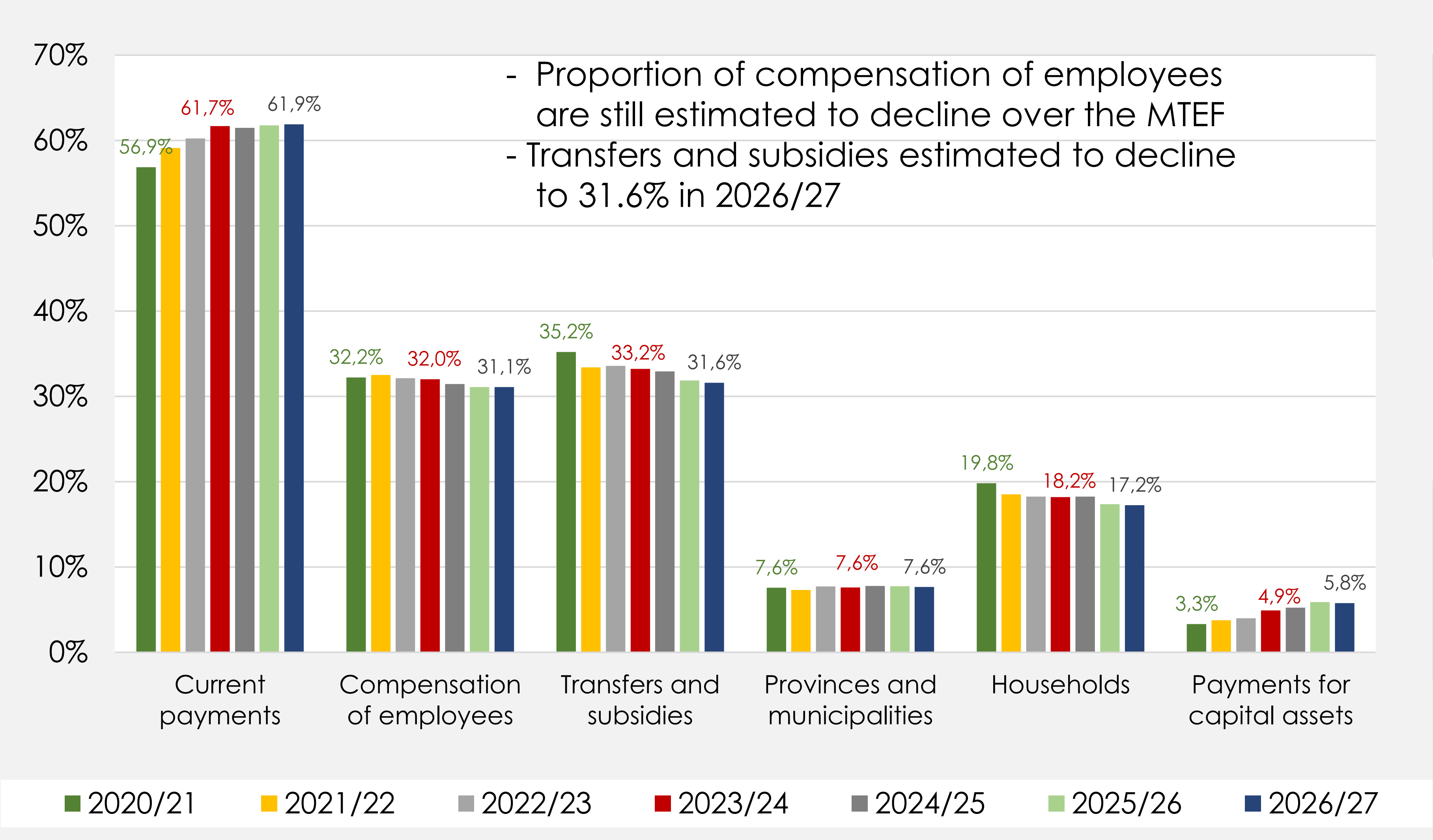

Macroeconomic overview

The fiscal policy framework has significant socio-economic and political economy implications beyond the 2023 MTBPS proposals

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- Chapter 1 of the MTBPS is titled "*Staying the course for growth and sound public finances*", however, government' failure to reach the NDP targets and fiscal consolidation's consistent failure to reduce deficits and debt levels over the past decade proves that government has to do more for growth and sound public finances
- The fiscal policy framework should be more than just be a mechanical calculation of how the government determines its level of expenditure and debt based on the size of expected revenue collection
- The fiscal policy framework has significant socio-economic and political economy implications
- The choice of fiscal policy framework over the past decade has failed to support a developmental role for the state, economic and industrial transformation and reducing inequality through redistribution of income and improving living conditions
- The PBO analysis shows that NT has to do more to:
  - protect the social wage (we show below that it declines), and
  - to ensure national development than to rely on reducing debt service costs
- While loadshedding has constrained South Africa's economy, the international evidence and experiences has shown that fiscal consolidation has led to permanent reductions in GDP and higher debt levels even in countries that did not have loadshedding
- Contrary to the view that poor growth has to be solved with microeconomic policies alone, fiscal policy has huge long-term impacts on growth
- By ignoring this fact these policies may have severely contributed to poor economic growth and larger debt and debt service costs as percentages of GDP

Fiscal consolidation leads to permanent reductions in GDP and higher debt levels

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Fatas and Summers (2018):

> *"The large size of the effects points in the direction of self-defeating fiscal consolidations …. **Attempts to reduce debt via fiscal consolidations have very likely resulted in a higher debt to GDP ratio** through their long-term negative impact on output…. If the negative effects of fiscal consolidation are long lasting, countries can enter a negative loop where attempts to reduce government debt are not effective because of the reductions in GDP. **As GDP falls permanently, attempts to reduce debt via reductions in spending or increases in taxes lead to a higher debt to GDP ratio"***

- This is the mainstream economics consensus on fiscal consolidation
  - (Lawrence Summers was Secretary to the US Treasury for Pres. Clinton (1999-2010), Director of the National Economic Council for Pres. Obama (2009-10), President of Harvard University (2001-06))

IMF Working Papers:

Blanchard and Leigh (2013) in an IMF WP report that:

> *… in advanced economies, **stronger planned fiscal consolidation has been associated with lower growth than expected**, with the relation being particularly strong, both statistically and economically, early in the crisis.*

Carrière-Swallow, David, and Leigh (2018) in an IMF WP report that:

> ***The effects of fiscal consolidation on economic activity in advanced and emerging market economies may thus be more similar than typically assumed*…. *Their effects are contractionary in both cases*.**

What course are we staying on?

GDP growth outlook - calendar year*	2023	2024	2025
National Treasury - Budget 2023	0.9%	1.5%	1.8%
National Treasury - MTBPS 2023	0.8%	1.0%	1.6%
South African Reserve Bank - January 2023	0.3%	0.7%	1.0%
South African Reserve Bank - September 2023	0.7%	1.0%	1.1%
IMF - World Economic Outlook - January 2023	1.1%	1.3%	1.4%
IMF - World Economic Outlook - October 2023	0.9%	1.8%	1.6%
Bureau for Economic Research - January 2023	0.5%	1.4%	1.8%
Bureau for Economic Research - October 2023	0.8%	1.6%	2.1%
UNCTAD - January 2023	1.3%		
UNCTAD - October 2023	0.0%		
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, International Monetary Fund, Bureau for Economic Research and the United Nations Conference on Trade and Development			

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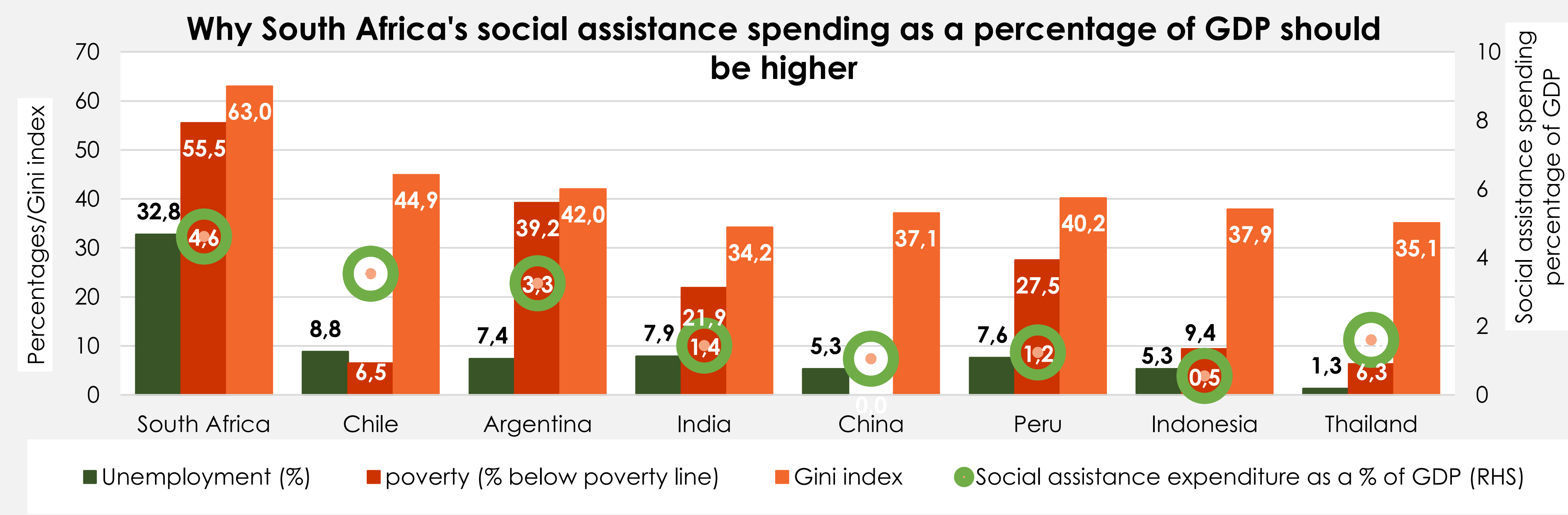
- The macroeconomic discussion in the 2023 MTBPS is silent about a path to growth and reducing unemployment
- GDP growth is expected to be 0.8 per cent in 2023 and is forecast to average 1.4 per cent from 2024 to 2026
- The 2023 MTBPS states that the most urgent problem facing the economy is inadequate electricity supply
- The PBO reminds members that one out of every five children younger than 5 years old suffers from stunting because of poverty and acute malnutrition in South Africa. In our view, government must priorities addressing this and other sufferings in the society
- The rate of stunting has been high since 1994 and seems that it will continue to be high due to failure by government to priorities addressing such suffering
- The PBO has stressed the existence of a number of domestic and international interrelated risks and crises (labelled the ‘polycrisis’ by the World Economic Forum)
- We are concerned that the credibility of the proposed fiscal policy framework remain in doubt, unless the NT addresses the urgent problems facing the economy and that electricity availability is but one of these urgent problems
- Energy and logistics reforms are necessary but not sufficient for the structural economic transformation required for sustainable economic development and growth and to tackle structural unemployment

Where will growth and employment come from?



- The MTBPS notes that South Africa has one of the largest levels of social protection expenditure as a percentage of GDP compared to other developing economies without comparing developmental indicators performances
- When considered in the context of how much larger UPI are in SA than in other countries one can understand the case for more social security spending
- South Africa not only has the highest rates of unemployment and inequality in the world – our rates are so high we are a statistical outlier
- Structural unemployment means SA is unable to provide jobs for millions who want to work
- ‘Obscene’ inequality is negative for GDP growth and political and socio-economic stability

Where will growth and employment come from? The 2023 MTBPS do little to protect the social wage

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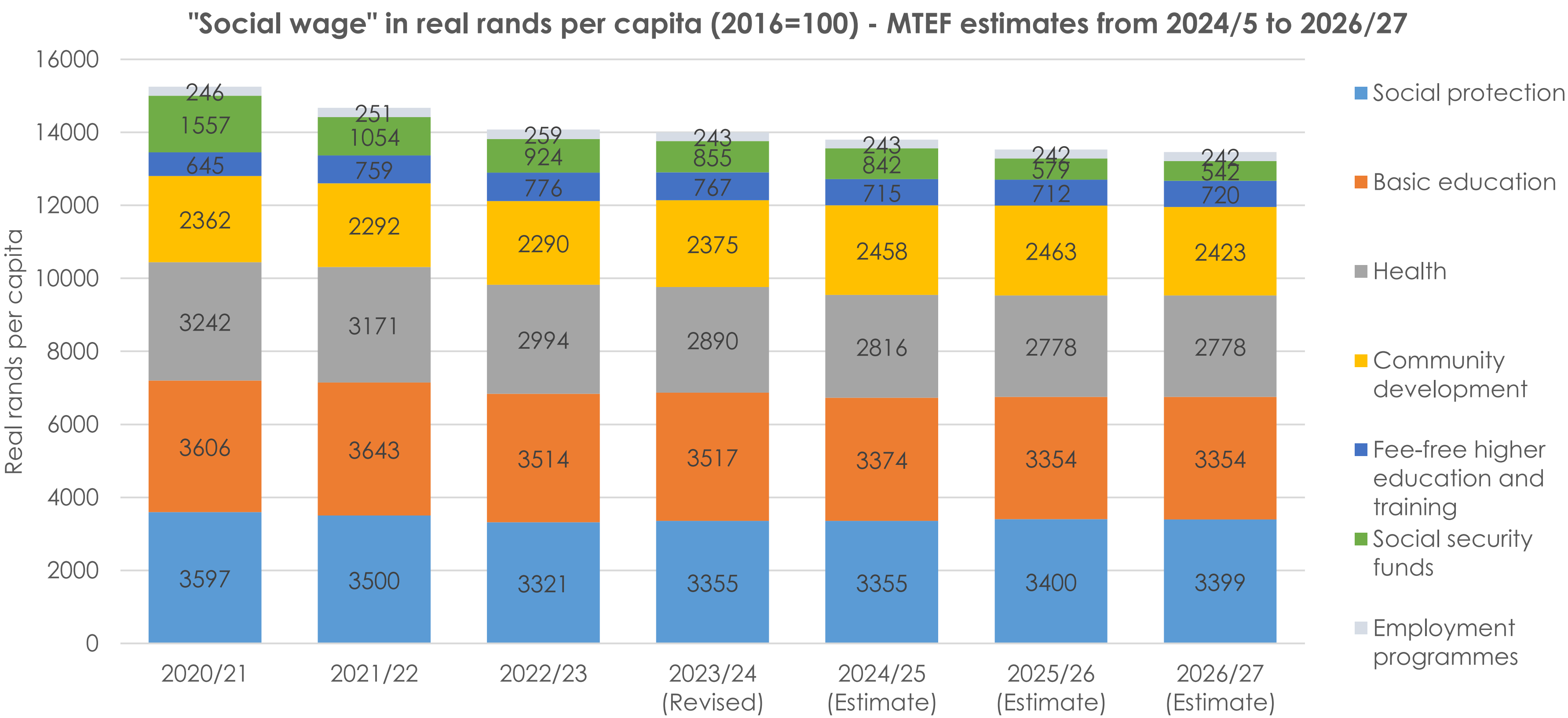
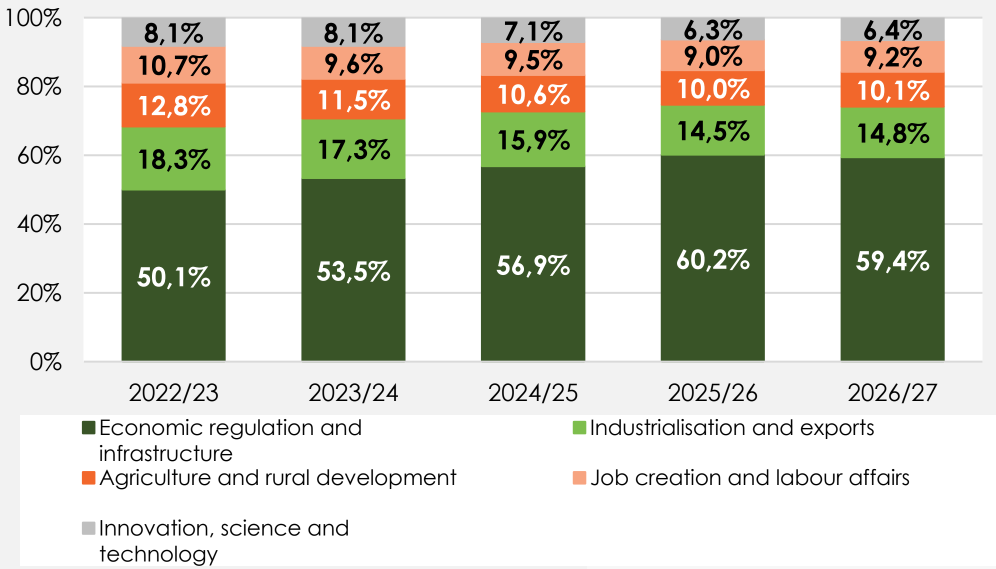


Source: PBO calciulations using NT

- While the social wage is 61 per cent of expenditure it is 61 per cent of declining total expenditure
- The "social wage" in the 2023 MTBPS is not protected from inflation and population growth

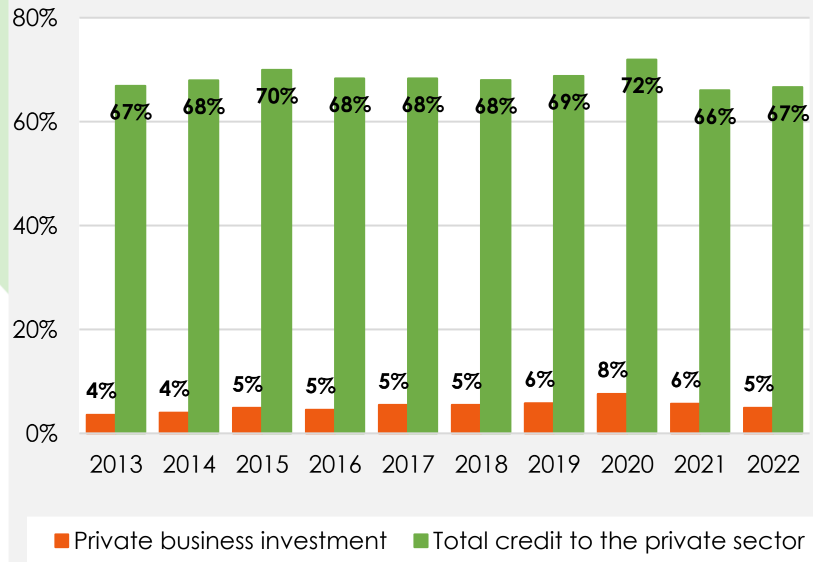
Where will growth and employment come from?

Economic regulation and infrastructure expenditure items as a percentage of total economic development expenditure in 2023 MTBPS



Source: National Treasury, MTBPS, 2023

Credit extension to the private sector and private business investment as per cent of GDP

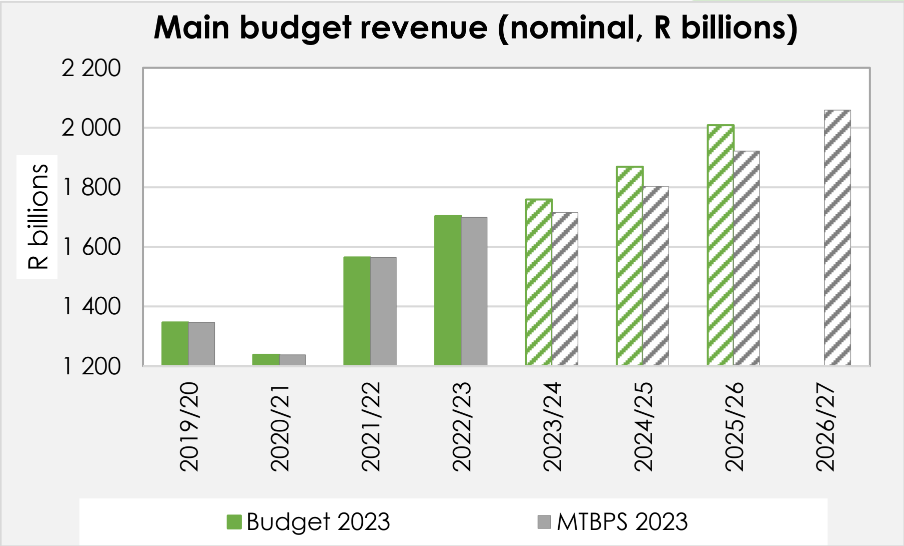


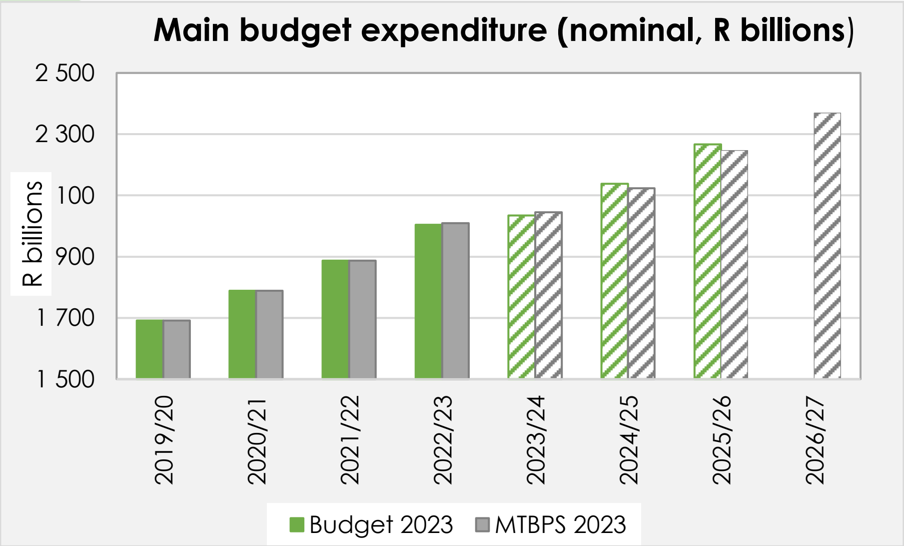
Source: SARB and Stats SA

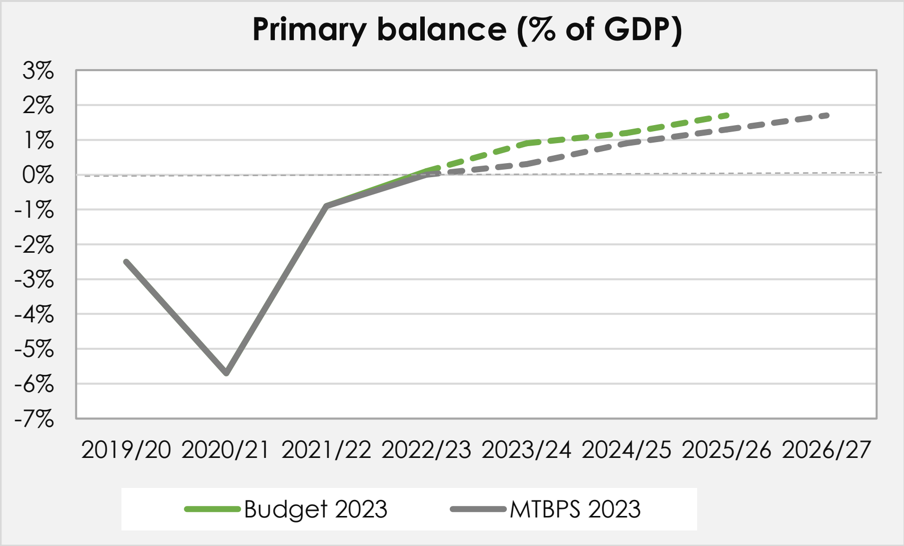
- The support for economic development in the 2023 MTBPS is limited because increases in infrastructure expenditure are offset by declining shares of the other items in the economic development function
- The 2023 MTBPS expects real household consumption growth to reduce from 2.5 per cent in 2022 to 0.8 per cent in 2023
- In the first quarter of 2023, banks rejected 70 per cent of credit applications reflecting concerns with household ability to repay
- Extension of credit to the private sector as a percentage of GDP has been around 70 per cent of GDP over the past decade
- However, private business investment has remained relatively low (4 to 6 per cent of GDP over the period), which indicates that most of the credit extended to the private sector does not go towards investment in SA
- When managerial decisions focus on maximising short-term returns rather than support the relatively slow growth of productive, job-creating enterprises, it is more likely that finance will be misallocated away from productive economic sectors

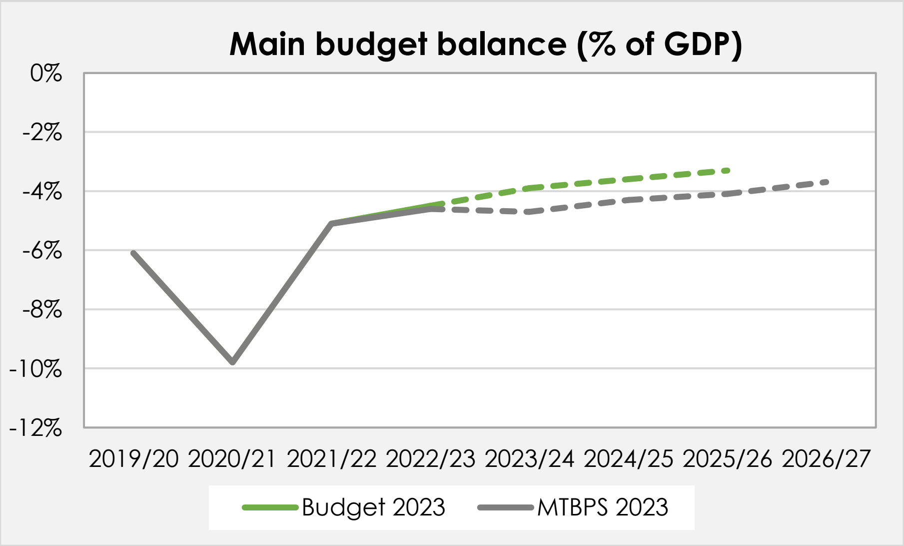
Fiscal framework

Maintaining government's fiscal consolidation stance









Source: National Treasury

Credibility and sustainability of the fiscal framework

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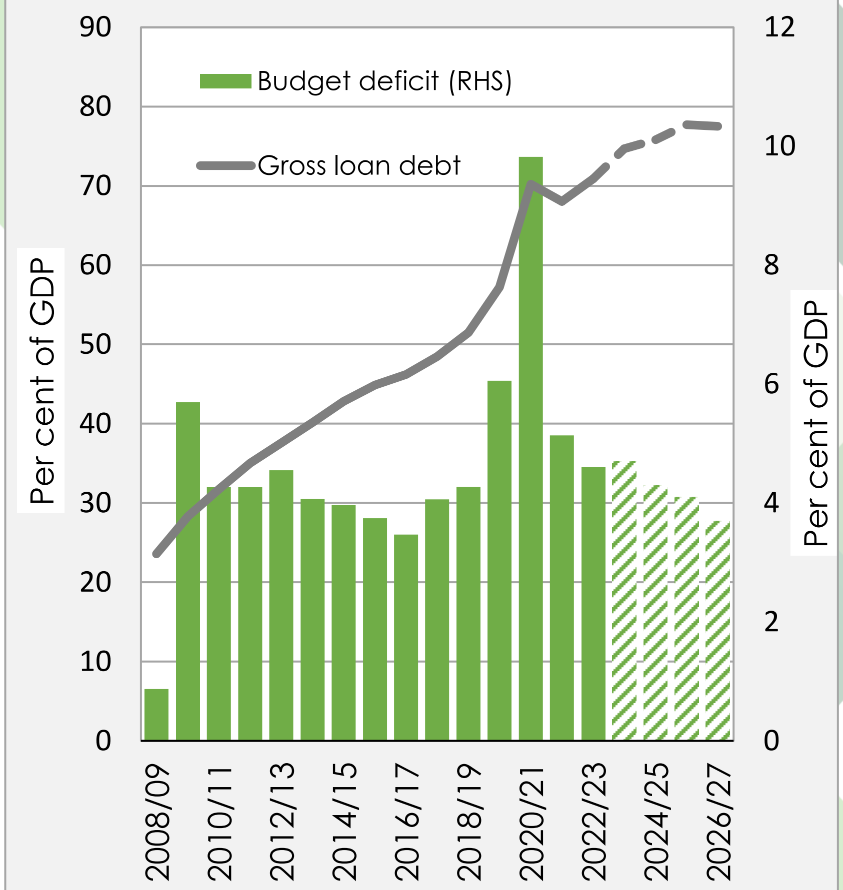
- Over the medium-term, NT's fiscal strategy aims to achieve fiscal sustainability by reducing the budget deficit and stabilising the debt-to-GDP ratio
- However, debt-to-GDP ratios and budget deficits have increased despite NT's commitment to fiscal consolidation as a tool for debt management since 2012
- Pursuing a budget surplus in the current environment will likely hurt the real economy, erode the state's capacity to deliver services and risk higher debt
- The proposed fiscal framework will not be able to absorb the risks beyond those NT classifies as fiscal risks
- There are huge costs associated with the very high levels of UPI and insufficient resilience to domestic social and political instability, climate change events, the lasting effects of COVID-19 and possible future pandemics, geopolitical conflicts, as well as economic and financial instability
- These risks not only undermine the credibility of the fiscal framework but also threaten democratic institutions

Budget deficit and total gross debt as percentages of GDP (2008-2026) - Nominal



Source: National Treasury

Credibility and sustainability of the fiscal framework (Cont.)

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- Government should provide evidence that austerity measures, such as fiscal consolidation and introducing fiscal anchors, will lead to fiscal sustainability and grow the economy
- The presumption that reducing the debt-to-GDP ratio through fiscal consolidation will lead to increased investment has not materialised as expected
- Moreover, the structural reforms proposed by the NT cannot transform the economic structure but favour dominant large corporations and financial institutions that focus on high short-term returns rather than long-term productive investment, job creation and economic growth
- A narrow focus on budgetary-related variables, such as the deficit and debt, blinkers the government to the important role the budget could play in reducing UPI, and improving people’s lives, services and infrastructure while supporting demand-driven economic growth that should build productivity, economic development and fiscal stability
- The budget has to support building state capacity to empower a developmental state, address the key socio-economic problems in the economy and support structural economic transformation
- In the long run, debt reduction and fiscal sustainability may be achieved only through pro-growth demand and supply measures that build resilience and productivity in households and businesses, particularly small and medium businesses

Government expenditure

Summary of the in-year amendments

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Total estimated expenditure in 2023/24 increases by R10.3 billion, from R2 034.6 billion to R2 044.93 billion.

Adjustments to vote appropriations amount to a decrease of R12.4 billion, of which:

- Reductions to vote allocations: R 21.7 billion
- Additions to vote allocations for the 2023/24 wage agreement: R6 billion
- Unforeseeable and unavoidable expenditure: R1.7 billion
- Expenditure earmarked in the 2023 Budget R1 billion
- Rollovers R 578.4 million
- Self-financing expenditure R 1.9 billion
- Declared unspent funds (reductions to vote allocations) (R1.9 billion)

Adjustments to estimates of direct charges against the National Revenue Fund amount to R32 188.866 million of which:

- President and deputy president salaries: R6.2 million
- Debt-service costs: R14 billion
- Provincial equitable share (additions to provincial health and education departments
- for the 2023/24 wage agreement): R17.6 billion
- National Revenue Fund payments: R266.7 million
- Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of South Africa: R502 million
- Skills levy and sector education and training authorities: (R314 million)
- Judges' salaries: R114 million

Amendments to the 2023/24 expenditure per Votes

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Vote number and title R thousand (nominal)		Appropriation	Total adjustments	Adjusted appropriation	Apr 23 - Sep 23 % of main appropriation	Apr 23 - Sep 23 % of adjusted appropriation
2	Parliament [1]	3 423 486	(214 670)	3 208 816		–
3	Cooperative Governance	121 698 251	(1 324 509)	120 373 742	40,5%	40,9
5	Home Affairs	10 863 343	1 316 611	12 179 954	52,4%	46,7
6	International Relations and Cooperation	6 694 073	136 563	6 830 636	56,0%	54,9
9	Planning, Monitoring and Evaluation	475 848	(10 365)	465 483	41,6%	42,5
10	Public Enterprises	302 912	(27 635)	275 277	41,8%	45,9
22	Correctional Services	26 026 672	544 294	26 570 966	53,3%	52,2
23	Defence	51 124 429	1 343 755	52 468 184	51,2%	49,9
26	Military Veterans	894 704	(48 419)	846 285	23,7%	25,1
28	Police	102 137 656	3 337 979	105 475 635	51,4%	49,8
30	Communications and Digital Technologies	3 512 185	(200 000)	3 312 185	44,3%	47,0
33	Human Settlements	34 942 401	(3 184 421)	31 757 980	38,9%	42,8
34	Mineral Resources and Energy	10 701 218	(430 000)	10 271 218	43,8%	45,6
38	Tourism	2 524 244	(63 699)	2 460 545	36,9%	37,8
41	Water and Sanitation	22 257 306	(881 390)	21 375 916	44,0%	45,8
Total appropriation by vote		**1 077 437 771**	**(12 396 113)**	**1 065 041 658**	50,6%	**51,2**

Amendments to the division of revenue framework

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R billion (nominal)	2022/23	2023/24 Estimate	2023/24 Revised	2023/24 Amend-ments	2024/25 Medium-term estimates	2024/25	2025/26	2026/27	Average annual growth 2023/24 – 2026/27
National departments	**855,9**	**828,6**	**826,3**	**-0,3%**	**840,9**	**1,8%**	**846,4**	**884,2**	**2,3%**
of which:									
Provincial indirect grar	*3,9*	*4,2*	*4,0*	-4,3%	*4,0*	0,1%	*4,3*	*4,4*	3,6%
Local indirect grants	*7,2*	*8,5*	*8,3*	-2,2%	*8,0*	-3,8%	*8,3*	*8,7*	1,7%
Provinces	**694,1**	**695,1**	**706,4**	**1,6%**	**720,5**	**2,0%**	**752,4**	**784,6**	**3,6%**
Equitable share	570,9	567,5	585,1	3,1%	589,5	0,8%	616,4	644,3	3,3%
Conditional grants	123,3	127,5	121,3	-4,9%	131,0	8,0%	136,1	140,3	5,0%
Local government	**150,7**	**164,0**	**160,6**	**-2,0%**	**169,2**	**5,3%**	**177,3**	**182,9**	**4,4%**
Equitable share	83,9	96,5	95,2	-1,4%	101,2	6,3%	106,1	110,7	5,1%
General fuel levy to meti	15,3	15,40	15,43	0,2%	14,5	-6,0%	15,2	15,9	0,9%
Conditional grants	51,4	52,0	50,0	-3,9%	53,5	7,0%	56,0	56,4	4,1%

- Average annual growth over the 2024 MTEF to the national, provincial and local government spheres of government are 2.3 per cent, 3.6 per cent and 4.4 per cent
- Growth from the revised 2023/24 to the 2024/25 financial year is only 1.8 per cent on a national level, 2.0 per cent on a provincial level and 5.3 per cent on a local government level
- The increase in provincial equitable share might not be sufficient to cover the implementation of the public service wage agreement

Amendments to the division of revenue framework

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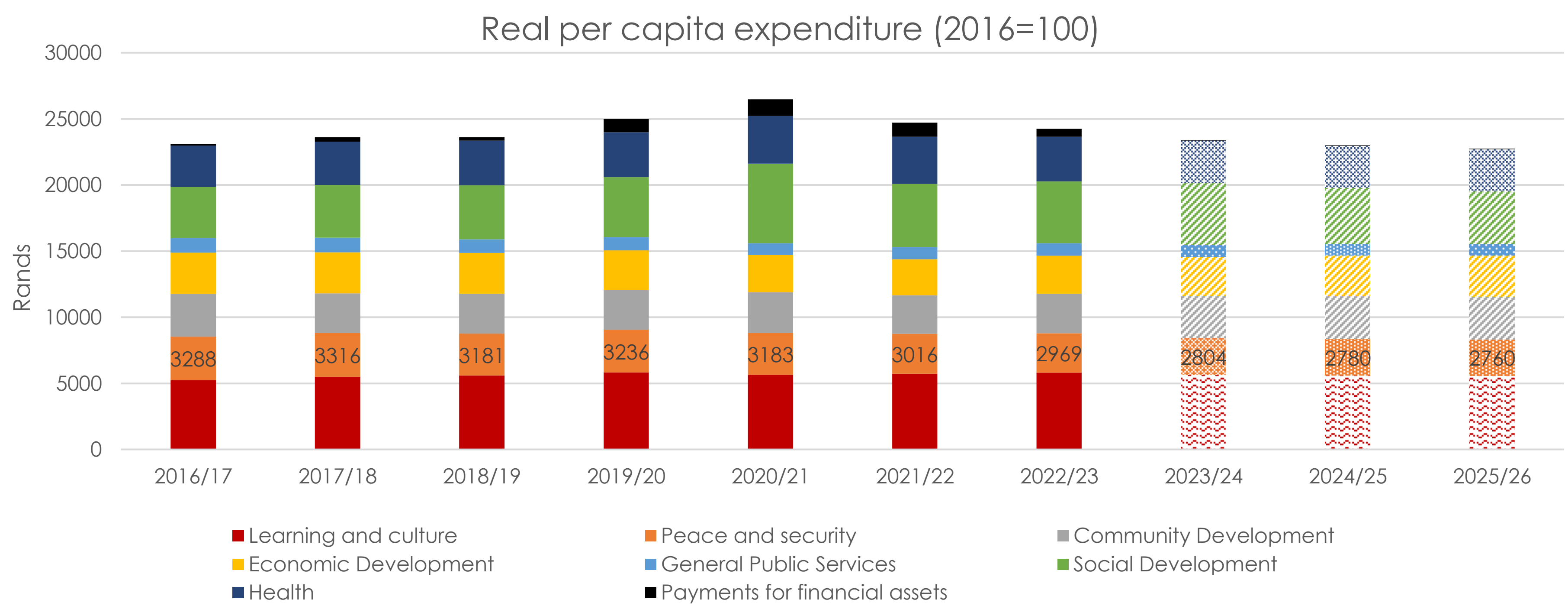
R billion (nominal)	2021/22 Outcome	2022/23 Revised	2023/24 Estimate	2023/24 Revised	2024/25 Medium-term estimate	2025/26	2026/27
Percentage shares							
National departments	50,8%	50,4%	49,1%	48,8%	48,6%	47,7%	47,8%
Provinces	40,8%	40,9%	41,2%	41,7%	41,6%	42,4%	42,4%
Local government	8,4%	8,7%	9,7%	9,5%	9,8%	10,0%	9,9%

- Government continuously attempts to increase the proportion of available non-interest spending to local government due to spending pressures from lower economic growth and high borrowing costs, which is not evident in the outcomes
- However, transfers to provinces and municipalities are estimated to grow by 4.8 per cent over the 2024 MTEF, which is lower than the previous estimate of 6.8 per cent in the 2023 MTEF
- Treasury indicated that changes to transfers since the 2023 MTEF focused on the reduction of conditional grants and programmes where there has significant underspending in recent years

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 R23 116, by 2026/27 this will decline to R22 019
- In 2023/24, total real per capita spending has been adjusted to R22 850, a decline from the projected R22 964 in the 2022 MTBPS and R23 402 in Budget 2023
- Pursuing fiscal consolidation means 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



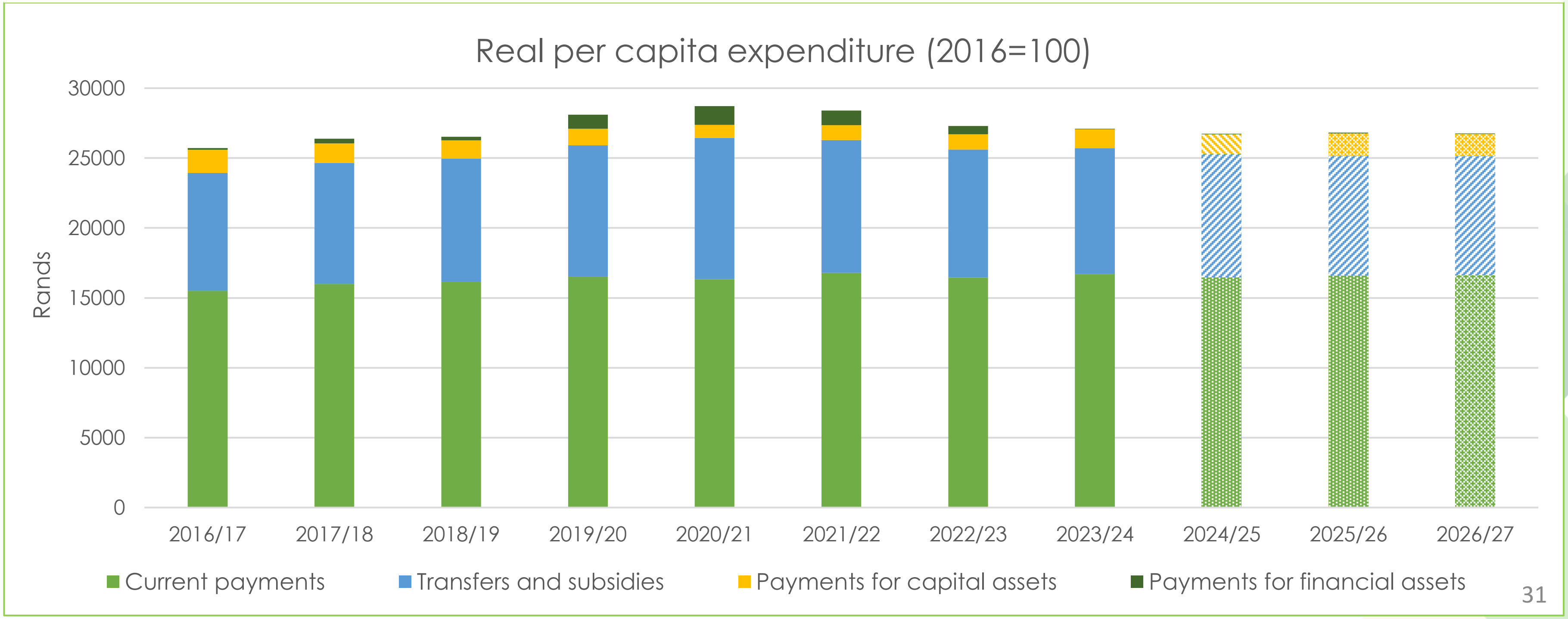
Source: PBO calculations based on National Treasury and Stats SA population data

Amendments to consolidated MTEF expenditure by economic classification

R billion (nominal)	2022/23 Outcome	2023/24 Revised	2024/25 Medium-term estimates	Change between 2023/24 and 2024/25	Average annual growth 2023/24 – 2026/27	Average annual growth 2022/23 - 2025/26
Current payments	**1 292,5**	**1 395,4**	**1 446,3**	**3,6%**	**4,7%**	**5,0%**
Compensation of employees	689,1	724,3	740,2	**2,2%**	3,6%	3,3%
Interest and rent on land	317,2	363,6	395,3	**8,7%**	8,6%	8,8%
Transfers and subsidies	**720,6**	**751,4**	**774,9**	**3,1%**	**2,9%**	**2,3%**
Provinces and municipalities	165,5	172,1	182,9	**6,3%**	4,8%	6,8%
Departmental agencies and accounts	26,7	27,3	24,1	**-11,9%**	-1,9%	-1,0%
Higher education institutions	53,5	51,3	55,6	**8,3%**	4,7%	3,2%
Public corporations and private enterprises	39,7	42,9	40,3	**-6,0%**	0,0%	2,9%
Non-profit institutions	40,6	42,8	39,5	**-7,7%**	0,1%	0,6%
Households	391,3	411,6	429,1	**4,2%**	2,7%	0,6%
Payments for capital assets	**85,4**	**110,9**	**122,9**	**10,8%**	**10,4%**	**14,4%**
Buildings and other capital assets	63,0	81,1	95,2	**17,4%**	13,9%	18,9%
Total	**2 145,2**	**2 261,6**	**2 347,5**	**3,8%**	**4,4%**	**3,8%**
Consolidated expenditure	**2 145,2**	**2 262,0**	**2 352,5**	**4,0%**	**4,6%**	**4,5%**

Real per capita spending per economic classification

- In 2016/17 total real expenditure per capita was R25 721, by 2026/27 it will increase to R26 758
- In 2023/24, total real per capita spend is R27 097
- The increases in capital assets are a positive development, however, remain inadequate to meet the investments needed to meet the NDP goals
- Notably, transfers and subsidies to households also decline in the medium-term



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

Government revenue

Increasing Domestic Resource Mobilisation and Redistribution

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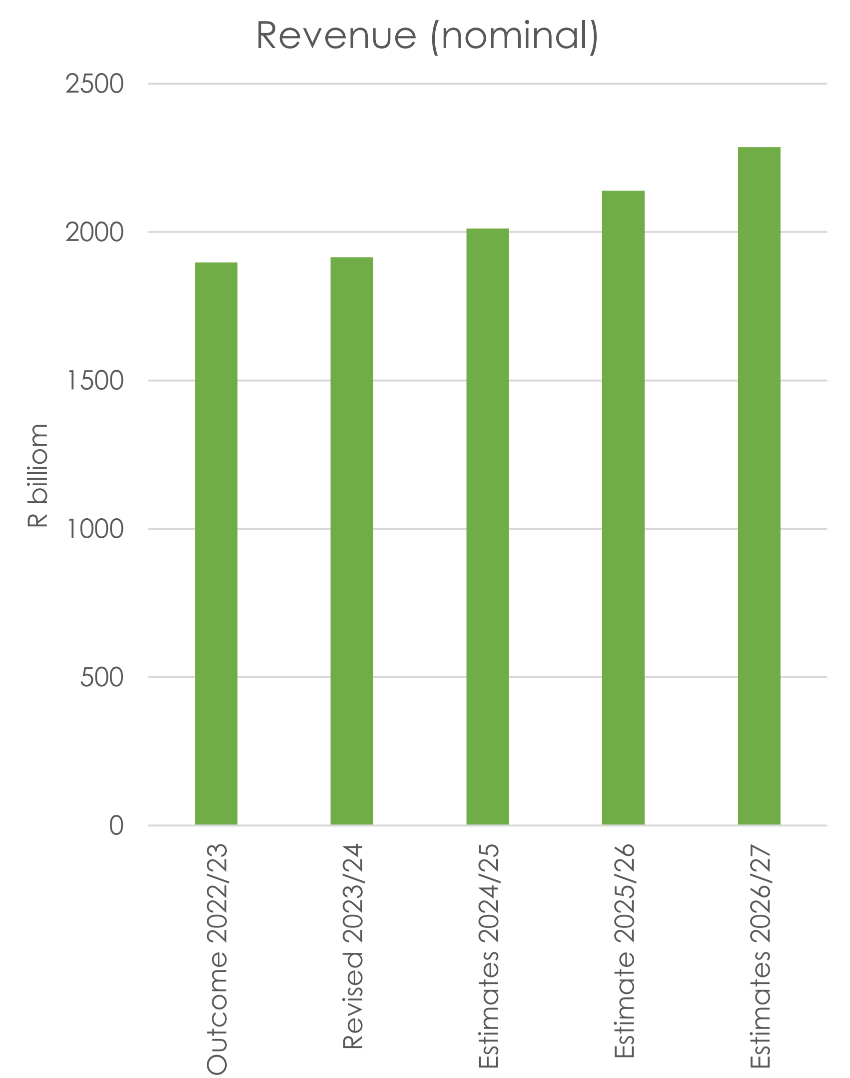
- NT notes that "the economy is not able to generate enough revenue"
- Tax remains an important tool for the redistribution of income and wealth, more so when there is extreme structural inequality
- The tax base reflects extreme levels of UPI and failure to structurally transform the economy. Government should use the fiscal policy transform the structure of the economy
- In order to realise the developmental outcomes, the government is required increasing domestic resource mobilisation
- Greater domestic resource mobilisation can be achieved through further progressive tax reforms, leveraging development finance, and non-traditional monetary policy tools (beyond interest rates), amongst others

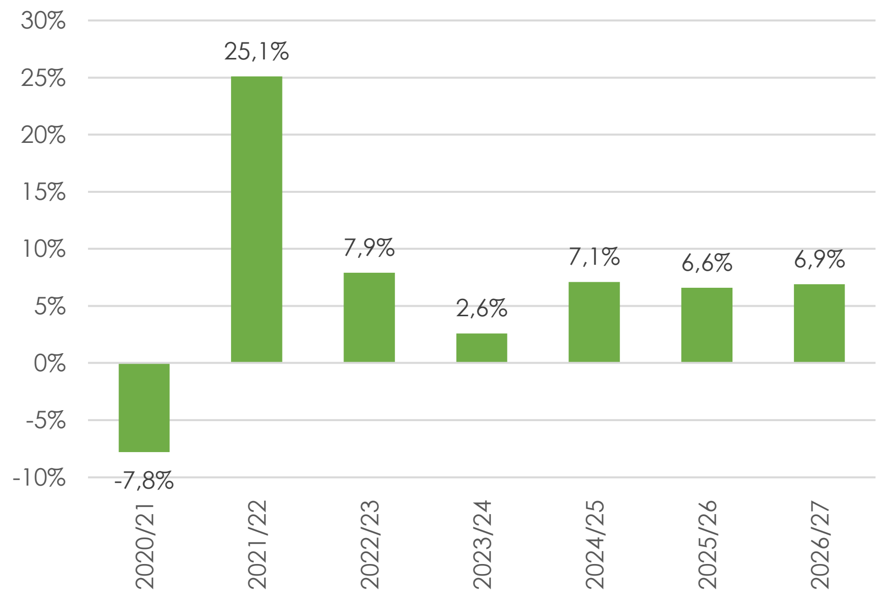


Source: National Treasury, MTBPS 2023

Revenue Collection

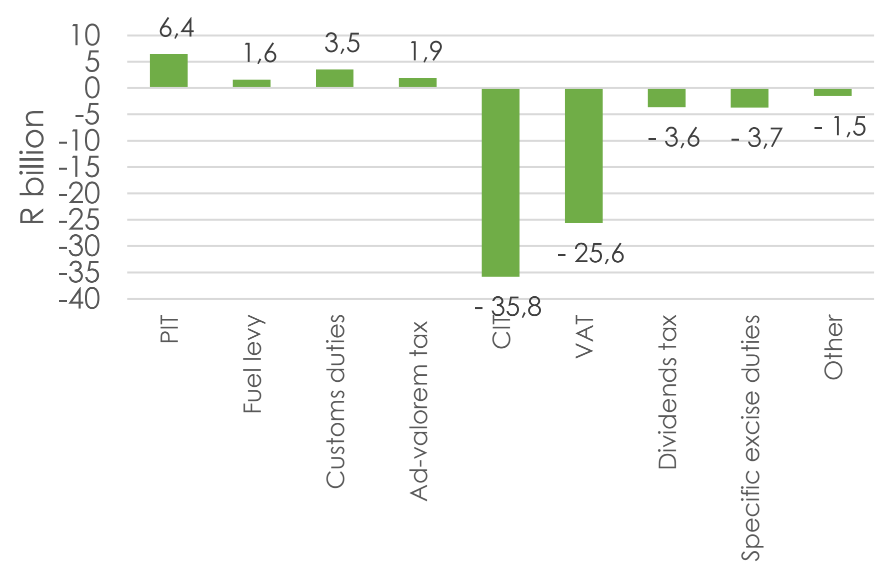
- Revenue collections are projected to be R56.8 billion lower than projected in the 2023 Budget due to faster-than-expected fallen commodity prices and rising value-added tax (VAT) refund claims
- Lower tax revenue and higher expenditure have contributed to a higher budget deficit and slightly more government debt contrary to the projections of the NT in the 2023 Budget Review

Annual gross tax revenue growth (nominal)



Source: National Treasury, MTBPS 2023

Deviation in tax collection (Budget review vs MTBPS) 2023/24 estimates (nominal)



Source: National Treasury, MTBPS 2023

Are there additional sources to increase tax revenue? Considerations for 2024 Budget

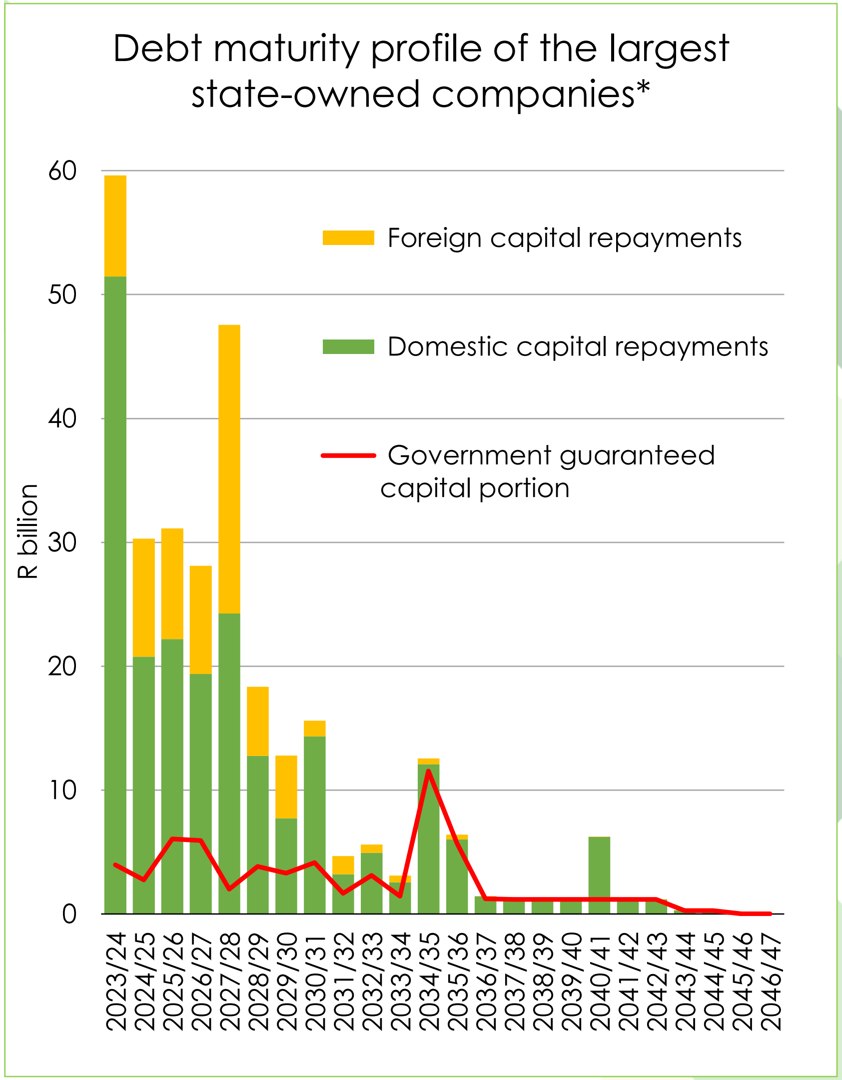
- SA has a relatively broad tax base compared to most middle-income countries
- Imposing taxes has multiply objectives, including revenue-generating mechanism, they can be used as an instrument to redirect production and inputs as well as to achieve a desired distribution of income (ILO 2022)
- Significant reforms are being implemented in SARS to increase tax revenue collection

- **Potential areas in tax for increasing domestic revenue- are there considerations for 2024?**
  - An Excess Profits Tax could be implemented on companies that have used the inflation upsurge to boost profit and make up for COVID-19 losses, as well as excess profits from interest rate hikes
  - Expanding the Illicit financial flow (IFF) frameworks in addition to the Base Erosion and Profit Shifting (BEPS) framework to curb IFFs
  - Windfall taxes for sectors benefiting from the commodity price boom
  - Systematic review of tax incentives and removal of ineffective incentives
  - Progressive measures to tax wealth

State Owned Enterprises (SOEs) and infrastructure spending

Contingent liabilities

- SOEs continue to face deteriorating financial health, reduced capital investment, operational inefficiencies, high costs, heavy debt burdens, and difficulties in securing favourable funding, which has real economic implications for households and businesses
- These combined challenges amongst others, raise significant risks to the fiscal framework:
  - Eskom's biggest financial loss ever of R23.9 billion in the 2022/23FY
  - Transnet's profitability and liquidity issues
  - Denel's financial distress and non-submission of AFS since 2019/20
  - SANRAL's investment capacity constraints due to GFIP
- The guarantee portfolio decreased from R751.9 billion in March 2022 to R663.9 billion in March 2023
- Guarantees to SOEs decreased from R543.6 billion in March 2022 to R448.1 billion in March 2023, largely due to a decline in the Reserve Bank loan guarantee scheme, from R100 billion to R20 billion



Source: National Treasury, MTBPS 2023
*Excludes Eskom

The developmental role of state owned enterprises

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- Major public entities as listed under Schedule 2 of the PFMA(1999) are required to operate as sustainable profit-generating businesses that borrow on the strength of their balance sheets
- Many SOEs continue to face significant challenges adequately financing their operations and servicing their debts, let alone making optimal investments in critical infrastructure
- This approach to SOEs financing raises important questions, particularly in light of concerns about the negative implications of an austerity mindset on broader socio-economic outcomes
  - Should the terms “credible” and “stable” be applicable to a fiscal policy framework, which is biased toward achieving a primary surplus in the medium-term, even if that fiscal framework risks large-scale medium and long-term damage to the economy by not providing enough resources to ensure the viability of key SOEs?
  - The experience of Eskom raises the questions of whether larger targeted and conditional financial support to Eskom by government several years ago could have prevented prolonged load shedding and the need for the current large debt relief. Why can't other key SOEs enjoy similar support to that of Eskom?
  - Should the PFMA requirement that Schedule 2 public entities operate as sustainable profit-generating businesses that borrow on the strength of their balance sheets be reconsidered given the state of key SOEs and socio-economic costs of their poor performance and high debt

Public private partnerships (PPPs)

- Government's strategy for infrastructure delivery hinges on private sector involvement
- NT states that it is prioritising infrastructure investment, however, the MTBPS proposes a 4 per cent average annual MTEF growth reduction in capital assets spend, compared to Budget 2023
- PPPs remain a highly contested vehicle for infrastructure financing and delivery
- Their high expenses, the rigidity and length of the contracts, the difficulties in attracting enough private investor interest, and the disparate evaluations of their effectiveness, risk transfer, and social impact have all been cited by critics
- Evidence suggests that PPPs should be approached cautiously for individual projects and as an increasingly integrated pathway to infrastructure or public service delivery

	R billion (nominal)	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual MTEF growth
Budget 2023	**Payments for capital assets**	91 896	110 671	125 228	137 616	**-**	**14,4%**
	Bldgs & other fixed structures	61 956	77 433	94 243	104 235	-	18,9%
	Machinery and equipt	24 930	28 871	27 385	30 005	-	6,4%
	Other capital assets	5 011	4 367	3 600	3 376	-	-12,3%
MTBPS 2023	**Payments for capital assets**	85 372	110 937	122 908	145 39	149 432	**10,4%**
	Bldgs & other capital assets	62 994	811	95 201	115 593	119 961	13,9%
	Machinery and equipt	22 379	29 837	27 706	29 797	29 471	-0,4%

Source: National Treasury data compiled by the PBO

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Thank you

Additional slides

On fiscal space

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- Conventional policymaking approaches to fiscal space overlook the complex set of macroeconomic dynamics that determine "fiscal space"
- Fiscal space cannot be determined by simple ratios between parts of the government's balance sheet and GDP
    - For example, the role of the Central Bank's policy decision on interest rates
- *"[F]iscal space cannot be identified as a predetermined level of resources in any economy. Rather, it is dependent on past and current fiscal policy choices, such as the extent of the government's spending, its savings and the level of its debt relative to GDP. What matters most is the flow of revenue that accrues to the government over a period of time as a result of tax and expenditure changes and their subsequent impact on GDP through the fiscal multipliers"* – UNCTAD 2019
- Levern et al. (2021) argue that *"when addressing longer-term structural issues, as opposed to cyclical ones, an overly narrow focus on reducing the size and risks to the government's financial balance sheet can mean accumulating numerous risks and vulnerabilities elsewhere in society and the wider economy (such as environmental breakdown, weaker private sector balance sheets, and inadequate public services). The build-up of these risks and vulnerabilities weakens our capacity to cope and respond to future crises, and so undermines the resilience of our socio-economic system"*

Gross tax revenue outcomes and projections

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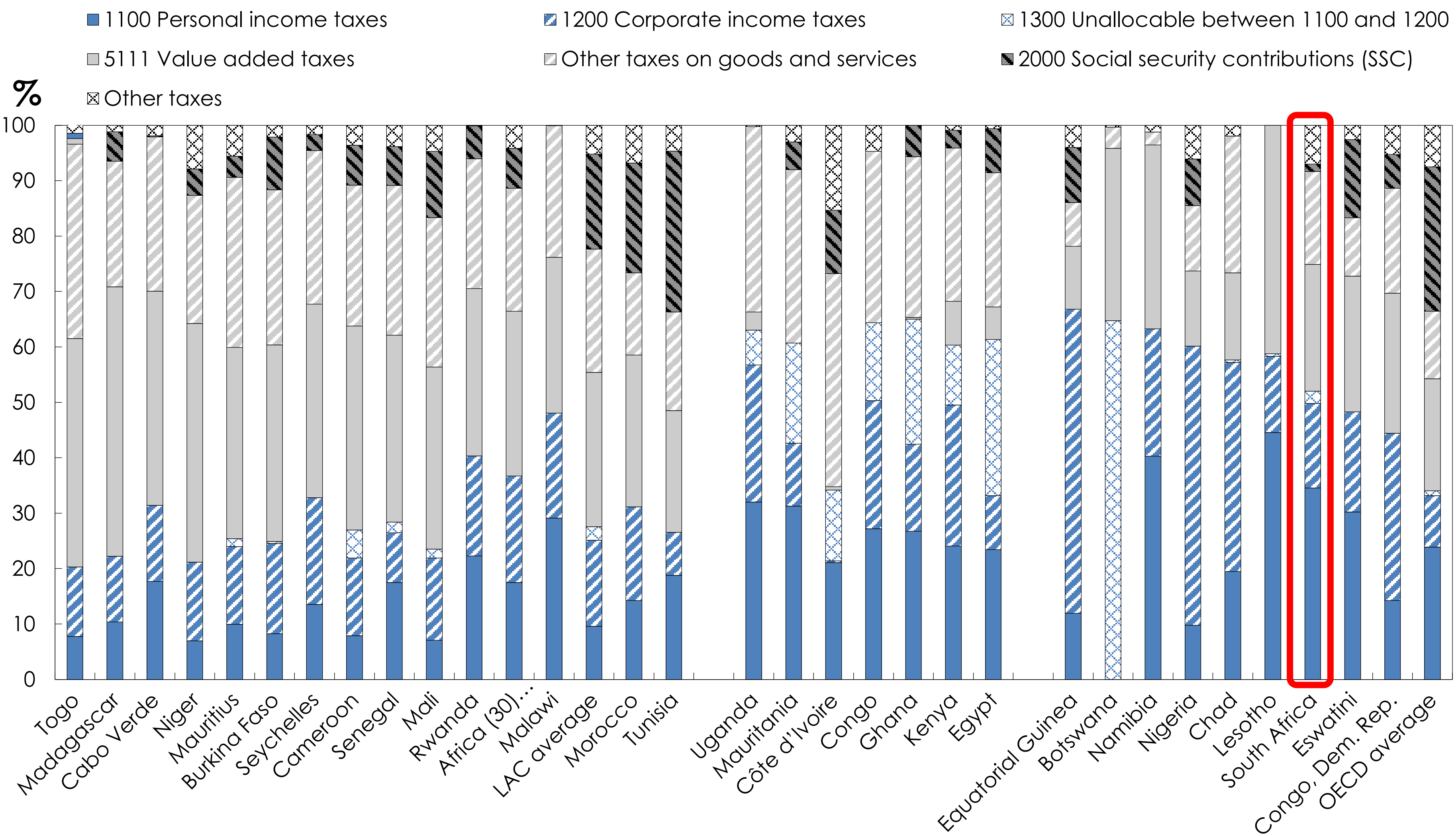
The tax mix in South Africa compared to African and OECD countries in 2018



Gross tax revenue outcomes and projections

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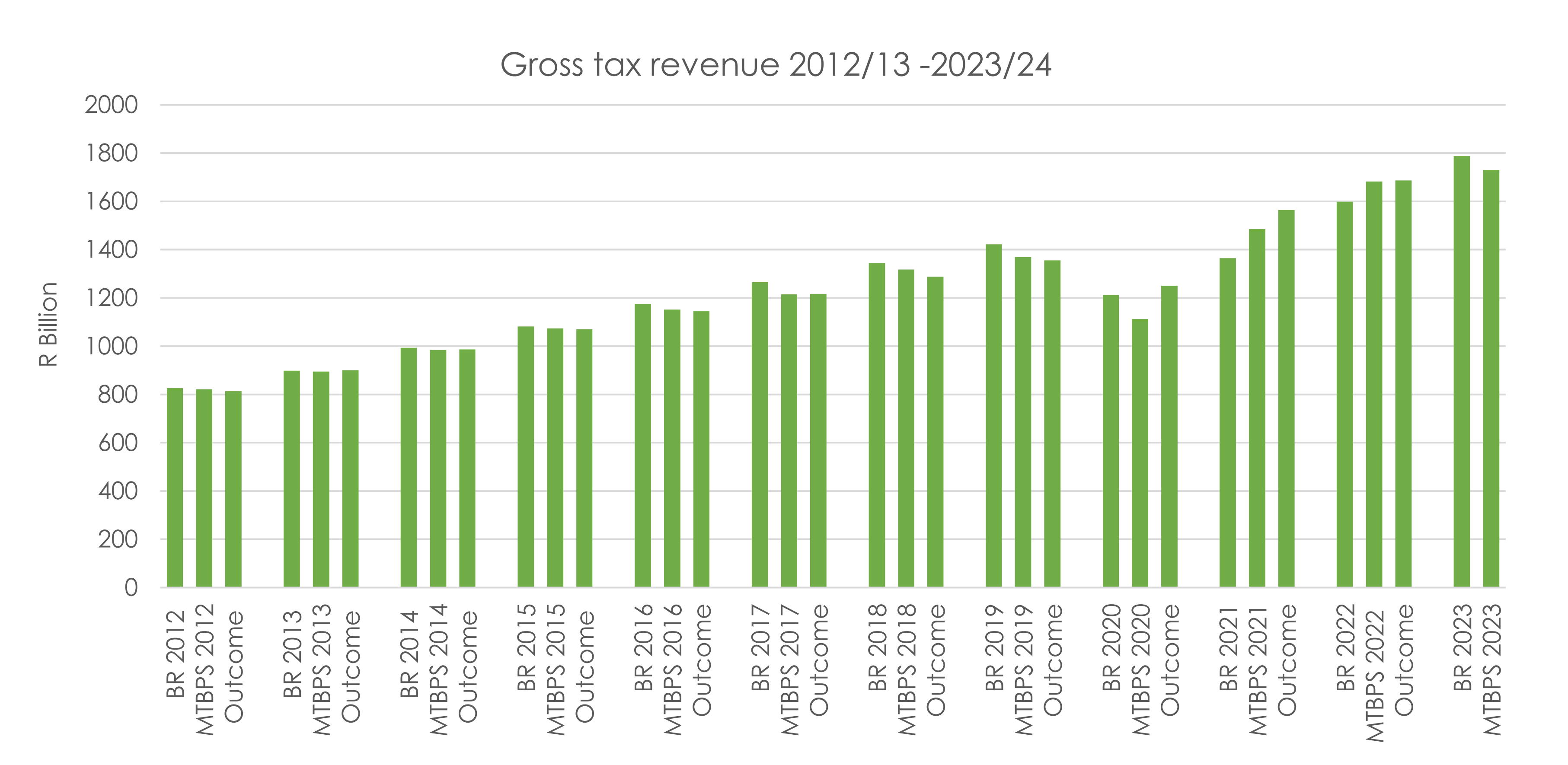
- From 2012/13 to 2019/20, MTBPS' adjusted tax projections downwards and the outcomes were even lower than the adjustments
- For three years since COVID-19, the outcomes were higher than the adjustments



Source: National Treasury data compiled by the PBO

Amendments to the fiscal framework

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	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/26	Annual average Growth
R'billion (nominal)	**Outcome**			**Outcome/ Revised estimate**	**Medium-term estimates**				
MTBPS Revenue				1 699,2	1 714,8	1 802,1	1 921,7	2 058,5	6,3%
Main budget revenue	1 519,6	1 409,2	1 750,6	1 892,7	1 958,9	2 077,8	2 225,3		5,5%
Revenue amendments				**-193,5**	**-244,1**	**-275,7**	**-303,6**		
MTBPS expenditure				2 009,2	2 044,9	2 123,7	2 247,2	2 369,2	5,0%
Main budget expenditure	1 807,1	1 964,4	2 042,9	2 168,8	2 242,6	2 359,7	2 477,4		4,5%
Expenditure amendments				**-159,6**	**-197,7**	**-236,0**	**-230,2**		

- Actual revenue outcome for 2022/23 was R193.5 billion less that the revised amount of R1 829.7 billion
- Previously estimated revenue for the 2023 and 2024 MTEFs has been amended downwards by R244.1 billion, R275.7 billion and R303.6 billion
- Actual expenditure outcome for 2022/23 was R159.6 billion less than the revised estimate of R2 168.8 billion
- Previously estimated expenditure for the 2023 and 2024 MTEFs has been amended downwards by R197.7, R236.0 billion and R230.2 billion