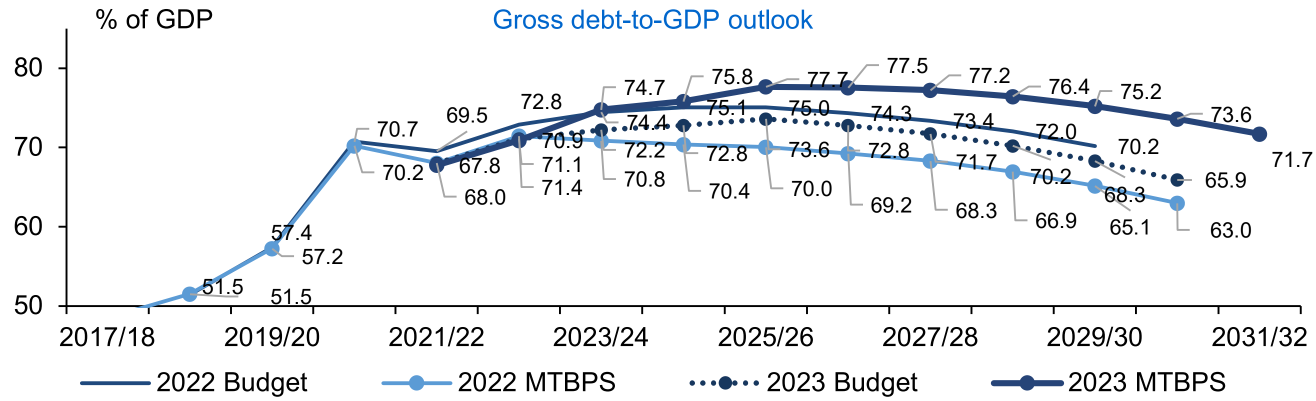
Budget Preview: 21st February Budget expected to maintain deteriorated borrowing projection of MTBPS

Friday 2nd February 2024

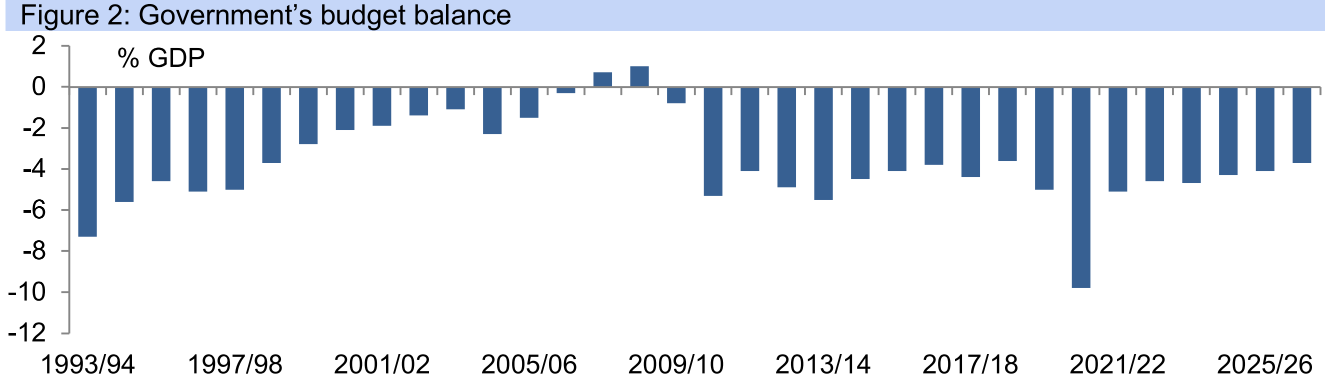
Figure 1: Gross debt-to-GDP outlook and main budget revenue and expenditure



Source: National Treasury, MTBPS November 2023

- The Budget on 21st February is expected to see very similar fiscal ratio projections to 2023's MTBPS (Medium-Term Budget Policy Statement) revisions, as the marked fiscal slippage highlighted in November last year becomes entrenched, and so fiscal consolidation remains delayed.
- In November 2023's MTBPS, gross debt was projected to peak at 77.7% of GDP in 2025/26, substantially higher than February 2023's Budget estimate, of 73.6% of GDP for the same year. Worryingly, gross debt was projected above 70.0% of GDP in 2031/32, and this expansion of the debt ratio reduces the sustainability of government finances, with a debt ratio of 60% of GDP instead seen as the maximum sustainable debt ratio for an emerging market economy.
- For this fiscal year (2023/24), the 2023 February Budget projected gross debt at 72.2% of GDP, which was then pushed up to an estimate of 74.7% of GDP in 2023's November MTBPS. With the first three quarters of 2023/24 showing expenditure at 74.2% of that budgeted, ahead of the 70.1% of the comparative period of 2022/23, and revenue at 71.5% of budget, under the 72.2% of the comparable period, a marked drop in the projected debt to GDP ratio for this year is unlikely. The 2023/24 budget deficit was revised weaker, at -4.9% of GDP in the MTBPS versus -4.0% of GDP, further evidence of fiscal slippage, and the deteriorated budget deficit projections of later years won't have improved substantially.
- Previously, in February 2023's Budget, the gross debt to GDP ratios were projected to fall below 70% of GDP in 2026/27, and remain below 70%, moderating to 65.9% of GDP by 2031/32 (instead of the current projection of remaining above 70%). This step away from fiscal consolidation and sustainability of government finances has negatively affected bond market sentiment, elevating yields.

Figure 2: Government's budget balance



Source: MTBPS November 2023

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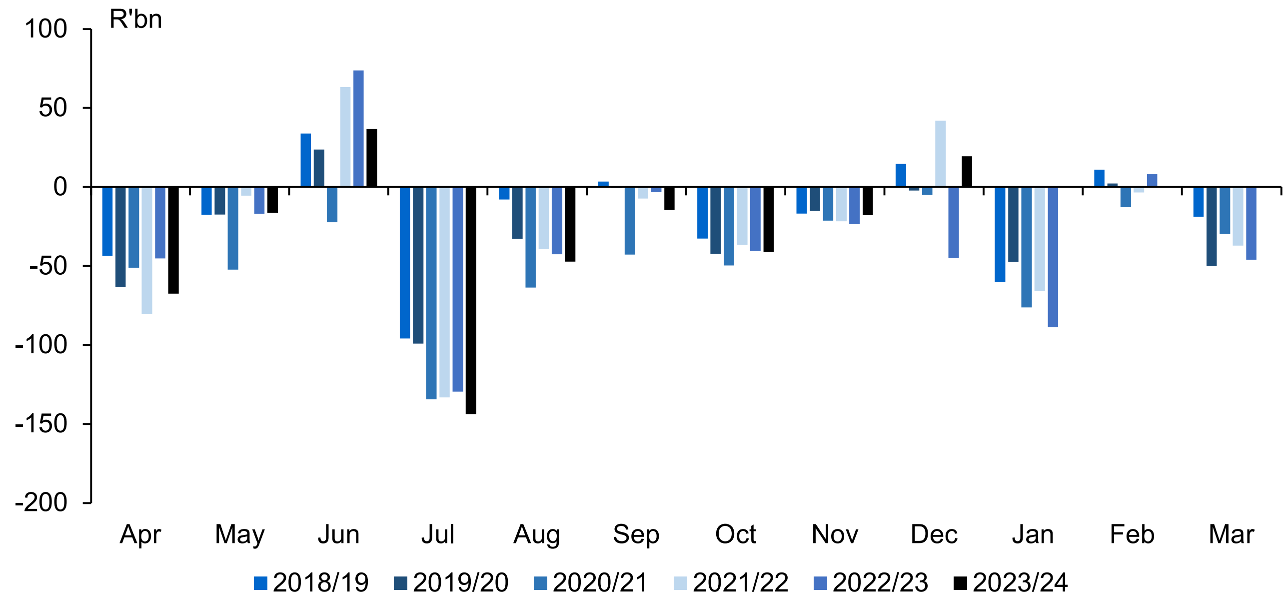
Figure 3: South Africa: government main budget deficit/surplus – seasonality of deficits/surpluses



Source: National Treasury

Figure 4: Macro-economic forecasts, Treasury vs. Investec

	2023	2024	2025
Final household consumption	0.8	1.4	1.5
Investec	0.6	1.4	1.8
Final government consumption	0.6	-3.2	-0.5
Investec	1.8	-3.2	-0.5
Gross fixed capital formation	6.2	3.6	4.6
Investec	4.5	4.6	4.8
Gross domestic expenditure	1.6	1.0	1.6
Investec	0.6	1.2	1.7
Exports	4.2	2.1	2.6
Investec	3.6	3.3	3.1
Imports	7.1	2.1	2.7
Investec	3.8	3.4	3.8
Real GDP	**0.8**	**1.0**	**1.6**
Investec	0.5	1.0	1.4
CPI Inflation	6.0	4.9	4.6
Investec	5.9	4.5	4.2

Source: National Treasury, Investec

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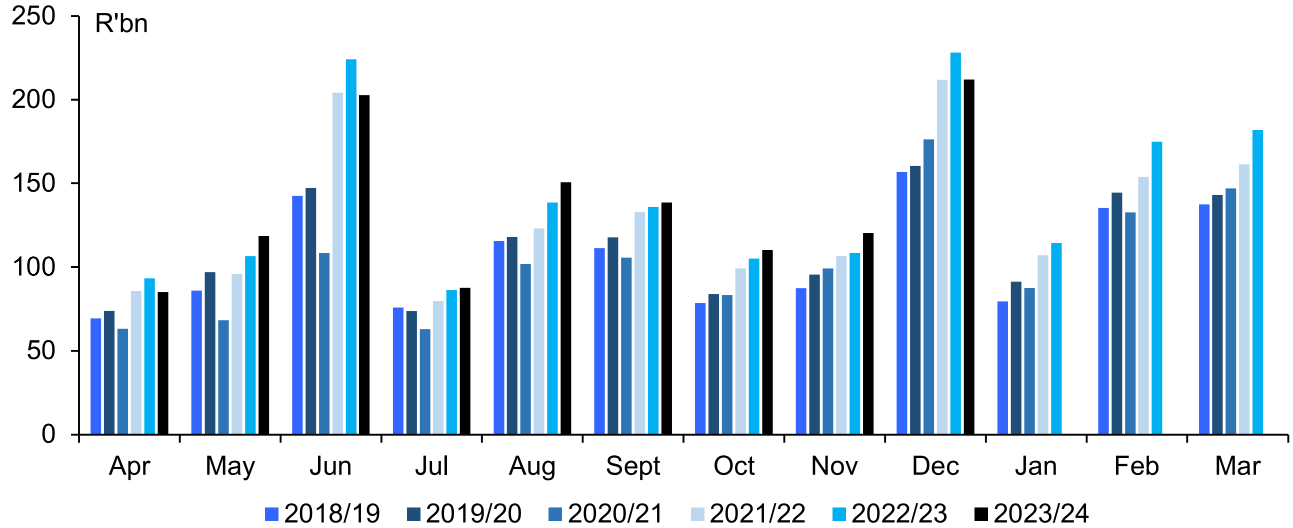
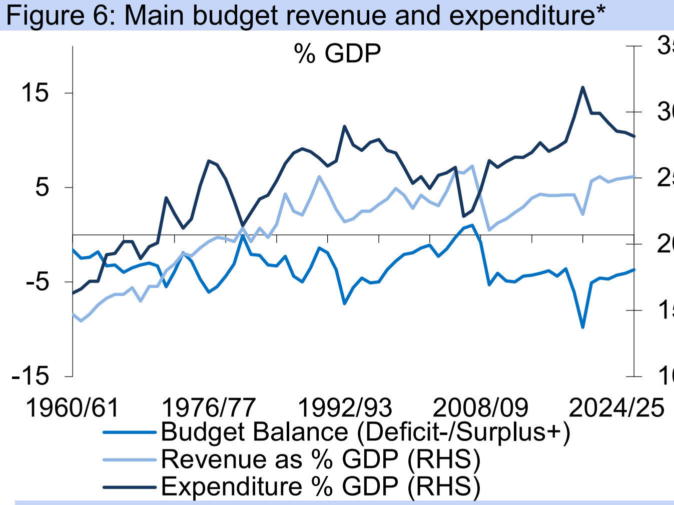
Figure 5: South Africa: government main budget revenue

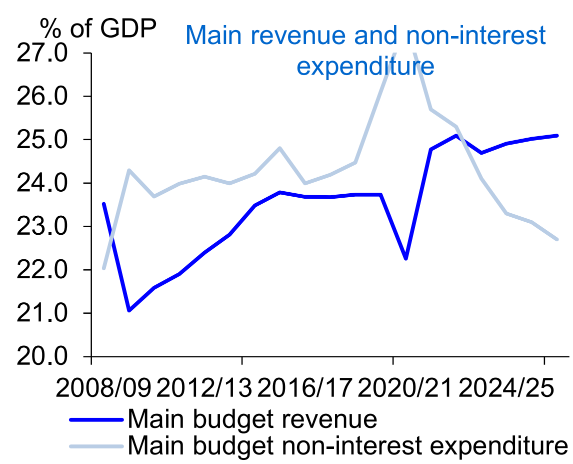


Source: National Treasury

The MTBPS did not provide bailouts for Eskom or Transnet, but the SONA on 8th February (Thursday next week) is likely to reference the electricity and freight constraints on the economy. The IMF this week revised down its economic growth forecast sharply for South Africa this year, from 1.8% y/y to 1.0% y/y, stating "(t)he downward revision for 2024 … mainly reflects a weaker projection for South Africa on account of increasing logistical constraints, including those in the transportation sector, on economic activity." For 2025 it also projected a weaker growth outcome to its October 2023 view, dropping the projected 2025 economic growth rate to 1.3% y/y from 1.6% y/y. South Africa's October MTBPS growth forecast for 2023 was overly strong, at 0.8% y/y, with the outcome most likely to be 0.5% y/y, which will add to the upwards pressure on the gross loan debt to GDP ratio, not detract from it. For 2024, the MTBPS's growth forecast is aligned to ours, at 1.0% y/y, but for 2025 the MTBPS's 1.6% y/y is likely to prove too strong, given persistent load shedding, lifting the gross loan debt projection to GDP for 2025/26 too. On the inflation front, the

Figure 6: Main budget revenue and expenditure*





Source: MTBPS November 2023

Figure 7: Main budget framework

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
		Outcome		**Revised**		**Medium-term estimates**	
Gross tax revenue	**1,249.7**	**1,563.8**	**1,686.7**	**1,730.7**	**1,854.0**	**1,975.8**	**2,111.9**
Gross tax revenue growth	-7.8%	25.1%	7.9%	2.6%	7.1%	6.6%	6.9%
Nominal GDP growth	-1.7%	12.4%	6.5%	4.3%	6.2%	6.1%	6.5%
Buoyancy	4.62	2.03	1.21	0.61	1.15	1.07	1.05
Non-tax revenue	26.3	40.4	51.0	41.6	29.2	31.1	30.1
South African Customs Union[1]	-63.4	-46.0	-43.7	-79.8	-89.9	-85.6	-84.0
National Revenue Fund receipts[2]	25.8	6.1	5.2	22.4	8.8	0.4	0.6
Main budget revenue	**1,238.4**	**1,564.3**	**1,699.2**	**1,714.8**	**1,802.1**	**1,921.7**	**2,058.5**
	22.1%	*24.8%*	*25.3%*	*24.5%*	*24.2%*	*24.3%*	*24.5%*
Main budget expenditure	**1,789.0**	**1,887.3**	**2,009.2**	**2,044.9**	**2,123.7**	**2,247.2**	**2,369.2**
	31.9%	*29.9%*	*29.9%*	*29.2%*	*28.5%*	*28.5%*	*28.2%*
Non-interest expenditure	1,556.4	1,619.2	1,700.7	1,690.4	1,737.8	1,821.7	1,913.3
	27.7%	25.7%	25.3%	24.1%	23.3%	23.1%	22.7%
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
	4.1%	4.2%	4.6%	5.1%	5.2%	5.4%	5.4%
Main budget balance	**1,789.0**	**1,887.3**	**2,009.2**	**2,044.9**	**2,123.7**	**2,247.2**	**2,369.2**
	31.9%	*29.9%*	*29.9%*	29.2%	*28.5%*	*28.5%*	*28.2%*
Primary balance	**-318.1**	**-54.9**	**-1.5**	**24.4**	**64.2**	**100.0**	**145.2**
	-5.7%	*-0.9%*	*0.0%*	*0.3%*	*0.9%*	*1.3%*	*1.7%*

Source: National Treasury

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions

Figure 8: Budget Balances

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Budget 2017							
MTBPS 2017	-3.9%						
Budget 2018	-3.5%						
MTBPS 2018	-4.2%	-4.0%					
Budget 2019	-4.3%	-4.0%					
MTBPS 2019	-6.5%	-6.2%	-5.9%				
Budget 2020	-6.8%	-6.2%	-5.7%				
MTBPS 2020	-15.7%	-10.1%	-8.6%	-7.3%			
Budget 2021	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%		
MTBPS 2021	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%		
Budget 2022	-10.0%	-5.7%	-6.0%	-4.8%	-4.2%		
MTBPS 2022	-9.8%	-5.1%	-4.9%	-4.1%	-3.7%	-3.3%	
Budget 2023	-9.9%	-4.6%	-4.2%	-4.0%	-3.8%	-3.2%	
MTBPS 2023	-9.8%	-5.1%	-4.6%	-4.7%	-4.3%	-4.1%	-3.7%

Source: MTBPS November 2023

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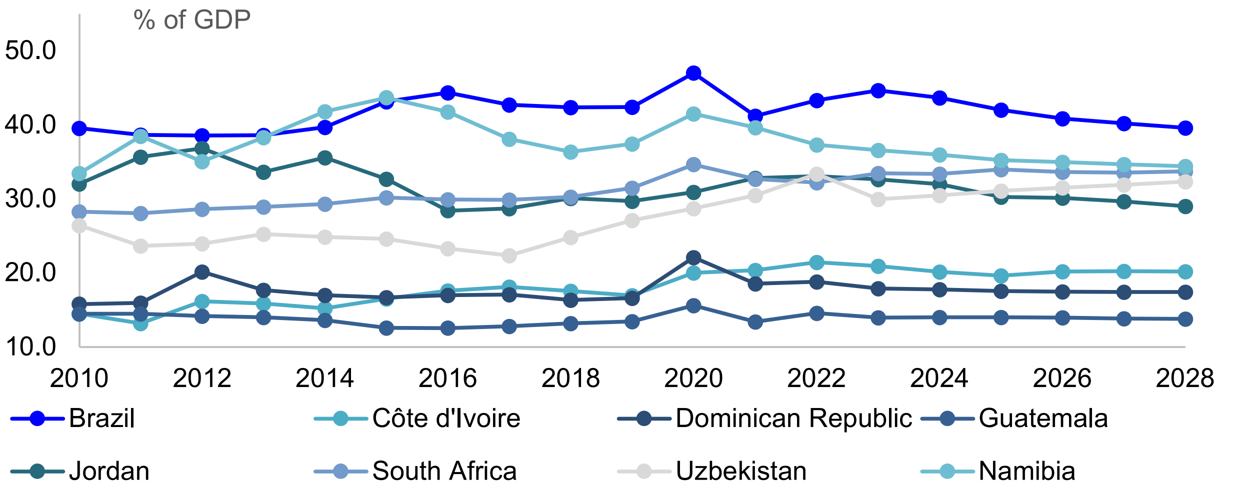
Figure 9: Government total expenditure % GDP– SA's BB- Fitch rated peers

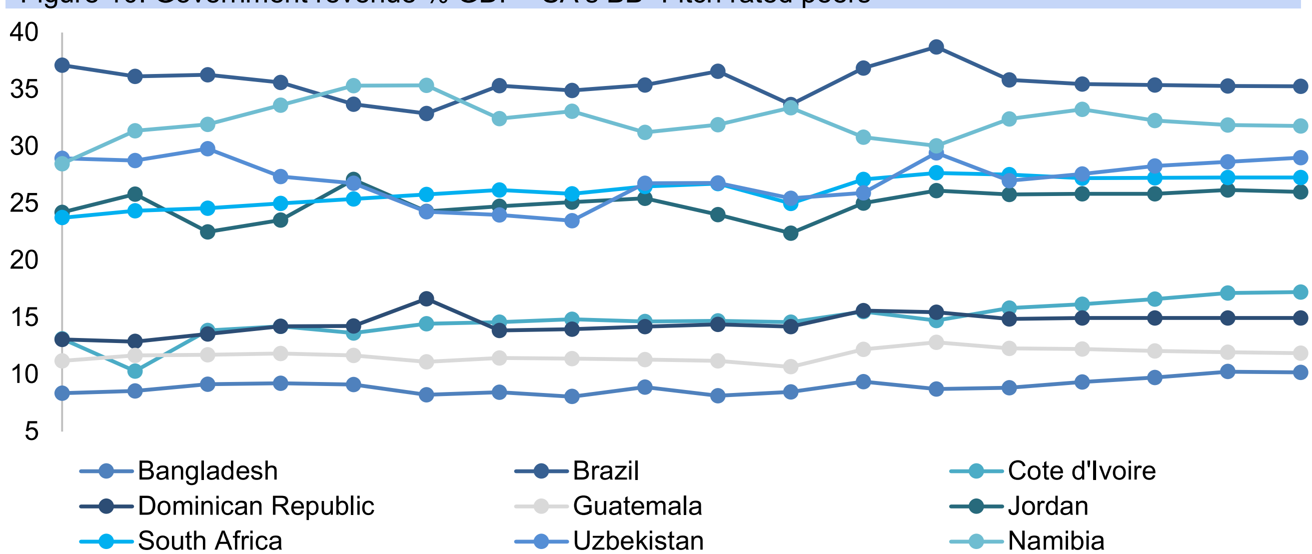


Source: IMF, Fiscal Monitor October 2023

MTBPS forecast of 4.9% y/y for 2024 is above ours of 4.5% y/y with some risk subsiding as weather outcomes are proving better than expected this summer, and National Treasury may drop its forecast inflation figure for this year somewhat.

For government finance ratios, it is the nominal GDP (actual rand value) measure which is used, not real GDP, in the fiscal ratio calculations. The lower inflation rate likely for this year than National Treasury previously forecast, means the nominal GDP measure could be adjusted down somewhat, lifting the 2024/25 fiscal ratios. The government finance figures for the year to date (main budget figures are only available, i.e., figures of national government, while consolidated figures include the provinces and local

Figure 10: Government revenue % GDP– SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2023

Figure 11: General Government Gross Debt, 2018-28

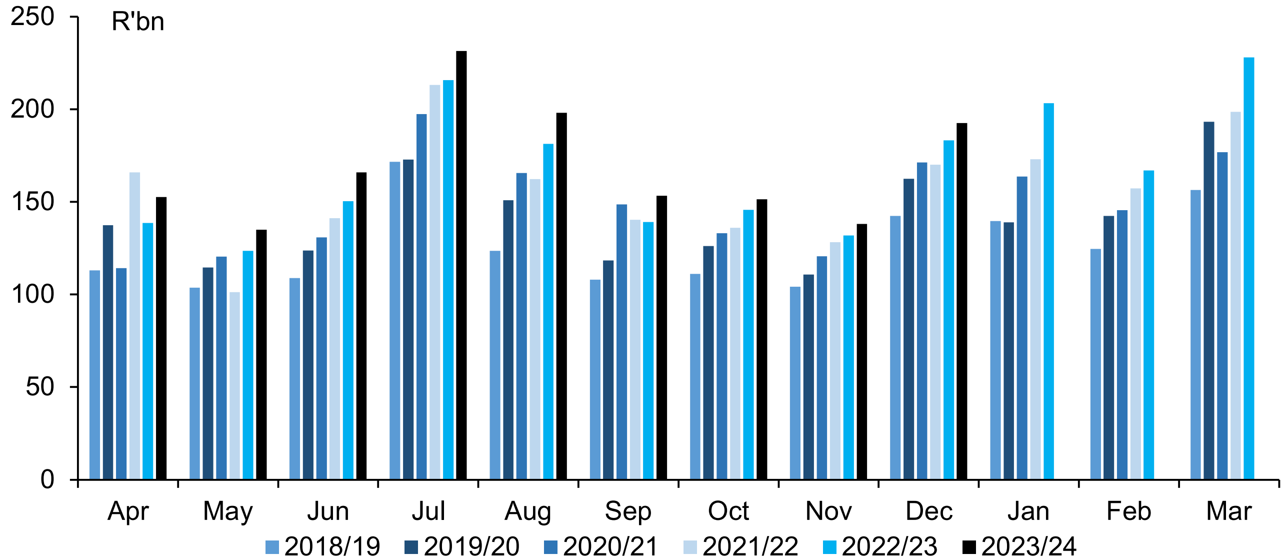
						Projections					
% of GDP	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Average	102.9	104.1	122.9	117.0	112.3	112.1	112.7	113.8	114.6	115.3	116.3
Euro Area	85.7	83.7	96.8	94.8	91.0	89.6	88.3	87.1	86.1	85.5	84.9
G7	117.3	118.3	140.4	133.9	128.0	127.8	128.9	130.5	131.7	132.8	134.3
G20 Advanced	111.6	113.1	134.1	127.9	122.6	122.7	124.0	125.5	126.6	127.6	129.0
Andorra	36.3	35.4	46.4	48.6	39.4	37.7	35.7	34.4	33.4	32.3	31.1
Australia[2]	41.8	46.7	57.2	55.9	50.7	51.9	55.6	56.3	56.3	55.7	54.9
Austria	74.1	70.6	82.9	82.3	78.5	74.8	74.0	71.7	70.7	68.9	68.2
Belgium	99.9	97.6	112.0	109.1	105.1	106.0	106.8	108.5	110.9	113.5	115.9
Canada[2]	90.8	90.2	118.9	115.1	107.4	106.4	103.3	100.6	98.6	96.6	94.7
Croatia	73.2	71.0	86.9	78.3	68.8	63.8	61.8	60.3	58.5	56.9	55.2
Cyprus	98.1	90.4	113.5	101.0	86.5	78.6	70.9	66.8	61.7	58.4	55.1
Czech Republic	32.1	30.0	37.7	42.0	44.2	45.4	44.4	44.1	43.8	43.4	42.9
Denmark	34.0	33.7	42.3	36.0	29.7	30.1	29.0	28.7	28.6	28.6	28.6
Estonia	8.2	8.5	18.6	17.8	18.5	21.6	24.0	25.9	27.5	29.1	30.5
Finland	64.8	64.9	74.7	72.5	72.5	73.6	76.5	79.0	80.2	80.4	80.3
France	97.8	97.4	114.7	113.0	111.8	110.0	110.5	110.4	110.4	110.5	110.8
Germany	61.9	59.5	68.7	69.0	66.1	65.9	64.0	61.8	59.9	58.6	57.5
Greece	190.7	185.5	212.4	200.7	178.1	168.0	160.2	155.7	151.4	148.2	145.3
Hong Kong SAR[2]	0.1	0.3	1.0	1.9	4.3	6.1	7.0	7.6	8.7	9.6	9.7
Iceland	63.2	66.5	77.7	75.4	68.9	61.2	54.6	51.6	47.9	44.4	41.8
Ireland	62.9	57.1	58.1	54.4	44.4	42.7	39.0	35.7	33.2	31.1	29.5
Israel	60.1	59.2	70.9	67.8	60.7	58.2	56.8	56.4	56.3	56.5	56.9
Italy	134.4	134.1	154.9	149.9	144.4	143.7	143.2	142.8	141.9	141.0	140.1
Japan	232.4	236.4	258.6	255.1	260.1	255.2	251.9	250.6	251.1	251.9	252.8
Korea	40.0	42.1	48.7	51.3	53.8	54.3	55.6	56.5	57.1	57.5	57.9
Latvia	37.0	36.5	42.0	43.7	40.8	40.6	39.5	38.7	38.3	37.2	36.0
Lithuania	33.7	35.8	46.3	43.7	38.1	36.1	34.4	33.0	31.8	30.9	30.1
Luxembourg	20.9	22.4	24.6	24.5	24.8	27.6	29.3	30.2	30.4	30.5	30.4
Malta	43.4	40.0	52.2	54.0	52.3	54.1	55.2	56.1	56.3	55.3	54.3
The Netherlands	52.4	48.5	54.7	51.6	50.1	49.5	48.6	48.7	49.0	49.6	50.3
New Zealand	28.1	31.8	43.3	47.4	46.4	46.1	49.9	52.3	52.0	49.7	47.7
Norway	39.4	40.6	46.1	42.8	37.1	37.4	36.3	36.2	35.9	35.2	34.5
Portugal	121.5	116.6	134.9	125.4	113.9	108.3	104.0	99.9	96.2	92.9	89.7
Singapore	109.4	127.8	149.0	147.7	167.5	167.9	168.3	168.8	169.3	169.8	170.2
Slovak Republic	49.4	48.0	58.9	61.0	57.8	56.7	56.5	57.5	60.3	61.7	63.0
Slovenia	70.3	65.4	79.6	74.4	72.6	68.5	66.5	64.7	63.4	62.4	61.3
Spain	100.4	98.2	120.3	116.8	111.6	107.3	104.7	103.9	103.8	103.8	103.8
Sweden	39.2	35.5	39.8	36.4	32.7	32.3	32.6	32.2	31.5	30.7	29.7
Switzerland	39.8	39.6	43.2	41.1	40.9	39.5	37.7	36.4	35.0	33.9	32.6
United Kingdom	85.2	84.5	104.6	105.2	101.9	104.1	105.9	107.3	108.5	108.2	108.2
United States[2]	107.4	108.7	133.5	126.4	121.3	123.3	126.9	130.3	132.9	135.1	137.5
Andorra	36.3	35.4	46.4	48.6	39.4	37.7	35.7	34.4	33.4	32.3	31.1

Source: IMF, Fiscal Monitor October 2023

Note: 1 The average does not include the debt incurred by the European Union and used to finance the grants portion of the NextGenerationEU package. This totaled €58 billion (0.4 percent of EU GDP) as of December 31, 2021, and €158 billion (1 percent of EU GDP) as of February 16, 2023. Debt incurred by the European Union and used to on-lend to member states is included within member state debt data and regional aggregates.

2 For cross-economy comparison, gross debt levels reported by national statistical agencies for economies that have adopted the 2008 System of National Accounts (Australia, Canada, Hong Kong SAR, and the United States) are adjusted to exclude unfunded pension liabilities of government employees' defined-benefit pension plans.

Figure 12: South Africa: government main budget expenditure



Source: National Treasury

municipalities) are already proving worse than last year's performance at this time, but any lowering of nominal GDP estimates would increase the gross loan debt projections, worsening fiscal slippage.

Moody's already warned after the MTBPS last year that "the constraints on the economy from the network infrastructure, such as energy and logistics infrastructure, continue to limit the country's growth potential. A further erosion in South Africa's economic growth prospects and a sustained deterioration in its fiscal strength would likely lead to a rating downgrade. Indications that the SOE sector requires fiscal support well beyond our current assumptions, which would inhibit the government's fiscal consolidation efforts, would also strain the rating." "(W)e project that the government will be able to stabilise the debt at around 75% of GDP over the next three years, a step change compared with the previous trend of rising debt." Should the debt burden not stabilise over the medium- term, with the medium-term expenditure framework running from 2024/25 to 2026/27, this would contradict Moody's

Figure 13: Consolidated government fiscal framework

	2022/23	2023/24	2024/25	2025/26	2026/27
R bn/% of GDP	Revised		Medium-term estimates		
Revenue	1,898.2	1,915.5	2,012.6	2,139.3	2,286.5
	28.2%	27.3%	27.0%	27.1%	27.2%
Expenditure	2,145.2	2,262.0	2,352.5	2,473.3	2,588.6
	31.9%	32.3%	31.6%	31.3%	30.8%
	-247.0	-346.5	-339.9	-334.0	-302.0
Budget balance	-3.7%	-4.9%	-4.6%	-4.2%	-3.6%
	4,765.4	5,238.0	5,641.3	6,133.4	6,524.9
Total gross loan debt	70.9%	74.7%	75.8%	77.7%	77.5%
	1,898.2	1,915.5	2,012.6	2,139.3	2,286.5

Source: National Treasury, MTBPS November 2023

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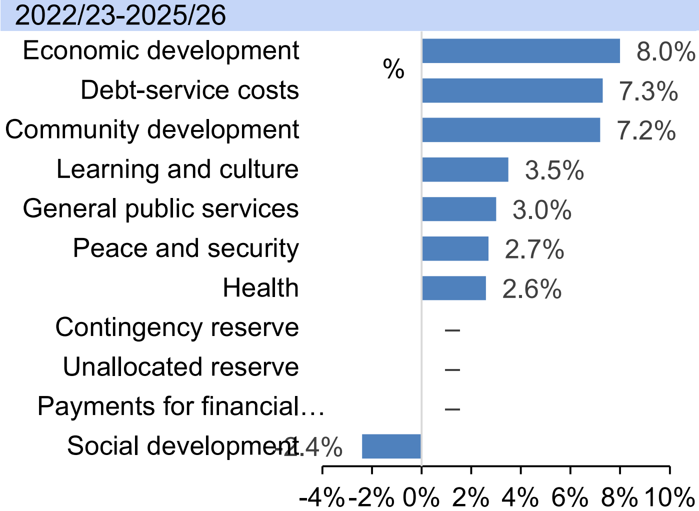
Figure 14: Consolidated government expenditure by economic classification[1]

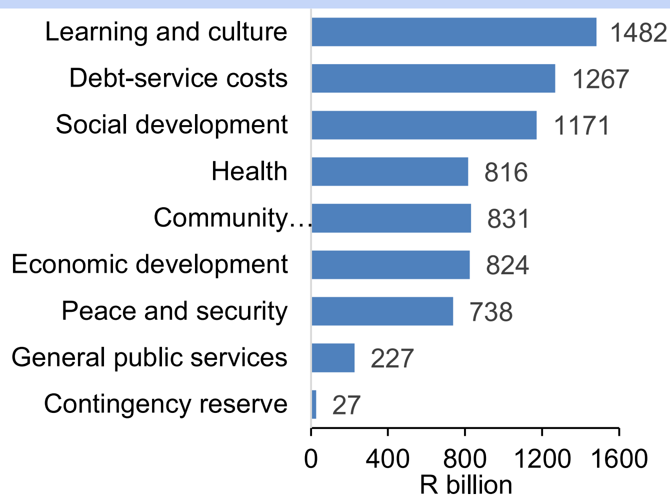
R billion	2022/23 Outcome	2023/24 Revised	2024/25 Medium-term estimates	2025/26 Medium-term estimates	2026/27 Medium-term estimates	Average annual growth
Current payments	**1,292.5**	**1,395.4**	**1,446.3**	**1,528.0**	**1,602.1**	**4.7%**
Compensation of employees	689.1	724.3	740.2	768.8	804.7	3.6%
Goods and services	286.1	307.5	310.9	324.0	331.8	2.6%
Interest and rent on land	317.2	363.6	395.3	435.1	465.6	8.6%
of which: debt-service costs	308.5	354.5	385.9	425.5	455.9	8.7%
Transfers and subsidies	**720.6**	**751.4**	**774.9**	**788.4**	**818.3**	**2.9%**
Provinces and municipalities	165.5	172.1	182.9	191.5	197.8	4.8%
Departmental agencies and accounts	26.7	27.3	24.1	24.2	25.8	-1.9%
Higher education institutions	53.5	51.3	55.6	56.3	58.9	4.7%
"Foreign governments and international organisations"	3.3	3.3	3.5	3.6	3.8	4.2%
"Public corporations and private enterprises"	39.7	42.9	40.3	42.2	42.8	0.0%
Non-profit institutions	40.6	42.8	39.5	41.1	42.9	0.1%
Households	391.3	411.6	429.1	429.4	446.2	2.7%
Payments for capital assets	**85.4**	**110.9**	**122.9**	**145.4**	**149.4**	**10.4%**
Buildings and other capital assets	63.0	81.1	95.2	115.6	120.0	13.9%
Machinery and equipment	22.4	29.8	27.7	29.8	29.5	-0.4%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Total	**2,145.2**	**2,261.6**	**2,347.5**	**2,465.7**	**2,574.1**	**4.4%**
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2,145.2**	**2,262.0**	**2,352.5**	**2,473.3**	**2,588.6**	**4.6%**

Source: National Treasury, MTBPS November 2023

1) Consisting of national and provincial departments, social security funds and public entities

Figure 15: Average nominal growth in spending and consolidated government expenditure by function, 2022/23-2025/26





Source: National Treasury, MTBPS November 2023

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Figure 16: Total National debt, 2022/23-2026/27

End of period	2022/23	2023/24	2024/25	2025/26	2026/27
R billion	Outcome	Revised	Medium-term estimates		
MTBPS 2023					
Gross loan debt	**4,765.4**	**5,238.0**	**5,641.3**	**6,133.4**	**6,524.9**
Net loan debt	**4,516.3**	**5,088.4**	**5,548.8**	**6,060.5**	**6,444.0**
As percentage of GDP:					
Total gross loan debt	70.9%	74.7%	75.8%	77.7%	77.5%
Total net loan debt	67.2%	72.6%	74.6%	76.7%	76.6%

Source: National Treasury, MTBPS November 2023

expectation for the country, with its rating of ba2 (BB) with a stable outlook.

Fitch last month noted "(g)rowth is hampered by power shortages that are expected to continue in the near to medium term, although at a lower magnitude than in recent months, and by a struggling logistic sector". "We forecast real GDP growth will accelerate to 0.9% in 2024 and 1.3% in 2025, from an estimated 0.5% in 2023. The economy remains severely troubled by the impact of electricity capacity constraints, a struggling logistics sector". The credit rating agency warned that "(f)actors that could, individually or collectively, lead to negative rating action/downgrade (include)…. (a) further weakening of trend growth or a sustained shock that further undermines fiscal consolidation efforts and raises socio-economic pressure in the face of exceptional inequality … (f)urther significant increase in government debt-to-GDP, for example, due to persistent large fiscal deficits or the materialisation of large-scale contingent liabilities". The credit rating agencies have not signalled any need for downgrades based on the MTBPS figures but warn of fiscal deterioration and failure to consolidate government finances. Credit rating downgrades are not expected after this month's Budget either.

Figure 17: Total national government debt

End of period	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
R billion	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans[1]	**4,209.8**	**4,642.8**	**5,065.3**	**5,536.0**	**5,867.7**
Short-term	422.6	470.5	517.5	569.5	608.5
Long-term	3,787.2	4,172.4	4,547.8	4,966.6	5,259.2
Fixed-rate	*2,743.8*	*2,991.2*	*3,301.1*	*3,510.2*	*3,624.2*
Inflation-linked	*992.2*	*1,038.0*	*1,063.1*	*1,228.1*	*1,370.5*
Floating rate note	*51.2*	*143.2*	*183.6*	*228.3*	*264.5*
Foreign loans[1]	**555.7**	**595.2**	**576.0**	**597.3**	**657.2**
Gross loan debt	**4,765.4**	**5,238.0**	**5,641.3**	**6,133.4**	**6,524.9**
Less: National Revenue Fund bank balances	-249.2	-149.7	-92.5	-72.9	-81.0
Net loan debt[2]	**4,516.3**	**5,088.4**	**5,548.8**	**6,060.5**	**6,444.0**
As percentage of GDP:					
Gross loan debt	*70.9%*	*74.7%*	*75.8%*	*77.7%*	*77.5%*
Net loan debt	*67.2%*	*72.6%*	*74.6%*	*76.7%*	*76.6%*

Source: National Treasury, MTBPS November 2023

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund

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Figure 18: Macroeconomic projections

	2022	2023	2024	2025	2026
Percentage change unless otherwise indicated	Actual	Estimate		Forecast	
Final household consumption	2.5	0.8	1.4	1.5	1.7
Gross fixed capital formation	4.8	6.2	3.6	4.6	3.4
Real GDP growth	**1.9**	**0.8**	**1.0**	**1.6**	**1.8**
GDP at current prices (R billion)	**6,628.6**	**6,947.3**	**7,321.4**	**7,786.8**	**8,288.7**
CPI Inflation	6.9	6.0	4.9	4.6	4.5
Current account deficit (% GDP)	-0.5	-2.4	-3.0	-3.0	-3.1

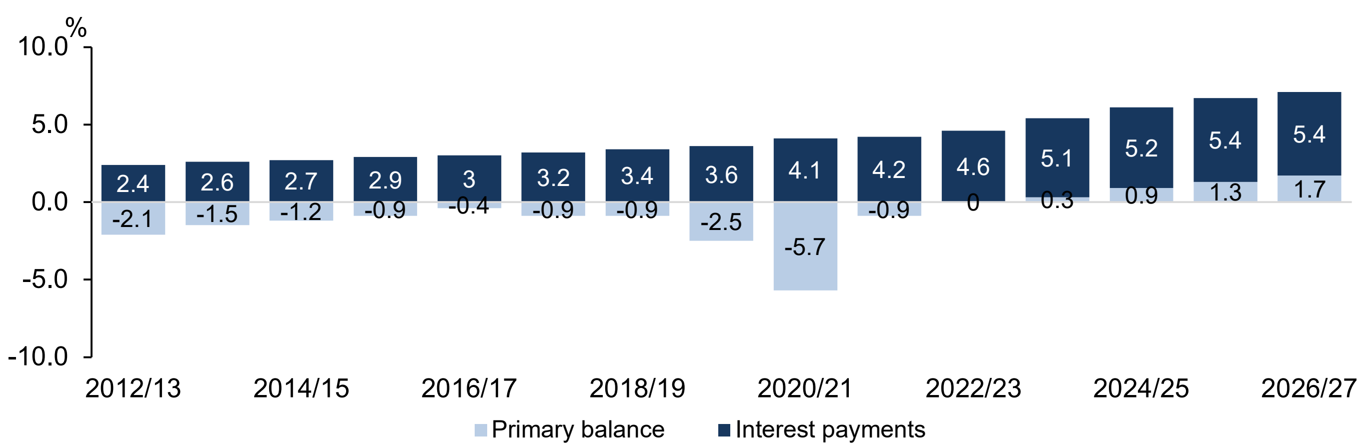
Source: National Treasury, MTBPS November 2023

Figure 18: Main budget framework

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
R billion/percentage of GDP		**Outcome**		**Revised**	**Medium-term estimates**		
Main budget revenue	**1,238.4**	**1,564.3**	**1,699.2**	**1,714.8**	**1,802.1**	**1,921.7**	**2,058.5**
	22.1%	*24.8%*	*25.3%*	*24.5%*	*24.2%*	*24.3%*	*24.5%*
Main budget expenditure	**1,789.0**	**1,887.3**	**2,009.2**	**2,044.9**	**2,123.7**	**2,247.2**	**2,369.2**
	31.9%	*29.9%*	*29.9%*	*29.2%*	*28.5%*	*28.5%*	*28.2%*
Non-interest expenditure	1,556.4	1,619.2	1,700.7	1,690.4	1,737.8	1,821.7	1,913.3
	27.7%	*25.7%*	*25.3%*	*24.1%*	*23.3%*	*23.1%*	*22.7%*
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
	4.1%	*4.2%*	*4.6%*	*5.1%*	*5.2%*	*5.4%*	*5.4%*
Main budget balance	**-550.6**	**-323.0**	**-309.9**	**-330.1**	**-321.6**	**-325.5**	**-310.7**
	-9.8%	*-5.1%*	*-4.6%*	*-4.7%*	*-4.3%*	*-4.1%*	*-3.7%*
Primary balance	**-318.1**	**-54.9**	**-1.5**	**24.4**	**64.2**	**100.0**	**145.2**
	-5.7%	*-0.9%*	*0.0%*	*0.3%*	*0.9%*	*1.3%*	*1.7%*

Source: National Treasury, MTBPS November 2023

Figure 19: Main Budget Balance



Source: National Treasury, MTBPS November 2023

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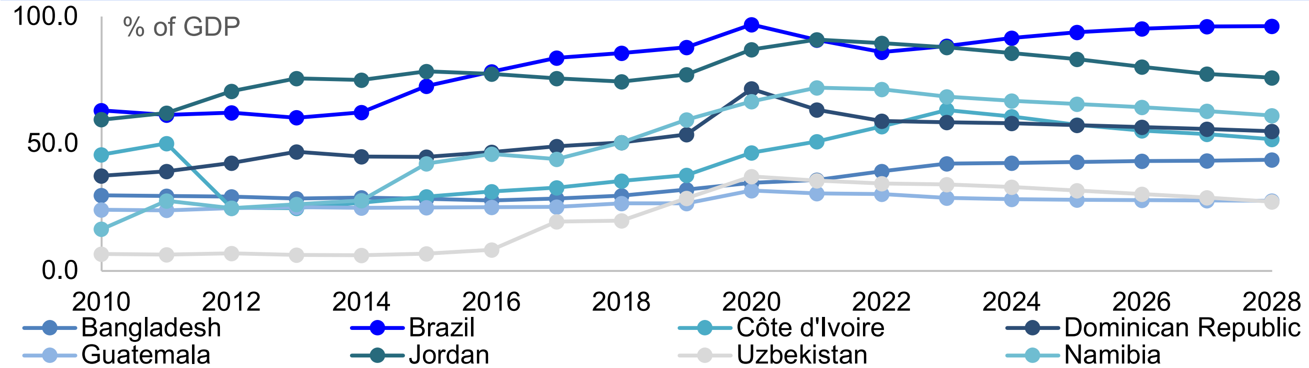
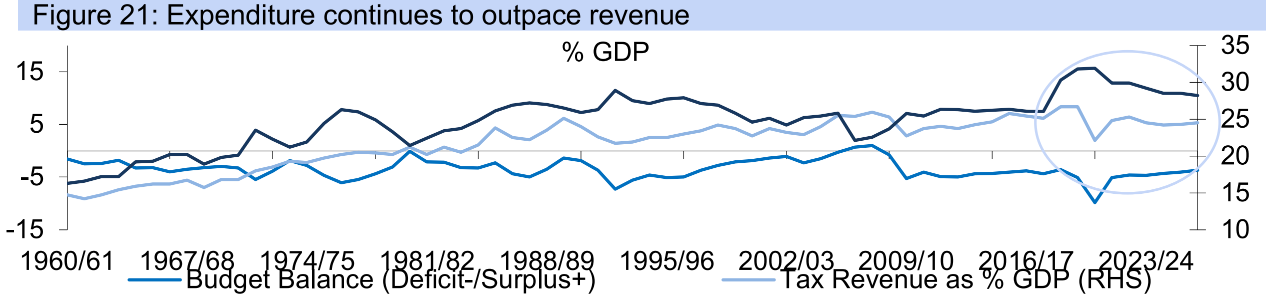
Figure 20: Government gross debt % GDP – SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2023

With the SONA (State of the Nation address) still to occur on 8th February, and SA in a national election year, updates on government plans for infrastructure, education, crime, economic growth, health care, and the electricity crisis and freight blockages are forthcoming. In 2022, the SONA read "(w)e all know that government does not create jobs. Business creates jobs. Around 80 per cent of all the people employed in South Africa are employed in the private sector." The speech showed growing openness from the state in working with the private sector to overcome SA's structural weaknesses in the economy, given state capacity weaknesses in a number of areas. The president highlighted "(a) capable state is not only about the quality of public servants and the efficiency of institutions. It is also, fundamentally, about how citizens are empowered to participate." While the SONA will signal the continuation of these state private sector partnerships in electricity, freight and crime/corruption fighting, this year SONA's is likely to show more populism creeping in, particularly on the healthcare side. The impending NHI act seeks to eradicate private sector healthcare, only allowing for the majority to be provided by the state, which has been ranked amongst the worst healthcare providers in the world for many years in the World Bank's global competitiveness survey. With the most likely resultant emigration of most private sector doctors and specialists under the implementation of the NHI, business leaders, skilled workers and entrepreneurs will in the main likely emigrate too, while international tourism would collapse under state healthcare being the only option. This would all negatively affect state revenue, resulting in a massive widening in borrowing, while state expenditure would rocket, and the prospect of fiscal consolidation disappear. Emigration has already been high in SA over the past decade, typically to OECD countries which have both full state and private health care. However, the ANC led government is likely to use the lure of incoming NHI healthcare to garner more votes, although over the long term it is likely to result in less, and poorer quality, public healthcare as tax payers emigrate from SA in greatly increased numbers.

Figure 21: Expenditure continues to outpace revenue



Source: National Treasury, MTBPS November 2023

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Budget Preview: 21st February Budget expected to maintain deteriorated borrowing projection of MTBPS

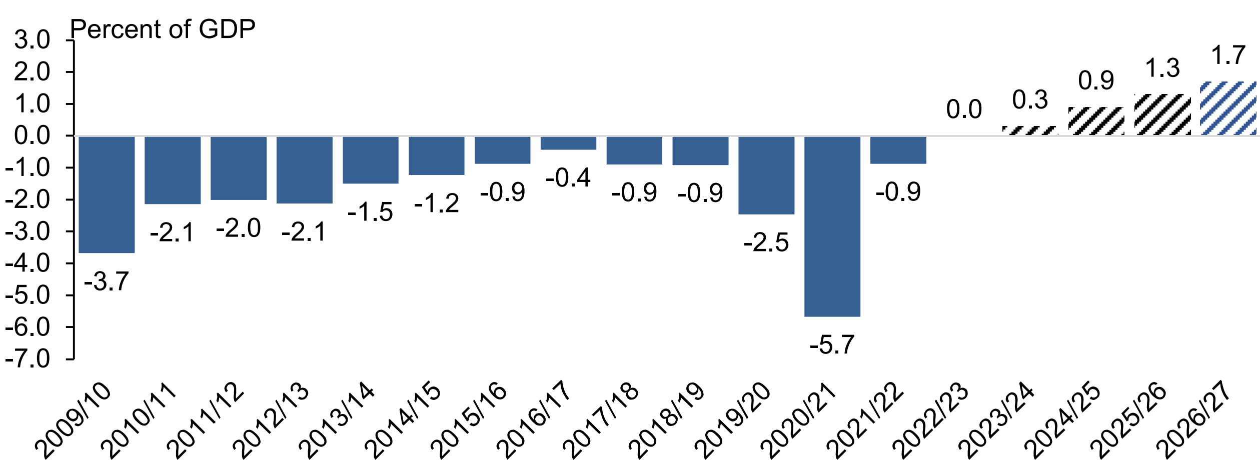
Friday 2nd February 2024

Figure 22: Fiscal Balances, 2014-28 Overall Balance (Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Advanced Economies											
Canada	0.4	0.0	–10.9	–4.4	–0.8	–0.7	–0.6	–0.5	–0.4	–0.3	–0.2
Euro Area	–0.4	–0.6	–7.1	–5.3	–3.6	–3.4	–2.7	–2.3	–2.1	–2.1	–2.1
France	–2.3	–3.1	–9.0	–6.5	–4.8	–4.9	–4.5	–4.0	–3.6	–3.5	–3.6
Germany	1.9	1.5	–4.3	–3.6	–2.5	–2.9	–1.7	–0.9	–0.6	–0.5	–0.5
Italy	–2.2	–1.5	–9.7	–9.0	–8.0	–5.0	–4.0	–3.3	–2.7	–2.7	–2.5
Spain[1]	–2.5	–3.0	–9.1	–6.2	–6.9	–5.6	–3.7	–2.6	–2.7	–2.9	–3.3
Japan	–2.5	–3.0	–9.1	–6.2	–6.9	–5.6	–3.7	–2.6	–2.7	–2.9	–3.3
United Kingdom	2.6	0.4	–2.2	0.0	–1.6	–1.2	–0.9	–0.3	–0.2	0.0	0.0
United States[2]	–0.7	–0.4	–3.7	–5.4	–3.7	–3.7	–1.8	–2.0	–2.0	–1.1	–0.9
Emerging Market Economies											
MENA	–1.7	–2.5	–8.5	–2.2	3.1	–0.4	–1.3	–1.5	–1.5	–1.5	–1.8
Asia	–4.2	–5.8	–9.7	–6.5	–7.3	–6.9	–6.8	–6.8	–6.9	–7.0	–7.1
China	–4.3	–6.1	–9.7	–6.0	–7.5	–7.1	–7.0	–7.3	–7.5	–7.6	–7.8
India	–4.7	–3.5	–7.0	–7.1	–6.2	–3.5	–2.4	–2.6	–2.4	–2.2	–1.9
Europe	0.3	–0.6	–5.5	–1.9	–2.5	–4.8	–3.8	–3.0	–2.6	–2.4	–2.2
Russian Federation	2.9	1.9	–4.0	0.8	–1.4	–3.7	–2.6	–1.3	–0.6	–0.1	0.3
Latin America	–5.0	–3.8	–8.3	–3.9	–3.4	–4.6	–4.6	–3.3	–2.9	–2.7	–2.6
Brazil	–7.0	–5.0	–11.9	–2.5	–3.1	–7.1	–6.0	–5.3	–4.8	–4.4	–4.4
Mexico	0.1	–1.0	–2.9	–2.8	–0.8	–2.8	–3.2	–3.6	–2.8	–2.8	–2.7
Saudi Arabia	–1.5	–2.7	–7.1	–7.5	1.4	–1.6	–1.3	–0.7	–0.3	0.2	0.2
South Africa	–3.7	–4.7	–9.6	–5.5	–4.7	–6.4	–6.5	–6.8	–6.5	–6.5	–6.7
Low-Income Developing Countries											
Kenya	–6.9	–7.4	–8.1	–7.2	–5.8	–4.7	–4.1	–3.7	–3.6	–3.8	–3.8
Nigeria	–0.6	–0.1	–3.1	–0.7	–0.3	–1.8	–3.3	–3.1	–3.2	–3.4	–3.6
Vietnam	–4.7	–3.3	–5.6	–1.3	–1.6	–3.4	–3.5	–3.4	–3.5	–3.0	–2.9

Source: IMF, Fiscal Monitor October 2023

Figure 23: Main budget primary balance



Source: National Treasury, MTBPS November 2023

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