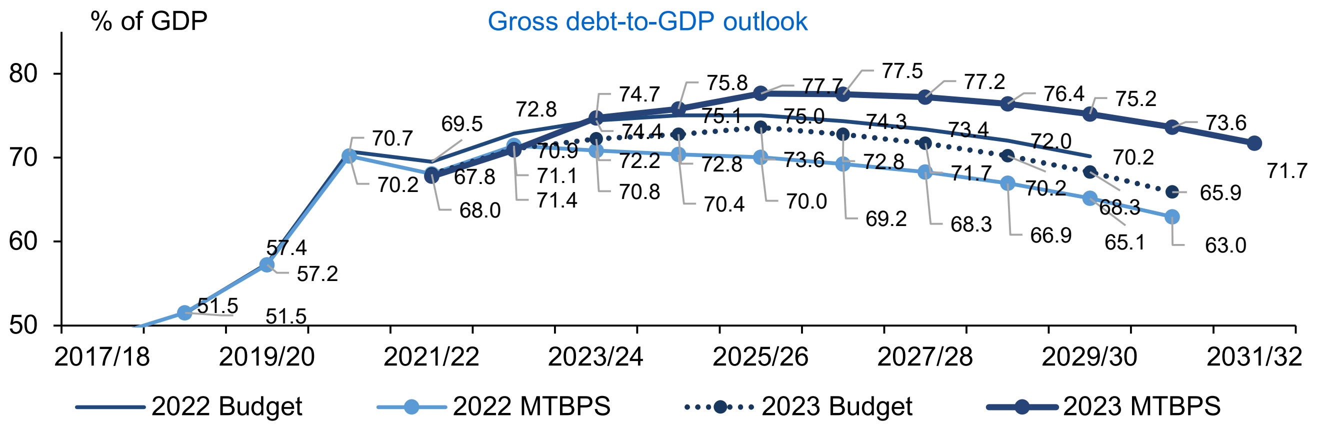
MTBPS: higher borrowing projections increases rating risk

Wednesday 1 November 2023

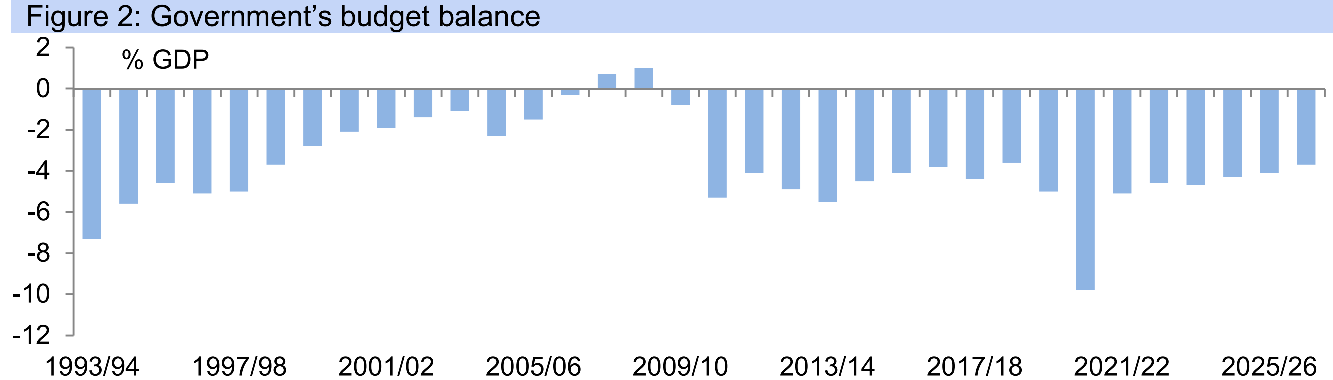
Figure 1: Gross debt-to-GDP outlook and main budget revenue and expenditure



Source: National Treasury, MTBPS November 2023

- 2023's Medium–Term Budget Policy Statement (MTBPS) has seen deterioration in the fiscal metrics (key of which are government's debt to GDP and fiscal deficit projections). Over the medium-term, gross debt is projected to now peak at 77.7% of GDP in 2025/26, versus February's Budget estimate of 73.6% of GDP for the same year. The current fiscal year (2023/24) has seen a substantial reduction in projected revenue collection as expected, by -R56.8bn lower, raising the budget deficit.
- The 2023/24 budget deficit is now projected at -4.9% of GDP versus the -4.0% of GDP estimated for this fiscal year in February, while expenditure is cut by R85bn over two years (2024/25 and 2025/26).
- The following three medium-term years of 2024/25 to 2026/27, see the budget deficit projected at -4.6% of GDP, -4.2% of GDP and -3.6% of GDP versus the February 2023 Budget estimates of -3.8 % of GDP and -3.2% of GDP for the first two. A significant degree of fiscal slippage is evident consequently.
- Worryingly, gross debt is projected to still remain above 70.0% of GDP in 2031/32, and the expanding debt ratio has reduced 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.
- The budget is credit negative, with the risk of credit rating downgrades having risen for South Africa, and the three key rating agencies, Fitch, Moody's and S&P to potentially give their country reviews this month. The expenditure cuts have been favourably received by the markets, along with planned tax measures to raise revenue, as lower commodity prices and higher VAT refunds weakened revenue.

Figure 2: Government's budget balance



Source: MTBPS November 2023

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Figure 3: 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	
Revenue							
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
Southern 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%
Expenditure							
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: MTBPS November 2023

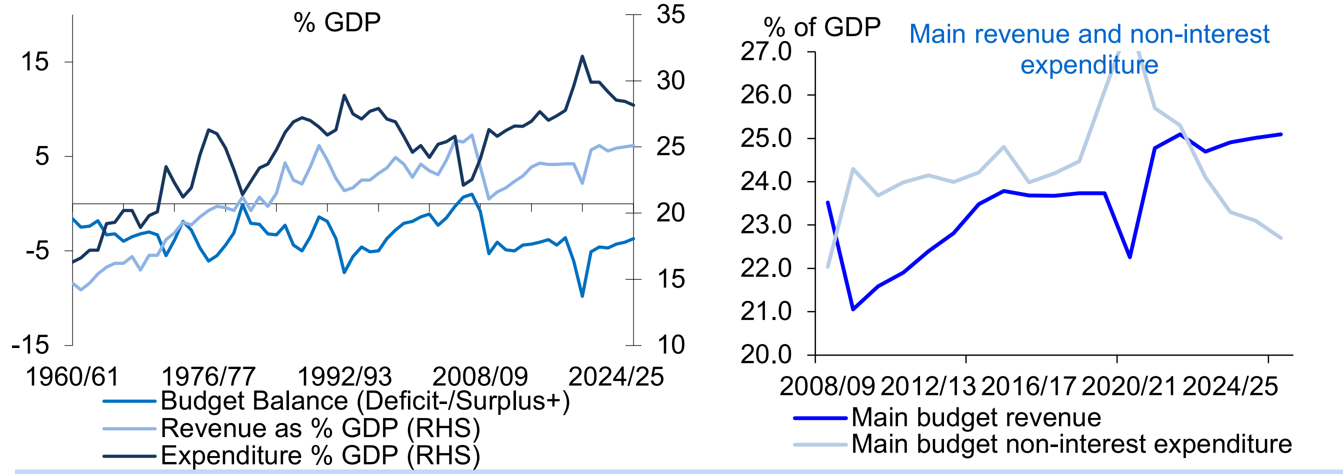
1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions.

Figure 4: Budget Balances

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/2
Budget 2016							
MTBPS 2016							
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

Figure 5: Main budget revenue and expenditure*



Source: MTBPS November 2023

- The rand has strengthened in relief at the modest nature of the proposed tax measures, with the additional R15bn likely to come from no change to tax brackets to account for bracket creep (the effect of higher inflation on earnings), with the tax buoyancies estimated lower over the medium-term.
- While personal income tax collections have seen resilience this year, National Treasury warns on the weak outlook for employment, while corporate taxes have already seen significant under collection this year, and this is anticipated to continue out to 2026/27.
- Higher VAT refunds come as renewable energy infrastructure has been ramped up, along with spend to bolster capacity as the country's freight transport system and fuel refining capacity weakened.
- The next two years, 2024/25 and 2025/26 see revenue projections lowered by R152bn, and in contrast only R85bn is cut from expenditure, which has widened the budget deficit and debt projections as % of GDP.
- Higher civil servant renumeration is a key factor in preventing further expenditure cuts, and additional spend of R128.4bn partly counteracts the planned R213.3bn in cuts over the next two years. On the expenditure cut front, this includes the R133.6bn cut from government departments, and unassigned provisional allocations. The higher spending of R128.4bn comes from R57.2bn in higher than budgeted for civil servant increases this year, and the R33.6bn due to the prior extension of the SRD grant.

Figure 6: Total National government debt

End of period	2022/23	2023/24	2024/25	2025/26	2026/27
R billion	Outcome	Revised	Medium-term estimates		
MTBPS 2022					
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

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Figure 7: Consolidated government expenditure, 2023/24 -2026/27

R billion	**2023/24** **Revised**	**2024/25**	**2025/26** **Medium-term estimates**	**2026/27**	**Avg annual growth**
Learning and culture	464.9	474.2	492.1	515.4	3.5%
Health	264.5	268.4	277.6	290.0	3.1%
Social development	369.7	387.5	385.1	398.8	2.6%
Community development	251.9	265.6	278.4	287.5	4.5%
Economic development	239.6	254.7	281.7	287.4	6.2%
Peace and security	234.9	234.9	246.0	256.6	3.0%
General public services	77.6	72.9	75.3	78.3	0.3%
Payments for financial assets	3.9	3.4	3.9	4.3	
Total expenditure by function	1,907.1	1,961.7	2,040.2	2,118.2	3.6%
Debt-service costs	354.5	385.9	425.5	455.9	8.7%
Contingency reserve	0.4	5.0	7.6	14.5	
Total expenditure	2,262.0	2,352.5	2,473.3	2,588.6	4.6%

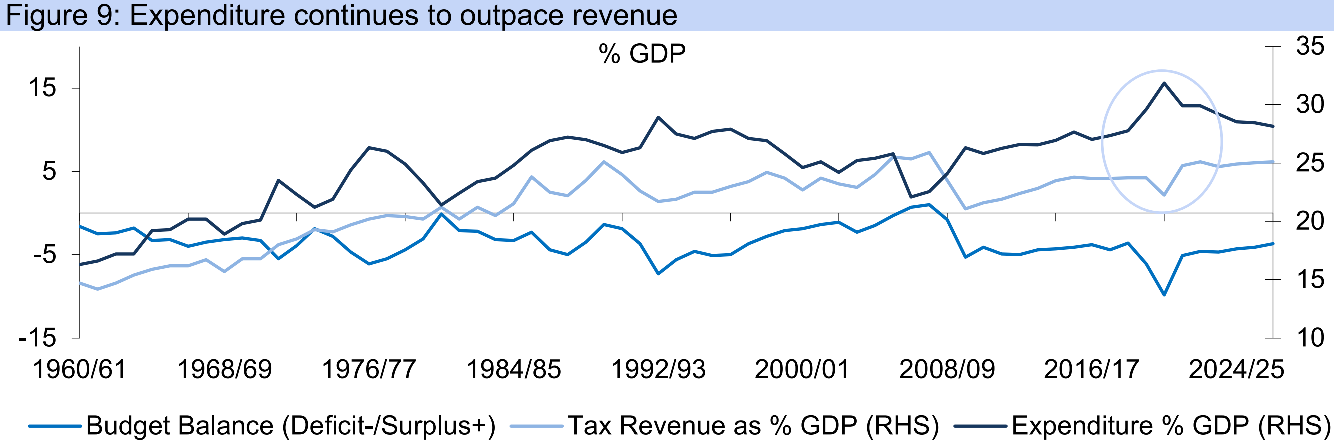
Source: National Treasury, MTBPS November 2023

Figure 8: Consolidated government fiscal framework

R bn/% of GDP	2022/23 Revised	2023/24	2024/25 Medium-term estimates	2025/26	2026/27
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

Figure 9: Expenditure continues to outpace revenue



Source: National Treasury, MTBPS November 2023

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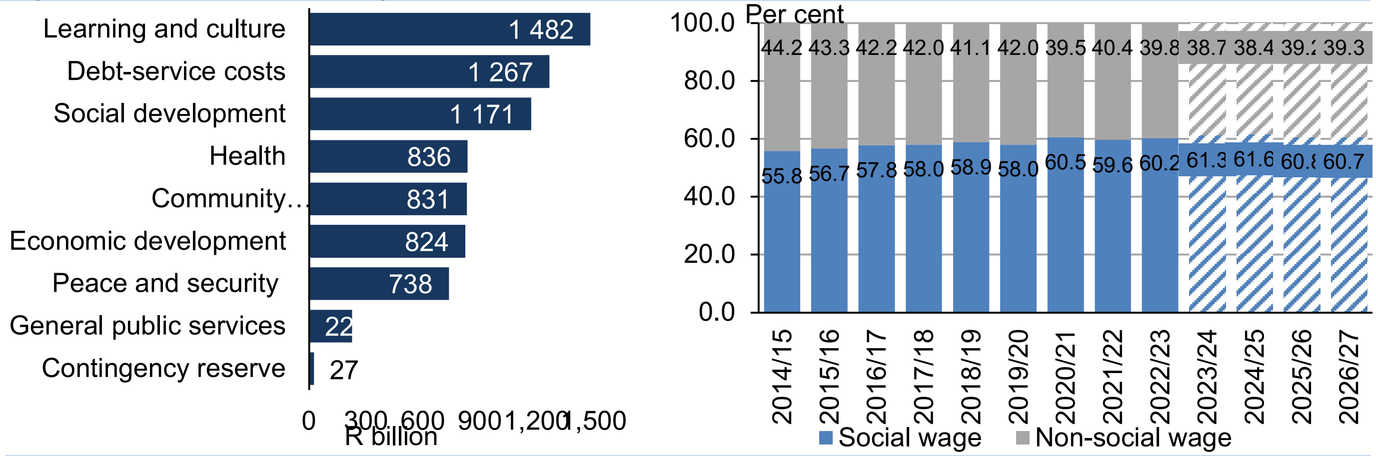
Figure 10: Total consolidated government expenditure and composition of non-interest expenditure



Source: National Treasury, MTBPS November 2023

- The expenditure ceiling has dropped by R36.9bn, in 2024/25, and by a further R47.3bn in 2025/26, which has added to the efforts to contain the fallout from lower revenue collections and the rand has strengthened in response, reaching R18.55/USD in some relief straight after the MTBPS release.
- However, the domestic currency has since retreated, near its close of R18.65/USD yesterday. Markets have shown some relief at the proposed areas of government restraint, although the credit rating agencies are likely to place SA back on negative outlooks, with risks for downgrades. The rand is also likely stronger today as the Fed is not expected to hike.
- National Treasury sees quicker GDP growth from next year, in line with our view (see figure 11) but points particularly to the weak economic outlook as having a key impact on the deteriorated fiscal projections of today's MTBPS.
- Higher bond yields, along with planned increased borrowings, have seen projected debt service costs rise by R51.5bn, along with the effects of rand depreciation.

Figure 11: Macro-economic forecasts, Treasury vs. Investec

	2022	2023	2024	2025	2026
Final household consumption	2.5	0.8	1.4	1.5	1.7
Investec	2.5	0.8	1.6	1.8	1.9
Final government consumption	1.0	0.6	-3.2	-0.5	0.2
Investec	1.0	1.7	0.4	0.0	0.6
Gross fixed capital formation	4.8	6.2	3.6	4.6	3.4
Investec	4.8	7.2	6.5	4.8	5.0
Gross domestic expenditure	3.9	1.7	1.0	1.6	1.7
Investec	3.9	1.9	1.6	1.8	2.0
Exports	7.4	4.2	2.1	2.6	3.1
Investec	7.4	3.6	3.0	2.7	2.7
Imports	14.9	7.1	2.1	2.7	2.9
Investec	14.9	7.9	3.7	3.8	3.8
Real GDP	1.9	0.8	1.0	1.6	1.8
Investec	1.9	0.5	1.1	1.4	1.7
CPI Inflation	6.9	6.0	4.9	4.6	4.5
Investec	6.9	5.8	4.6	4.2	4.6

Source: National Treasury, Investec

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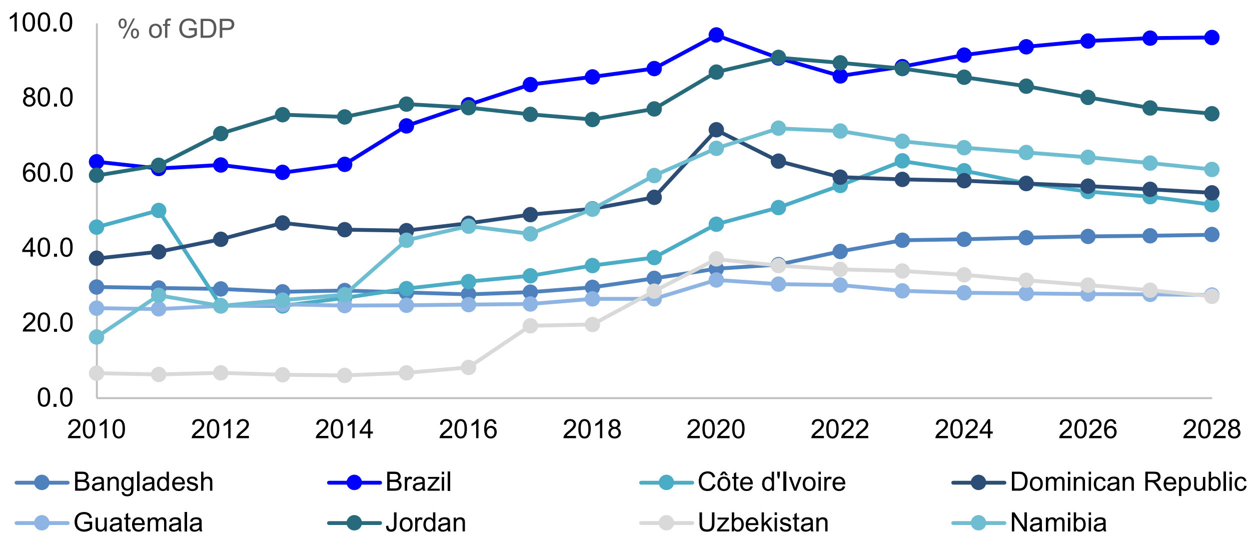
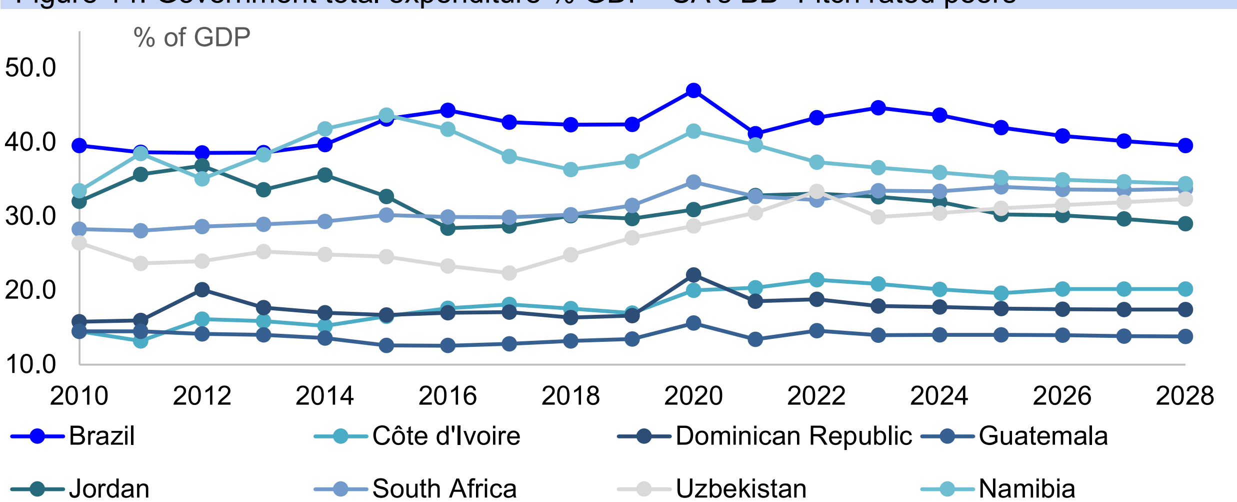
Figure 12: Reuters October 2023 forecasts, Budget Poll			
Forecast period	2023/24	2024/25	2025/26
Consolidated Budget Deficit	-5.2	-5.1	-4.7
Gross Debt to GDP ratio	73.1	75.0	76.5
			Source: Reuters

Figure 13: Government gross debt % GDP – SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2023

Figure 14: Government total expenditure % GDP– SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2023

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Figure 15: Consolidated government expenditure by economic classification[1]

R billion	2022/23 Outcome	2023/24 Revised	2024/25 Medium-term estimates	2025/26	2026/27	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

- Specifically, debt servicing costs are projected to reach a notable R385.9 billion in 2024/25, rising to R455.9 billion by 2026/27, further crowding out expenditure on vital areas of the economy.
- The level of estimated gross loan debt rises in 2023/24 to R5.2 trillion (74.7% of GDP) from February's estimate of 72.2% of GDP and continues to rise over the projected period, reaching R6.5 trillion in 2026/27 (77.5% of GDP).
- National Treasury cautions that "(a)lthough many countries are contending with rising debt levels in the wake of the pandemic, over the past 15 years South Africa has had one of the largest increases in government debt as a share of GDP".

Figure 16: Consolidated government fiscal framework, 2022/23 – 2026/27

R bn/% of GDP	2022/23 Outcome	2023/24 Revised	2024/25 Medium-term estimates	2025/26	2026/27
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%
Budget balance	-247.0	-346.5	-339.9	-334.0	-302.0
	-3.7%	-4.9%	-4.6%	-4.2%	-3.6%
Total gross loan debt	4,765.4	5,238.0	5,641.3	6,133.4	6,524.9
	70.9%	74.7%	75.8%	77.7%	77.5%

Source: National Treasury, MTBPS November 2023

Figure 17: Consolidated budget balance

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2027/27
		Outcome		Revised		Medium-term estimates	
Main budget	-550.5	-323.0	-309.9	-330.1	-321.6	-325.5	-310.7
Social security funds	-46.7	-3.4	3.4	-0.9	-2.3	21.1	24.7
Public entities	39.8	37.6	48.2	-5.5	-13.1	-32.4	-16.5
Provinces	3.0	2.1	12.0	-9.2	-2.1	3.6	1.3
RDP Fund	-0.5	-1.0	-0.7	-0.8	-0.8	-0.8	-0.9
Consolidated budget balance	-555.1	-287.6	-247.0	-346.5	-339.9	-334.0	-302.0
Percentage of GDP	-9.9%	-4.6%	-3.7%	-4.9%	-4.6%	-4.2%	-3.6%

Source: National Treasury, MTBPS November 2023

Figure 18: National government gross borrowing requirement and financing

R billion	**2022/23 Outcome**	**2023/24 Revised**	**2024/25**	**2025/26 Medium-term estimates**	**2026/27**
Gross borrowing	-309.9	-330.1	-321.6	-325.5	-310.7
Main budget balance	**-90.3**	**-155.5**	**-171.8**	**-187.7**	**-167.5**
Redemptions	**-74.6**	**-106.6**	**-132.3**	**-128.7**	**-128.7**
Domestic long-term loans	-15.8	-48.9	-39.5	-59.0	-38.7
Foreign loans	–	-78.0	-66.2	-110.2	–
Total	**-400.3**	**-563.6**	**-559.6**	**-623.4**	**-478.2**
Financing					
Domestic short-term loans (net)	-25.6	48.0	47.0	52.0	39.0
Domestic long-term loans	322.4	375.8	419.1	463.6	349.1
Foreign loans	64.5	45.9	36.9	82.7	92.8
Change in cash and other balances	39.0	93.9	56.6	25.1	-2.7
Total	**400.3**	**563.6**	**559.6**	**623.4**	**478.2**

Source: National Treasury, MTBPS November 2023

Figure 19: Gross tax revenue

R billion	2022/23			2023/24		
	Budget[1]	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	601.6	600.4	-1.3	640.3	646.7	6.4
Companies	344.9	344.7	-0.3	336.1	300.3	-35.8
Value-added tax	426.3	422.4	-3.9	471.5	445.8	-25.6
Dividends tax	38.5	38.1	-0.4	39.8	36.2	-3.6
Specific excise duties	55.2	55.2	-0.1	59.0	55.3	-3.7
Fuel levy	79.1	80.5	1.3	90.4	92.0	1.6
Customs duties	74.2	73.9	-0.2	74.2	77.7	3.5
Ad valorem excise duties	4.5	5.5	1.1	4.7	6.6	1.9
Other	67.8	66.0	-1.7	71.5	69.9	-1.5
Gross tax revenue	1,692.2	1,686.7	-5.5	1,787.5	1,730.7	-56.8

Source: National Treasury, MTBPS November 2023

1. 2023 Budget figures

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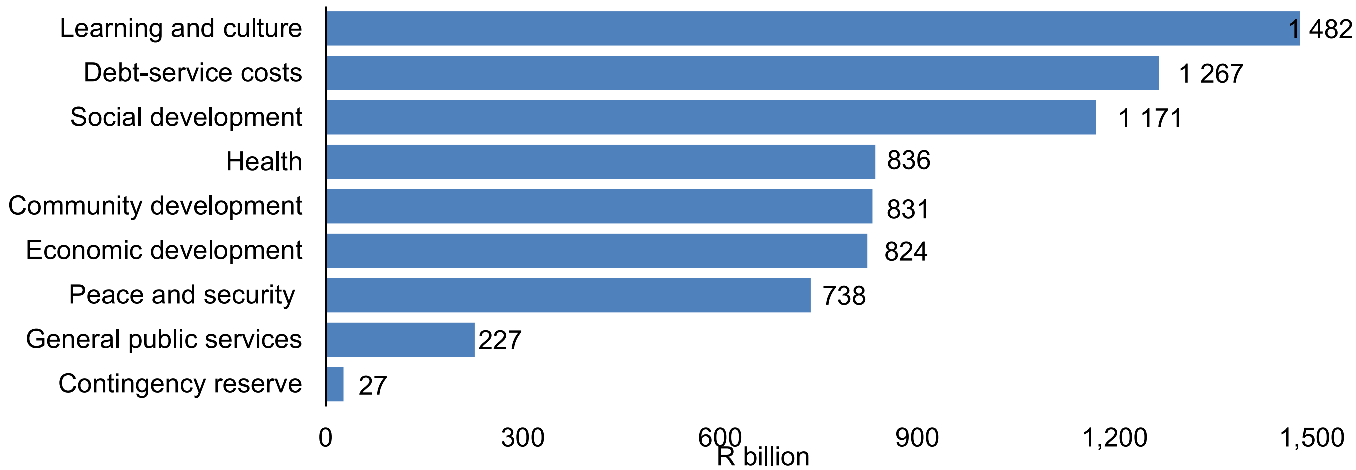
Figure 20: Total consolidated government expenditure, 2024/25 — 2026/27



Sources: National Treasury, MTBPS November 2023

*First six months of 2023/24 relative to same period in prior year

- As a mark of the fiscal weakness, the tax to GDP ratio is forecast to decline from 25.1% logged in 2022/23 to 24.7% in 2023/24. Indeed, a marked improvement in the ratio is linked to the sustainable lift in GDP growth.
- Again, balancing the fiscal deterioration in some areas with efforts to still strive for eventual fiscal sustainability, the projections show a primary budget surplus is still achievable this year as planned revenue collections exceed planned expenditure, less the expected expenditure on borrowing repayments.
- Indeed, the primary surplus is further projected to increase over the MTEF (Medium-Term Expenditure Framework) of 2024/25 to 2026/27, from 0.3% of GDP this fiscal year, to 1.7% of GDP by the end of the MTEF period.
- This is in line with the MTEF projections of the Budget in February, but the MTEF period in February was 2023/24 to 2025/2026, and so the planned improvement has consequently been shifted out a year, but still represents a marked effort from National Treasury in a very weak economy.
- South Africa’s ten-year government bond saw its yield drop today, reflective of the efforts National Treasury has made in a difficult year.
- Stabilising the rising debt issuance of SA is paramount to reduce the escalation in bond yields that the country has seen in the past decade and in this decade to date, as increased supply of government debt sees the cost of borrowing rise as values fall.

Figure 21: Main budget expenditure ceiling[1]

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
2021 MTBPS	1,487,388	1,570,890	1,552,268	1,558,725	1,627,154		
2022 Budget Review	1,487,399	1,575,002	1,630,905	1,613,671	1,686,932		
2022 MTBPS	1,487,385	1,566,490	1,667,118	1,665,349	1,744,762	1,832,678	
2023 Budget Review	1,487,419	1,566,498	1,653,459	1,671,030	1,750,276	1,842,572	
2023 MTBPS	**1,487,419**	**1,566,327**	**1,657,767**	**1,667,370**	**1,713,335**	**1,795,241**	**1,884,736**

Source: National Treasury

1. The expenditure ceiling differs from main budget non-interest expenditure. The precise definition and calculation of the expenditure ceiling is contained in Annexure C

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Figure 22: 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

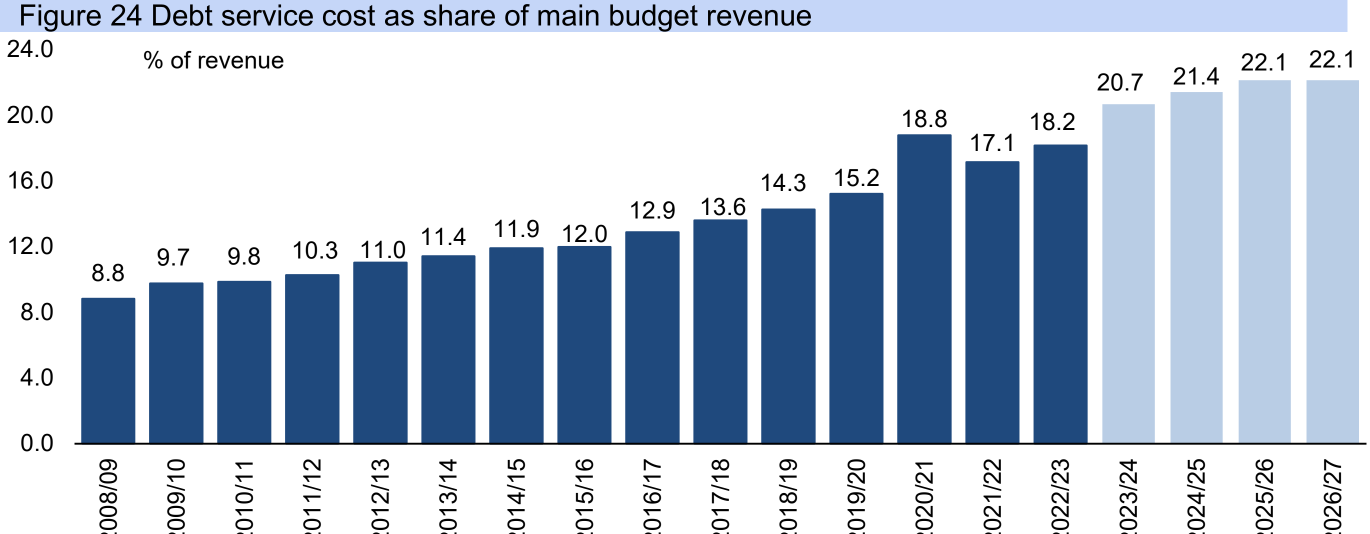
Source: Reserve Bank and National Treasury

Figure 23: 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	**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

Figure 24 Debt service cost as share of main budget revenue



Source: National Treasury

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Figure 25 Total national government debt

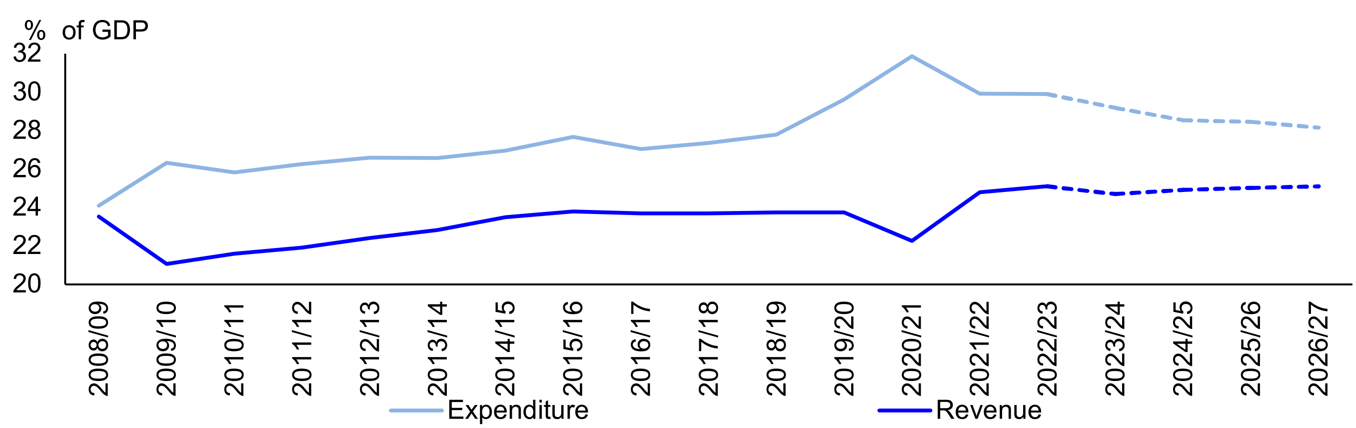
End of period R billion	2022/23 Outcome	2023/24 Revised	2024/25	2025/26 Medium-term estimates	2026/27
Domestic loans[1]	**4,209.8**	**4,642.8**	**5,065.3**	**5,536.0**	**5,867.7**
Short-term	422.6	470.5	517.5	569.5	608.5
Long-term	3,787.2	4,172.4	4,547.8	4,966.6	5,259.2
Fixed-rate	2,743.8	2,991.2	3,301.1	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

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

- The risk premium has increased for South Africa (the extra reward investors require to invest in SA debt, particularly rand debt), and it has pushed up bond yields in SA.
- Higher inflation globally and higher interest rates over the past couple of years have placed upwards pressure on bond yields, and the MTBPS says that the average funding cost has risen to 9.5% (October 2023), from 8.3% at the time of the Budget Review in February this year.
- The large redemption of government debt (maturing debt obligations) has also worried markets, and the planned increased issuance is partially to cover these maturing obligations. Debt redemptions are to increase from R155.5bn in 2023/24 to R187.7bn in 2025/26, and averages R175.7bn over the MTEF period.
- The gross borrowing requirement has risen from R515.6bn to R563.6bn for this fiscal year.

Figure 26: Main budget revenue and expenditure as a share of GDP



Source: National Treasury

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Figure 27: Consolidated government expenditure by functions[1]

R billion	2022/23 Outcome	2023/24 Revised[2]	2024/25 Medium-term estimates	2025/26	2026/27	Average growth 2022/23–2026/27
Learning and culture	**441.5**	**464.9**	**474.2**	**492.1**	**515.4**	**3.5%**
Basic education	300.4	319.7	322.8	335.4	350.8	3.1%
Post-school education and training	129.9	133.3	140.2	145.4	152.8	4.7%
Arts, culture, sport and recreation	11.2	11.9	11.2	11.4	11.7	-0.6%
Health	**256.4**	**264.5**	**268.4**	**277.6**	**290.0**	**3.1%**
Peace and security	**227.7**	**234.9**	**234.9**	**246.0**	**256.6**	**3.0%**
Defence and state security	54.2	53.5	51.6	53.6	56.0	1.5%
Police services	112.5	117.0	121.4	127.7	133.6	4.5%
Law courts and prisons	51.6	52.0	52.2	54.4	57.0	3.0%
Home affairs	9.5	12.4	9.8	10.4	10.1	-6.5%
Community development	**232.2**	**251.9**	**265.6**	**278.4**	**287.5**	**4.5%**
Economic development	**214.9**	**239.6**	**254.7**	**281.7**	**287.4**	**6.2%**
Industrialisation and exports	39.4	41.4	40.4	40.9	42.5	0.9%
Agriculture and rural development	27.4	27.7	27.0	28.2	29.2	1.8%
Job creation and labour affairs	23.0	23.0	24.3	25.3	26.5	4.8%
Economic regulation and infrastructure	107.6	128.1	144.9	169.7	170.7	10.1%
Innovation, science and technology	17.4	19.5	18.0	17.6	18.5	-1.6%
General public services	**72.1**	**77.6**	**72.9**	**75.3**	**78.3**	**0.3%**
Executive and legislative organs	14.9	17.5	15.8	16.2	16.5	-1.9%
Public administration and fiscal affairs	48.7	51.5	48.5	50.2	52.4	0.6%
External affairs	8.6	8.6	8.6	8.9	9.4	2.9%
Social development	**345.1**	**369.7**	**387.5**	**385.1**	**398.8**	**2.6%**
Social protection	263.5	283.7	298.2	316.6	331.1	5.3%
Social security funds	81.6	86.0	89.3	68.5	67.8	-7.6%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Allocated by function	**1,836.8**	**1,907.1**	**1,961.7**	**2,040.2**	**2,118.2**	**3.6%**
Debt-service costs	308.5	354.5	385.9	425.5	455.9	8.7%
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

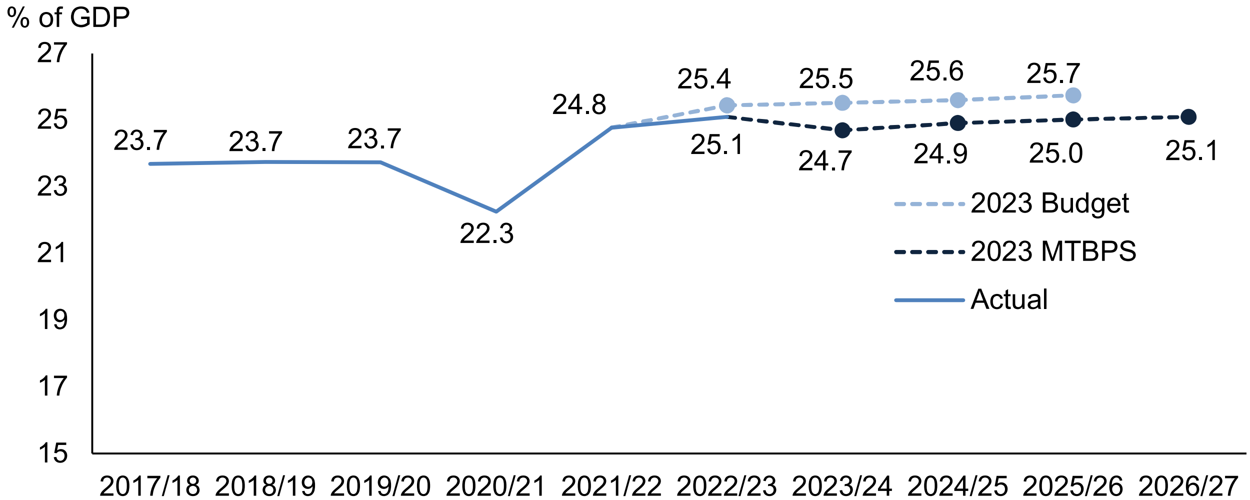
1. Consisting of national and provincial departments, social security funds and public entities

Figure 28: Revised revenue projections

R billion	2023/24	2024/25	2025/26	2026/27
2023 Budget	**1,787.5**	**1,907.7**	**2,043.5**	
Buoyancy	1.06	1.06	1.09	
Revised estimates	**1,730.7**	**1,854.0**	**1,975.8**	**2,111.9**
Buoyancy	0.61	1.15	1.07	1.05
Change since 2023 Budget	**-56.8**	**-53.7**	**-67.6**	

Source: National Treasury

Figure 29: Tax to GDP ratio



Source: National Treasury and South African Reserve Bank

- Over the medium-term, the gross borrowing requirement is estimated to average R553.7bn, while long-term borrowing is anticipated to lift to R463.6bn in 2025/26 and then lower to R349.1bn in 2026/27.
- Consolidated government spending rises from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing by an annual average rate of 4.6 per cent, quickening as the average annual growth rate was projected at 4.0% instead around a year ago in the 2022 MTBPS. The bulk of spending continues to support the social wage, primarily healthcare, education and social protection.
- The MTBPS highlights that over the MTEF government will spend R7.4trillion.
- The MTBPS also notes that expenditure growth has slowed in recent years, but debt service costs, at R1.3trillion, exceed all the individual categories of consolidated expenditure, as increased borrowing crowds out the opportunity to spend on other areas.
- The SOE's have also placed a burden on the fiscus. Government had paid out R16 billion of the proposed R78 billion debt relief for Eskom for the 2023/24 fiscal year as at 30 September 2023, with a task team observing "compliance with the conditions" set out. Additionally, Government has opted "to convert the loan from interest-free to interest-bearing to better reflect the cost of this arrangement".

Figure 30: Main budget expenditure ceiling[1]

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
2021 MTBPS	1,487,388	1,570,890	1,552,268	1,558,725	1,627,154		
2022 Budget Review	1,487,399	1,575,002	1,630,905	1,613,671	1,686,932		
2022 MTBPS	1,487,385	1,566,490	1,667,118	1,665,349	1,744,762	1,832,678	
2023 Budget Review	1,487,419	1,566,498	1,653,459	1,671,030	1,750,276	1,842,572	
2023 MTBPS	**1,487,419**	**1,566,327**	**1,657,767**	**1,667,370**	**1,713,335**	**1,795,241**	**1,884,736**

Source: National Treasury

1. The expenditure ceiling differs from main budget non-interest expenditure.

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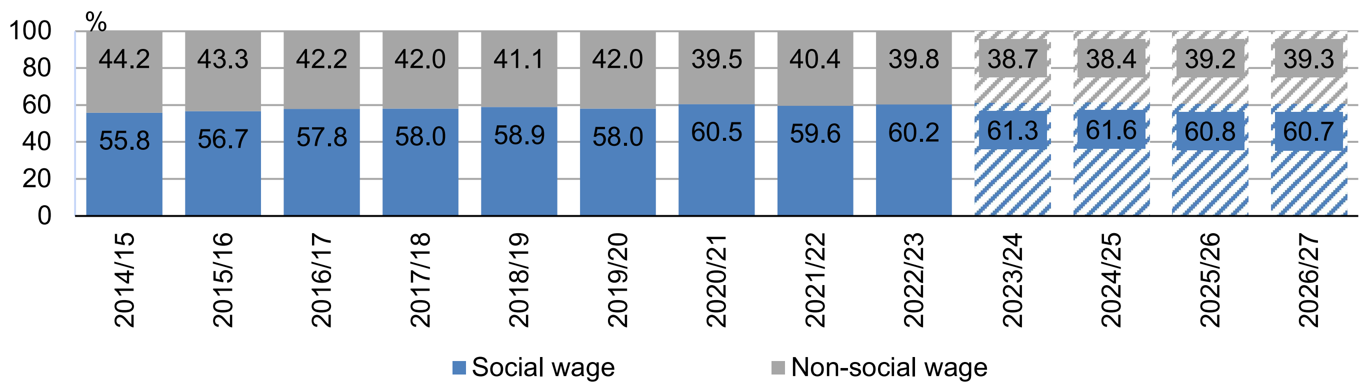
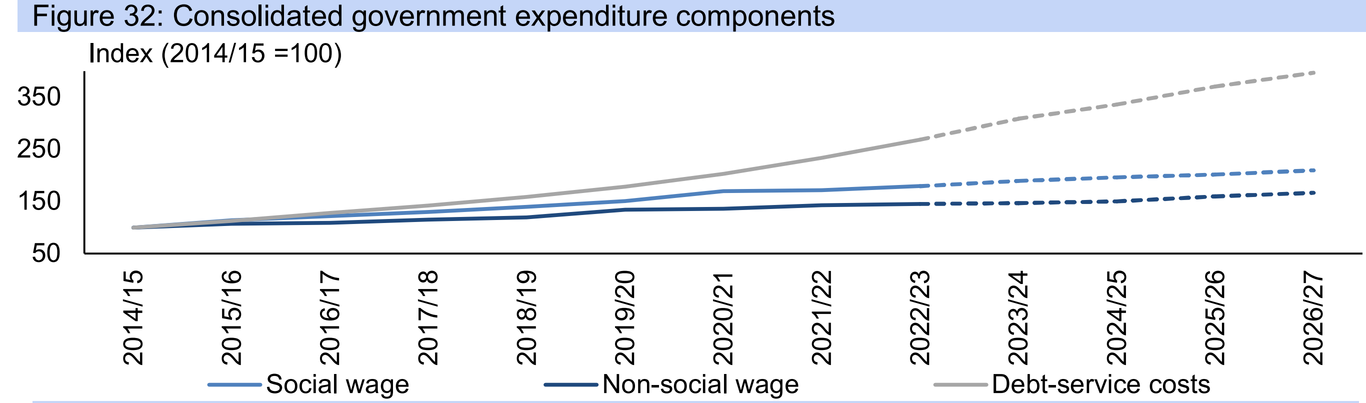
Figure 31: Composition of consolidated non-interest expenditure



Sources: National Treasury, MTBPS November 2023

- The MTBPS notes that a number of key reforms in the energy space have "progressed", since the tabling of the 2023 Budget. These include:
- "Three projects under the Risk Mitigation Independent Power Producer Procurement Programme". These projects have a capacity of 150 MW and "will be ready for connection to the grid" this month.
- "By 2025, nine projects with a total capacity of over 1 000 MW will be connected to the grid under the Renewable Energy Independent Power Producer Procurement Programme, with a further 1 000 MW expected in the next phase".
- "In June, Eskom released interim rules to ensure fair and transparent allocation of limited grid capacity".
- With regards to the rails and ports, key "operational failures, increased theft and vandalism, reduced locomotive availability and the poor condition of infrastructure from underinvestment", have weighed heavily on our logistics capability and accordingly the economy. Estimates of the cost related to the shortcomings of our domestic rail system are in the region of a staggering R411 billion.
- Work being performed by the National Logistics Crisis Committee set up by Government last year, will be "integrated with interventions under way within Transnet".
- Transnet Freight Rail has begun the process of dividing its infrastructure management and operations functions, which when complete should boost competition. Moreover, early next year the Transport Economic Regulator will be formed, ensuring "fair access and transport pricing on the rail network".

Figure 32: Consolidated government expenditure components



Sources: National Treasury, MTBPS November 2023

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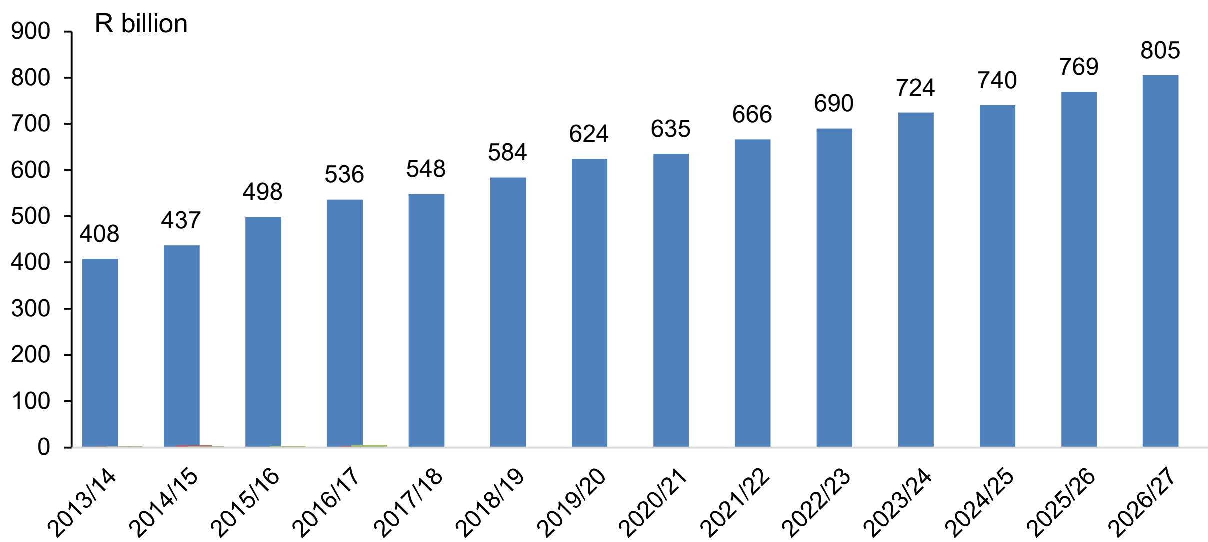
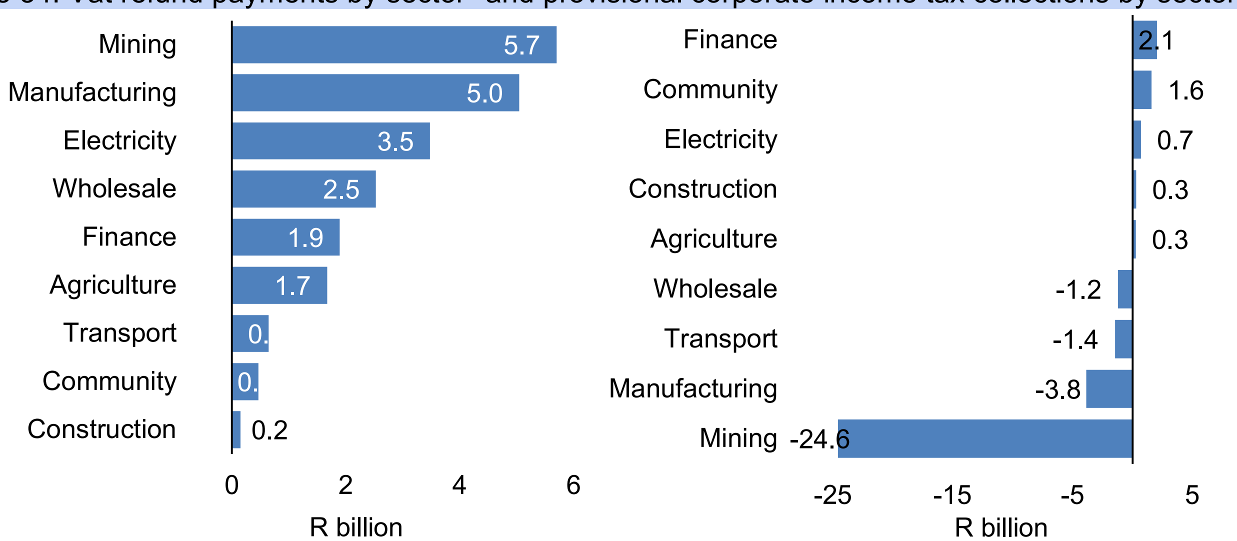
Figure 33: Consolidated wage bill trends



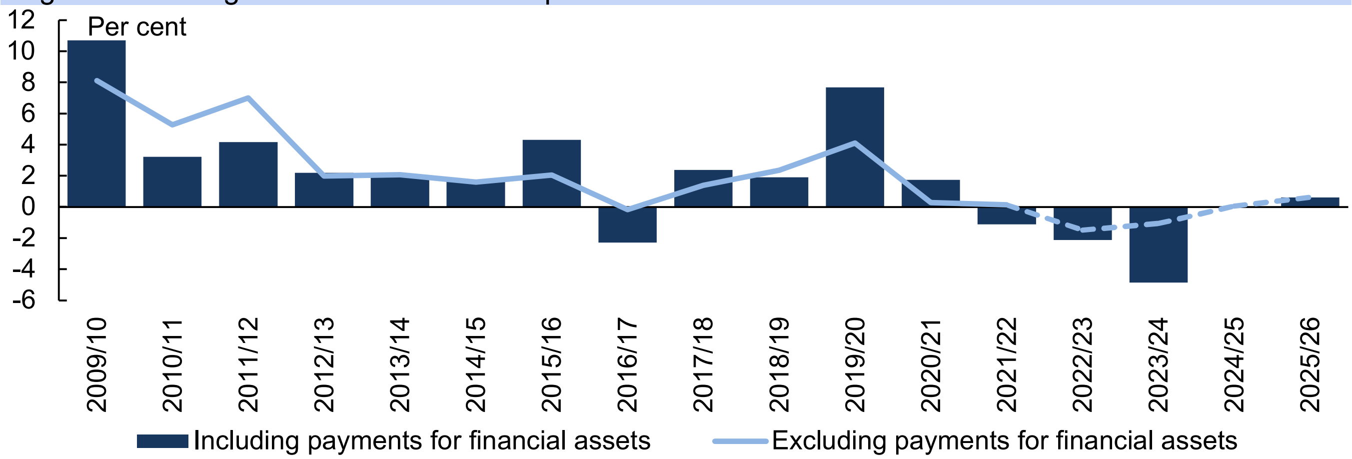
Sources: National Treasury, MTBPS November 2023

Figure 34: Vat refund payments by sector* and provisional corporate income tax collections by sector



Sources: National Treasury, MTBPS November 2023

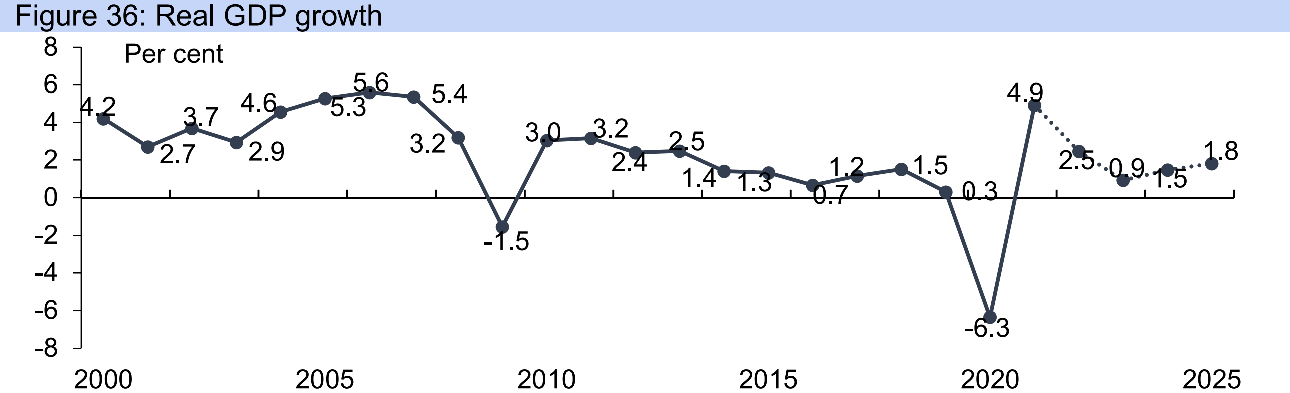
Figure 35: Real growth in non-interest expenditure



Source: National Treasury, MTBPS November 2023

- Overall, the net total amendments to expenditure that are contained in the "2023 Adjustments Appropriation Bill amount to R10.3 billion", which includes decreases "due to significant and unforeseeable economic events totalling R21.7 billion". Allocations are recommended for distribution to the Department of Corporate Governance for the rebuilding and "rehabilitation of damaged infrastructure due to flooding …" and to "replenish the disaster grant fund".
- The effects of climate change are already being felt but a marked escalation is expected, which could cost the country billions of rands. In response Government is "developing a disaster risk financing strategy to address the challenges posed by natural disasters". The draft is projected to be available during 2024/25.
- The next phase of the "climate budget tagging system" established by Treasury "to incorporate climate considerations into public financial management processes", is projected to conclude next month.
- The budget is likely the best it could be in the current circumstances but is a poor budget from a fiscal consolidation point of view, with the debt ratios projected substantially higher than in February's Budget Review. National Treasury however notes a 1% rise in inflation and the same rise in interest rates, along with R1 depreciation in the ZAR/USD raise gross loan debt by R54.6bn and debt service costs by R8.2bn, stressing "successful fiscal consolidation will reduce the risks".

Figure 36: Real GDP growth



Sources: National Treasury, MTBPS November 2023

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