

Medium Term Budget 2023 Highlights

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For Financial Advisors and their Clients

On 1 November 2023, Finance Minister Enoch Godongwana delivered the medium-term budget policy statement (MTBPS), providing an update on South Africa's finances and in particular its progress towards the goals set out at the beginning of the year.

All eyes were on Minister Godongwana as he relayed the progress of National Treasury's budget in the face of a particularly weak local and global environment coupled with weaker commodity prices, which weighed on the budget. The impact of weaker commodity prices on revenue collections and expenditure overruns were the key concerns heading into the MTBPS.

While a commodity boom previously gave Godongwana some breathing space from a revenue point of view, recent metal price declines, rail constraints and a constrained electricity supply have curtailed the mining industry's income and contribution to state revenue. **The government collected R56.8 billion less tax revenue than predicted in February. The budget shortfall is expected to be 4.9% of GDP this year.** All eyes were on Minister Godongwana as he gave an update on revenue as well as the stability of the government's balance sheet (debt-to-GDP) and treasury's ability to close the gap between revenue and non-interest spending, by reducing expenses and optimizing revenue collection in a particularly weak global and local economic environment.

Overview

During the period under review, the global outlook became less favourable, with a sharp economic slowdown marked by higher levels of volatility in most asset classes. Global inflation rose sharply as a result of supply chain shortages exacerbated by the Russia-Ukraine war. As central banks took necessary action to combat inflation by raising interest rates, developing countries also experienced tightening financial conditions, constraining investment, and household demand. Slower growth in China is having significant consequences for commodity exporting economies as metal prices move lower.

From a South African perspective, the South African Reserve Bank (SARB) has followed its global peers, by raising interest rates to combat inflation. While inflation has trended lower, consumer and business confidence in S.A. continues to be depressed, with both facing severe headwinds from the steep interest rate hiking cycle from the SARB, the higher cost of living, the unstable electricity supply and increased geopolitical risks following government missteps. Economic data released recently has shown a slight recovery in the S.A. economy, however, current growth rates are unlikely to be able to sustain the current spending trajectory of government.

With that as a backdrop, here are the salient features of the medium-term budget:

Deficits, debt to GDP and unemployment according to the 2023 medium term budget

S.A. economy projections

- **Real GDP growth** of 0.8% is forecast in 2023, compared with 0.9% projected in the 2023 budget review. Growth is projected to average 1.4% over 2024 to 2026. The weaker projection for 2023 largely reflects weaker household consumption expenditure due to higher inflation and interest rates.
- **Inflation** is expected to moderate and fall to 4.9% in the 2024 fiscal year.
- **Household consumption** expenditure is expected to slow from 2.5% in 2022 to 0.8% in 2023. This is largely on the back of higher interest rates, elevated inflation, and generally weak consumer confidence.
- **Gross fixed capital formation** is expected to increase to 6.2% in 2023, which is still below pre-pandemic levels. However, fixed capital formation is expected to decline to 3.6% in 2024 due to challenging business constraints and a generally weak economic environment coupled with higher borrowing costs.
- **The current account deficit** is expected to widen to 2.4% in 2023 and 3% in 2024, as imports grow faster than exports. Lower export values reflect the impact of lower commodity export prices, as well as logistical and electricity constraints.

Fiscal

Revenue, Expenditure and Budget Balance

Table 1.2 Consolidated government fiscal framework

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

Source: National Treasury

Source: National Treasury. Data as at 1 November 2023. For illustrative purposes only

Revenue

- **Revenue for the current fiscal year is expected to decrease by R56.8 billion**, which has been impacted by a few factors:
 - Significantly reduced mining sector profitability given weaker commodity prices and weaker global growth coupled with increased power cuts and logistical constraints which led to mining provisional corporate tax collections falling by R24.6 billion.
 - VAT refund payments are R21.5 billion higher relative to the same period last year, largely due to strong exports and the higher cost of doing business.

- **Revenue outlook**

- Given the extent of the fiscal consolidation required, the Minister of Finance will propose tax measures to raise additional revenue by approximately R15 billion in the 2024 budget.
- The main budget revenue estimates for the next two years have been lowered by R152 billion given the downward revisions to tax projections. Non-tax revenue has also been reduced by R24.4 billion over the next two years given lower mineral and petroleum royalties.

Expenditure

- **Expenditure for the current fiscal year** is expected to increase by R10.3 billion largely due to higher debt service costs, but partially offset by a decrease in non-interest expenditure.
 - Non-interest expenditure is expected to decrease by R3.7 billion, largely on the back of proposed reductions on the baseline as well as underspending.
 - Debt service costs are revised up by R14.1 billion largely due to higher interest rates, exchange rate depreciation and a wider budget deficit.
- **Expenditure outlook**
 - Consolidated government spending is expected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing at an average rate of 4.6%.
 - A substantial portion of the increase in spending is to support the social wage.
 - Importantly, the Minister of Finance is forecasting reducing non-interest expenditure by R85 billion over the next two years.
 - There were no major bailouts announced for Transnet or other state-owned enterprises.
 - National Treasury is projecting that funding of R24 billion will be needed for the 2023/2024 public sector wage increase, which is lower than the amount of R37-billion cited by Minister Godongwana in May, as the increase will only cover key departments such as education, health, and policing/defence. Other departments will need to absorb the increase, according to National Treasury.

Financing

- **From a financing perspective**, over the next three-year period, the SA government plans on borrowing an average of R554 billion annually to fund its overspending gap.
 - The funding will likely be used to pay off maturing debt as well as fund the Eskom debt relief.
 - Gross debt to-GDP is expected to stabilise at 77.7% of GDP in 2025/26, well above the 73.6% level forecasted in the 2023 budget.

- **The minister highlighted the following risks to the fiscal outlook**
 - Weaker-than-expected global and domestic economic growth, slowing revenue growth and the widening budget deficit.
 - Continued losses by municipalities and SOEs.
 - Higher borrowing costs as a result of elevated risk premium and tighter global monetary conditions.

In conclusion

Minister Godongwana was faced with the enviable task of presenting a consolidation path amidst mounting pressures from both revenue weakness and spending pressures. His tone during the MTBPS was one of austerity, with the clear message being that the government will need to reign in frivolous spending amid a weaker local and global environment. S.A.'s public finances are now significantly weaker than previously anticipated, and it will take a large effort to return the budget to a primary surplus, where revenue can cover noninterest expenditure.

While the update provided was worse than anticipated at the initial budget speech tabled by the finance minister earlier in the year, the initial reaction to the MTBPS from market participants was largely positive. S.A. bonds and the rand were slightly further following the update, perhaps indicating that a lot of the bad news had already been discounted in S.A. asset prices. The acknowledgement that the government will need to tighten its belt is encouraging, however, as with previous budget updates, implementation risk remains high. ■■■

Useful links and resources:

- [2023 Budget Speech](#)
- [2023 MTBS Presentation](#)

Risk Warnings

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