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Stabilising through trade-offs

South Africa Budget 2023/24 Highlights

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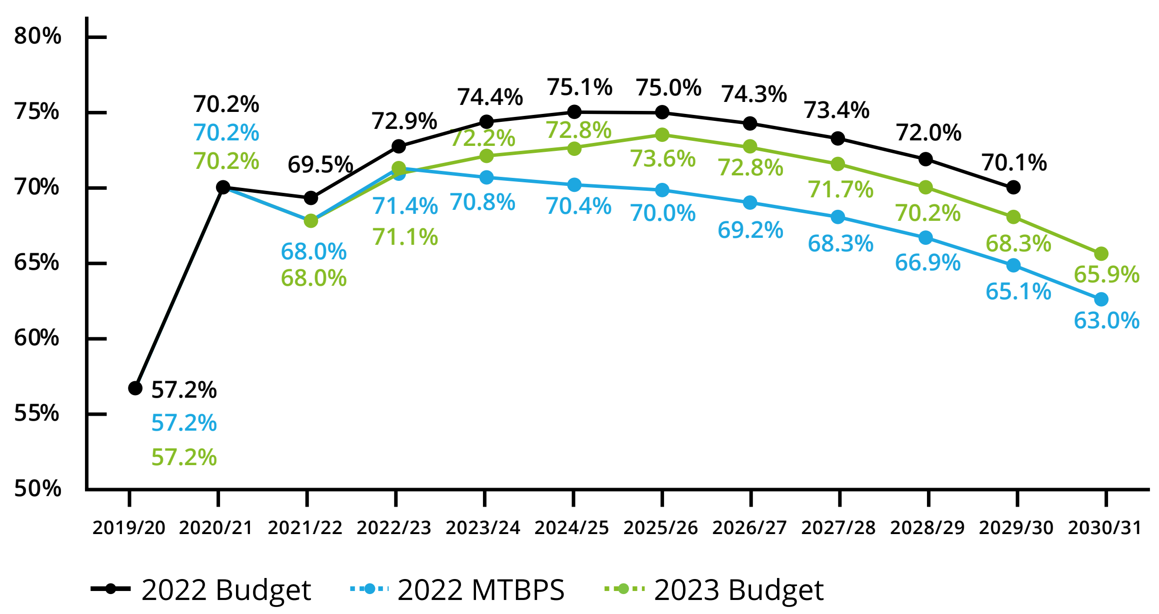
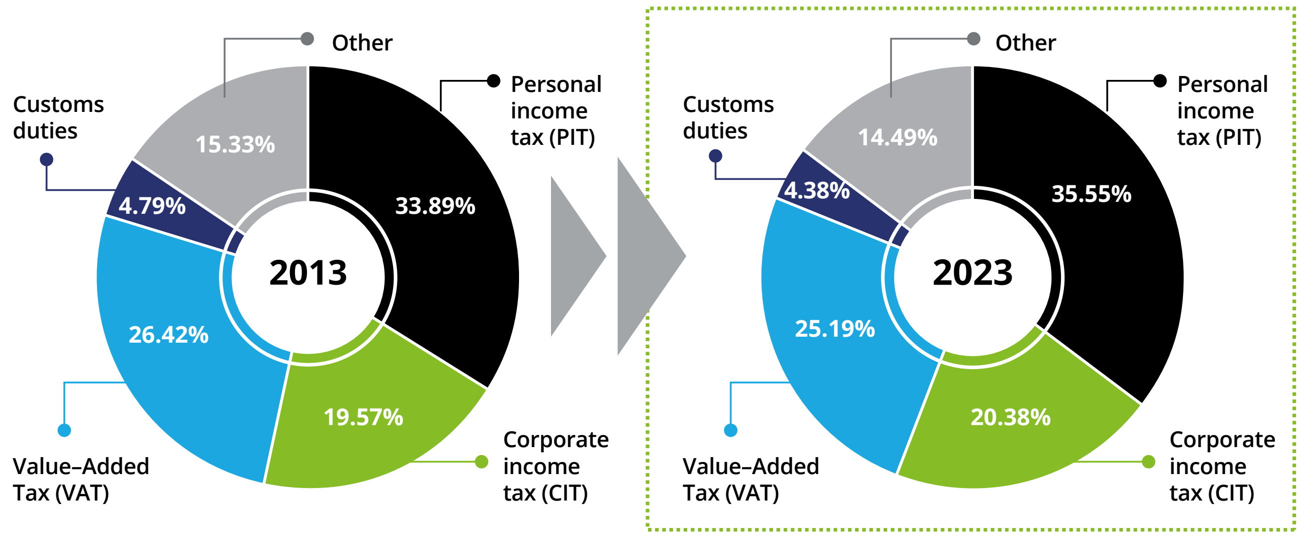
Based on 2023/24 Treasury figures available at www.treasury.gov.za

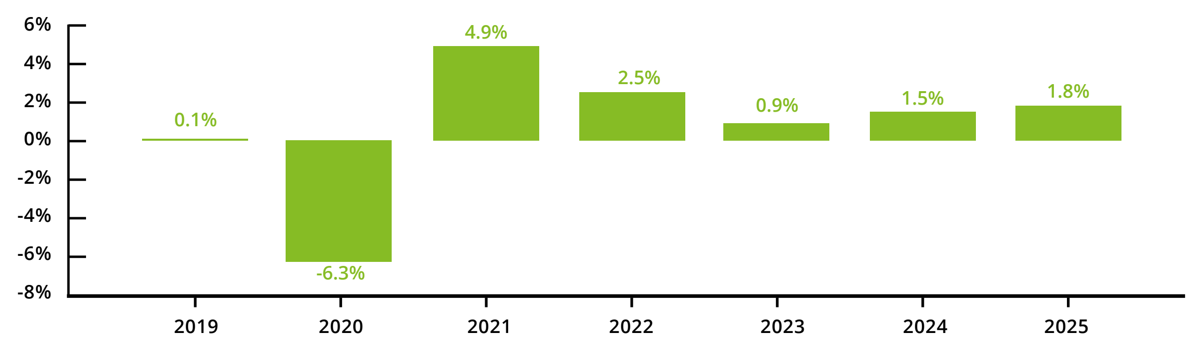
Gross debt-to-GDP outlook



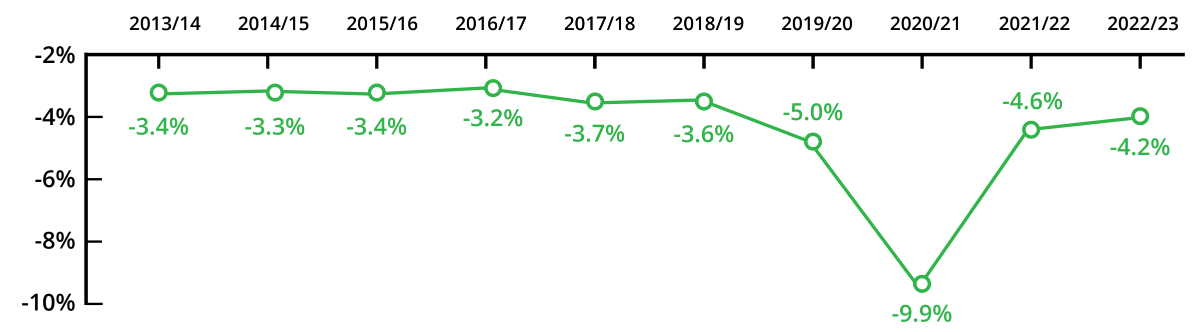
Sources of tax revenue



Real GDP growth outlook



Budget deficit – percentage of GDP



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Our 2023 National Budget serves as a roadmap for the country's economic, fiscal and social development. It comes at a pivotal time in our country and will determine our long-term future trajectory. The Minister of Finance focused on the energy crisis, debt relief to Eskom, transport and logistics and fiscal health. However, questions still remain on how government will practically solve the pressing socio-economic issues that face the country. Will the trade-off in this budget result in adequate long-term solutions to solve our economic situation? The Minister acknowledged the uncertain global and national circumstances we face and detailed a budget that is intended to give relative stability and relief for a constrained economy.

Real GDP growth for South Africa is expected to grow from 0.9% in 2023 to 1.8% in 2025, but notable risks to the economic outlook persist. This includes the impact of a slowing global recovery.

The Eskom Debt Relief Bill was tabled to affect a debt relief arrangement for the state-owned corporation. Debt relief to Eskom will amount to R254 billion over three tranches over the medium term. This debt relief will result in an increase in public debt, with the country's gross debt-to-GDP ratio now expected to stabilise at 73.6% only in 2025/26. Nonetheless, a primary budget surplus for 2022/23 is still expected to be achieved with the consolidated budget deficit revised downward to 4.2% of GDP in 2022/23, reaching 3.2% in 2025/26.

The Financial Action Task Force (FATF) sets global standards to combat money laundering and the financing of terrorism across national borders. FATF has made recommendations concerning the deficiencies in the South African anti-money laundering laws. Government has been working to address these concerns and a decision by FATF as to whether South Africa will be placed on the so called "grey list" is imminent. The Minister of Finance indicated that we "should be prepared for that possibility". This would have unfortunate economic and investment consequences for the country.

On the positive side, tax revenue collections for 2022/23 will exceed the 2022 Budget expectation by an estimated R93.7 billion, to total R1.7 trillion, largely due to higher collections and a more efficient and effective tax administration. Further funding will be provided to SARS (the South African Revenue Service) to bolster revenue collection capabilities in future years.

It was encouraging to see the renewable energy incentives being announced for both companies and individuals. Yet, rather than addressing the need for easily available solutions to the energy crisis for the majority of South Africans, it appears this was done to encourage the shift toward renewable energy and to move people and businesses off the grid.

From 1 March 2023:

- A rebate will be available to individuals who install rooftop solar panels of 25% of the cost of the panels, up to a maximum of R15 000 and will only be available in the 2023/24 tax year.
- Businesses will be able to claim a 125% allowance on the cost of renewables. This allowance will be available for the next two tax years.

From an individual perspective, it is noted that this rebate does not seem to include the cost of installation and other components needed for a solar system to work. From a business perspective, the proposal is an increase on the current incentive in place, resulting in an additional 6.75% after tax benefit for the taxpayer in the first year the allowance is claimable. These incentives may not be sufficient to encourage spending when consumers are already under pressure both financially and also economically. It is uncertain whether the granted assistance is sufficient to be felt by those in most need, namely, small and medium-sized businesses and individual consumers. Although this is encouraging and a step in the right direction, more needs to be done. On the positive side, it will be interesting to see how much the feed-in tariffs would be for individuals and businesses when they sell electricity back into the grid.

There are many components to the fuel price. Therefore, although the fuel levy will not be adjusted, there is still an increase in the carbon tax on fuel, which will result in slightly higher fuel prices. This does not consider the effect of the global market price of oil or of the increasing demand from faster growth in China. The relief provided to manufacturers of food stuffs on the diesel price through a refund on the Road Accident Fund levy is welcome, however, it appears to be limited to a very specific sector of manufacturing. We would have liked this relief to also apply to other critical industries such as telecommunications and retailers to assist with connectivity and supply of goods.

This budget will put pressure on the private sector to step in and work with the public sector. The collaboration between public and private sectors will be more important than ever as the current uncertainty can only be navigated through collaboration. Private business remains committed to working with government to address the major concerns plaguing the economy.

The question remains whether the trade-offs in this budget will lead to long-term solutions and stabilise our economy to achieve sustainable growth.

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2023/24 key Budget insights

- **National Treasury forecasts real GDP growth of 0.9%** for South Africa in 2023, increasing to 1.5% in 2024 and 1.8% in 2025. Notable risks to the economic outlook persist.
- Amid an uncertain global and domestic outlook, government continues to prioritise policies that promote economic growth including urgent reforms to **reduce loadshedding, achieve long-term energy security, improve transport and logistics; and maintain fiscal health**.
- The Budget **remains focused on the social wage and maintaining a social security safety net**, with over 60% of non-interest expenditure in the medium term to be spent on health, education and social grants expenditure.
- **Tax revenue collections for 2022/23 will exceed the 2022 Budget** expectation by an estimated R93.7 billion, to total R1.7 trillion, largely due to higher collection and more efficient and effective tax administration.
- The **Budget proposed tax relief for individuals and households** of up to R13 billion, which includes tax measures to promote the clean energy transition.
- The Eskom Debt Relief Bill is tabled to effect a major debt relief arrangement for the state-owned corporation. **Debt relief to Eskom will amount to R254 billion.**
- This debt relief will result in an increase in public debt, with the **country's gross debt-to-GDP ratio now expected to stabilise at 73.6% only in 2025/26.**
- Nonetheless, a **primary budget surplus for 2022/23 is still expected to be achieved** with the consolidated budget deficit revised downward to 4.2% of GDP in 2022/23, reaching 3.2% in 2025/26.
- With infrastructure investment key for laying the foundation for more inclusive and sustainable growth, **provision is made for public sector infrastructure spending** of R903 billion over the medium term.

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