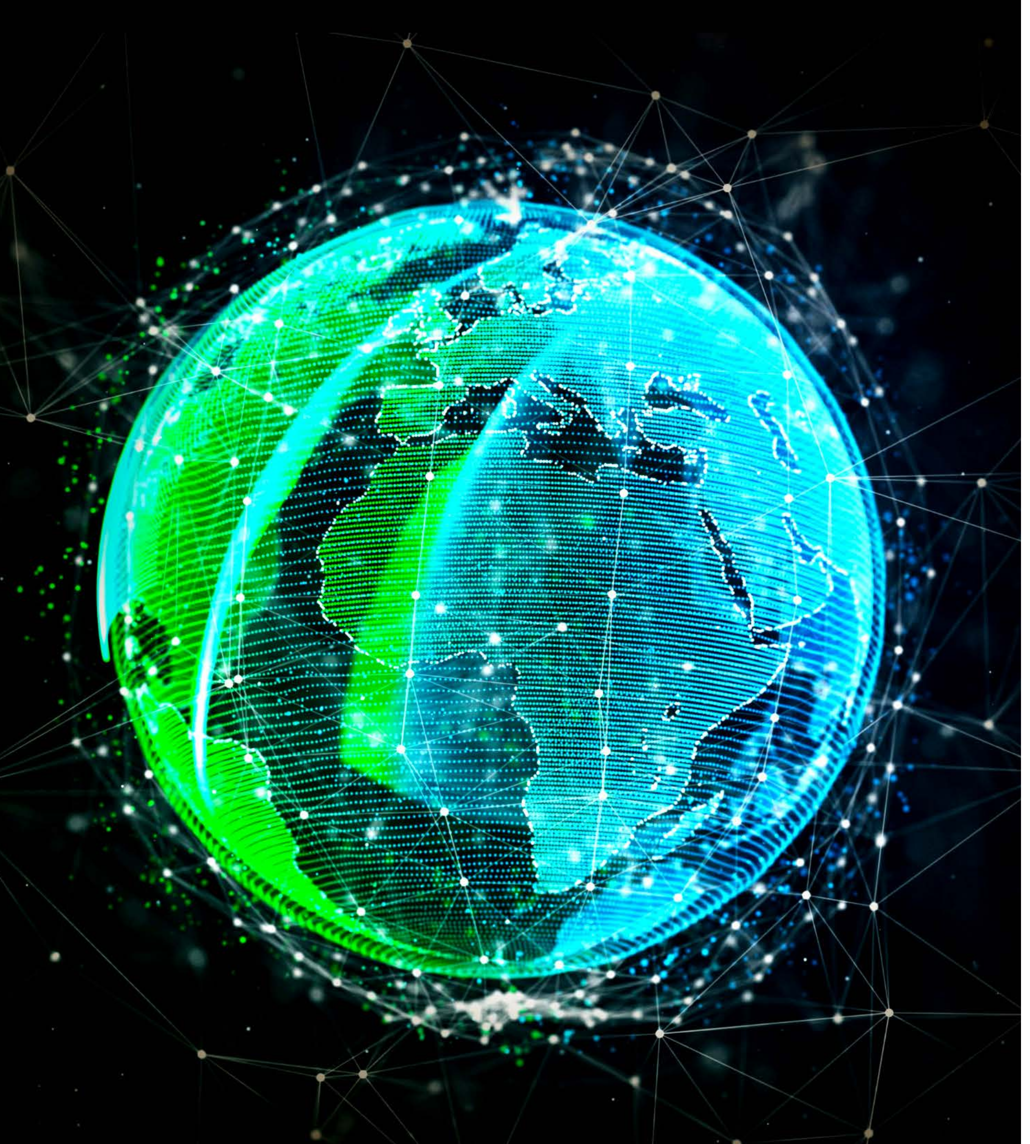
**Deloitte.**



# Redefining Resilience: Navigating an economic path to prosperity in South Africa

## Budget 2024/25 Highlights

Deloitte

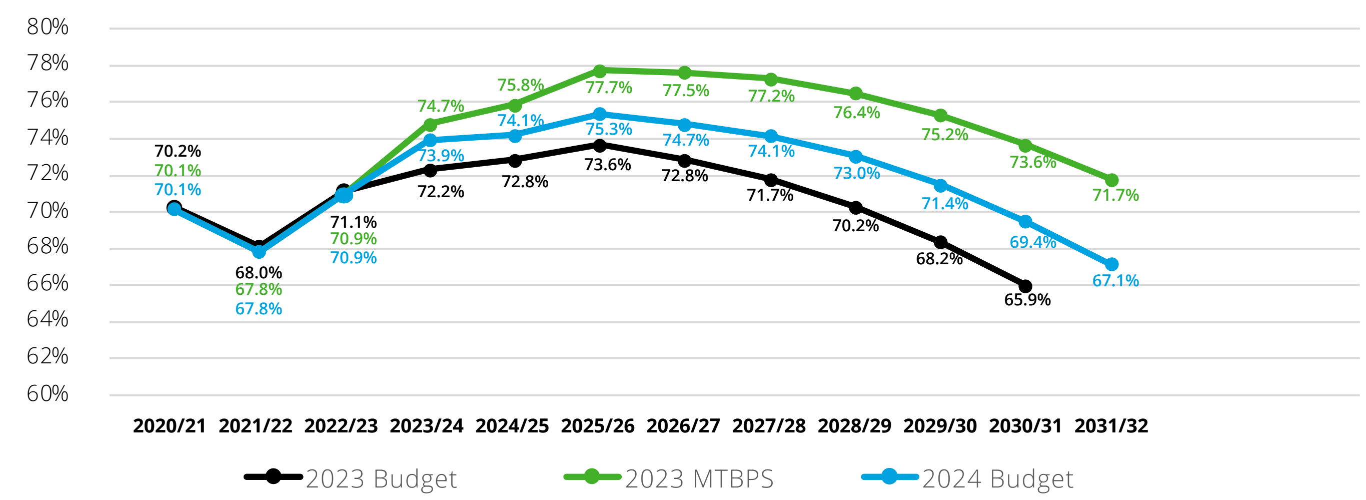
@DeloitteSA | #Budget2024

www.deloittebudget.co.za

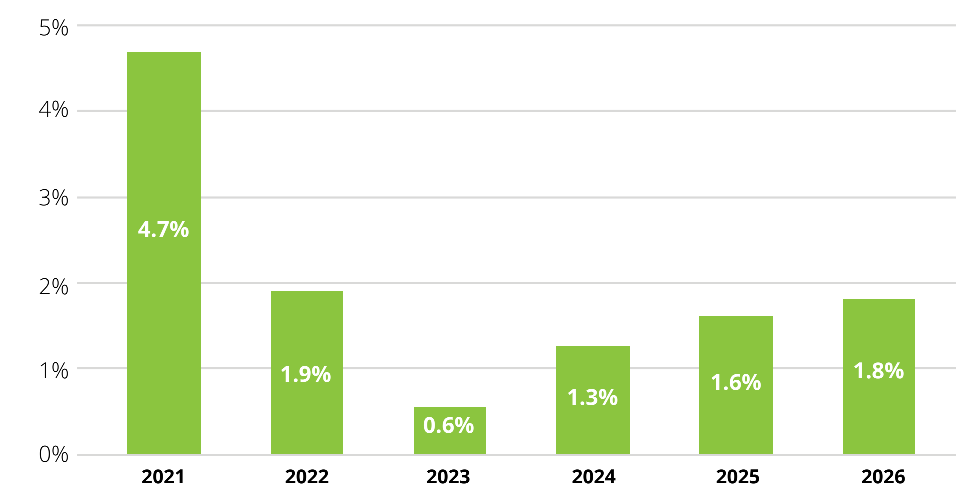
Based on 2024/25 Treasury figures available at www.treasury.gov.za



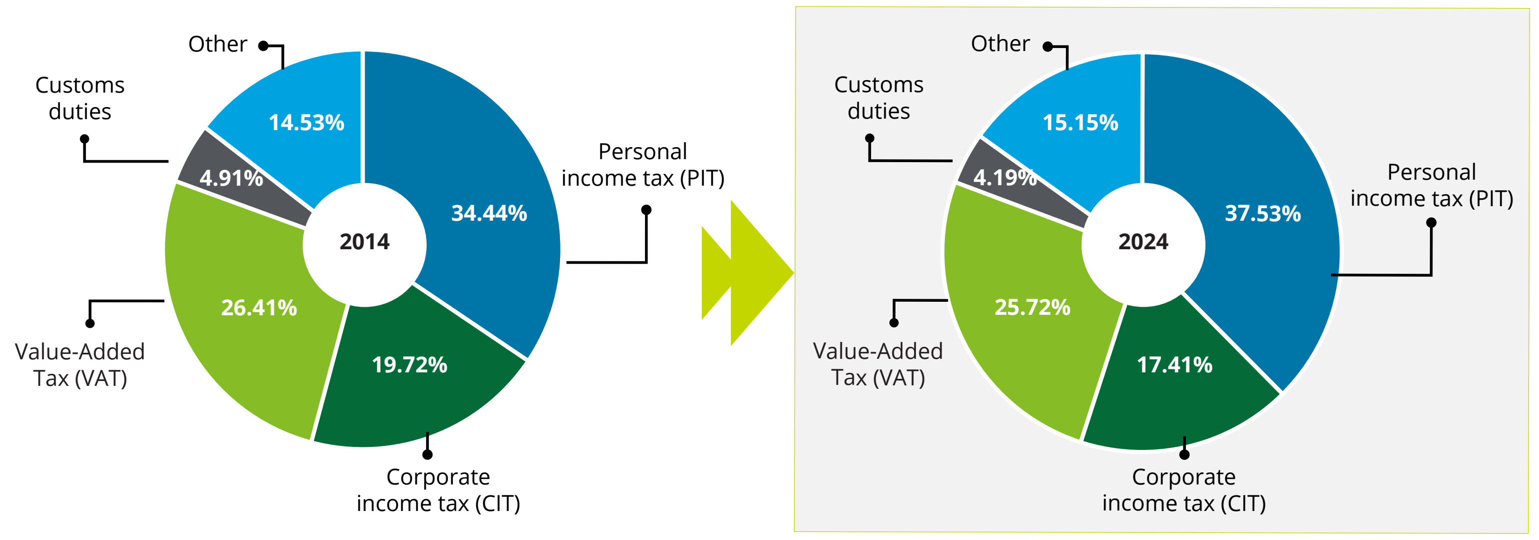
### Gross debt-to-GDP outlook



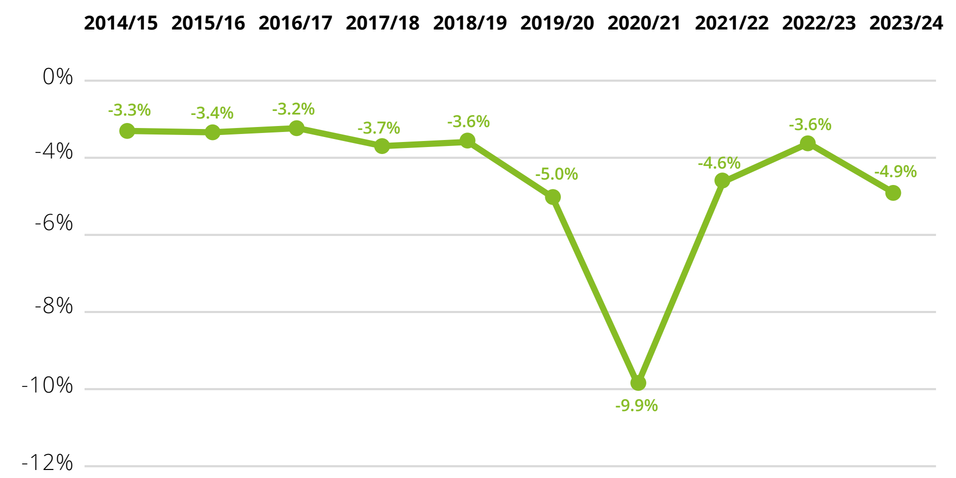

### Real GDP growth outlook




### Sources of tax revenue




### Budget deficit – percentage of GDP




**Itireleng Kubeka**
**Managing Director**
**Deloitte Africa Tax & Legal**
ikubeka@deloitte.co.za

Finance Minister Enoch Godongwana pulled the proverbial rabbit out of the hat in his Budget Speech, announcing that the government would dip into the country's gold and currency reserve funds. This move is meant to alleviate the pressure on the National Treasury, which has to contend with increasing debt service costs and pressures on spending.

Held at the reserve bank, the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), worth R500 billion, captures losses and profits on foreign currency movements and essentially protects the South African Reserve Bank (SARB) against currency market volatility. The plan is to draw down R150 billion over three years, but this will need a formal agreement with the SARB and legislation to be amended in Parliament to ensure sufficient solvency buffers are in place.

Minister Godongwana said the government will use these funds to reduce borrowing and, consequently, the growth in debt-service costs. However, the concern is that dipping into the gold and currency reserve is a once off windfall but does not address the major issues of economic growth and spending efficiency.

The consolidated budget deficit is projected to improve from 4.9% of GDP in 2023/24 to 3.3% of GDP by 2026/27.

National Treasury acknowledges that South Africa's government gross loan debt as a percentage of GDP is at an all-time high. Gross loan debt has grown from R1.58 trillion in 2013/14 to R5.21 trillion in 2023/24. As mentioned in the full Budget Review, "debt-service costs now consume one of every five rands of government revenue." This is a startling statistic and clearly shows the pressure government is under to collect revenue and ensure spending efficiency.

The economic outlook provides scant comfort. South Africa's 2023 GDP growth estimate has been revised down to 0.6% for a variety of reasons listed, including loadshedding, logistics issues and high living costs. The outlook is a little better in the medium term, with an average growth of 1.6% forecast, compared with 1.4% at the time of the 2023 Medium-Term Budget Policy Statement (MTBPS).

According to National Treasury, GDP growth has averaged at only 0.8% since 2012, which needs to be significantly improved in order to address high levels of unemployment and poverty. Achieving an average of 1.6% growth in the medium term, although double this past average, is arguably not sufficient to turn the tide.

It was comforting to see that some of our tax predictions were accurate, given that this was an election year budget, which often comes with surprises.

Corporations will note that South Africa will implement a global minimum corporate tax, with multinational corporations subject to an effective tax rate of at least 15%, regardless of where their profits are located. This is in response to the Organisation for Economic Cooperation and Development's (OECD) Pillar Two framework which was developed to avoid a "race to the bottom" by countries that seek to enhance the competitiveness of their tax system. There are over 135 countries that have signed up to these rules, of which South Africa is one.

In the MTBPS, the Finance Minister mentioned raising R15 billion in additional taxes. This is mainly coming from not adjusting the personal tax rates or medical aid credits for inflation which is in line with our predictions.

Although fuel levies will not be increased, the carbon tax rates will be increased. Therefore, the fuel price will still be affected as this includes a portion for carbon taxes.

There is no surprise that sin taxes will be increased.

It's encouraging to see that producers of electric or hydrogen powered vehicles in South Africa will be able to claim 150% of qualifying investment spending as an incentive to aid the transition to new energy vehicles. However, in reality for this to be achieved, government needs to address the challenges facing car manufacturers such as load shedding, port congestion and other logistical challenges. In this respect, the budget mentions a number of steps to help address these challenges, but proof of success will be in execution.

As a positive, the almost 20% increase in carbon taxes shows government's commitment to aligning our carbon pricing to global norms and encourage the greening of our economy.

What is missing, is detail on how structural reforms will be accelerated. If that does not happen, the government will end up tinkering around the margins without changing the structure of the economy and the fiscal framework itself. We appreciate that speeding up reforms is not something the Finance Minister can do on his own.

We now await further clarity from the economics cluster on what will be done to ignite the rate of economic growth and inclusion.

Overall, the budget does not give much relief to taxpayers and with high debt to GDP and slow growth rates, we need to redefine resilience. We are known to be a resilient people, but this is calling us to dig deeper to determine how we can come together as a country. As government opens up sectors to more private investment, there is hope that corporates will be able to provide the impetus to bolster the economy.

### 2024/25 key Budget insights

1. Treasury forecasts **real GDP growth** of **0.6%** for South Africa (SA) in 2023, down from 0.8% in the 2023 MTBPS. Between 2024 and 2026, SA's growth is forecast to average 1.6% per annum as electricity supply and inflation stabilises. However, supply-side constraints to growth continue to pose downside risks.
2. The 2023/24 **budget deficit** is expected to widen from the 2023 Budget's 4.0% of GDP, to **4.9% of GDP,** increasing debt-service costs which are expected to absorb over 20% of revenue (more than the budgets of social protection or health).
3. Government is expected to continue its fiscal consolidation strategy in the medium term, including the announcement of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) reform, drawing down an expected R150bn over three years to help narrow the budget deficit to 3.3% of GDP by 2026/27. Debt will now stabilise at **75.3% of GDP** in 2025/26, down from an estimated peak of 77.7% of GDP that year as per the MTBPS 2023.
4. The **social wage,** at ~60% of non-interest spending, as well as **capital spending,** will be **preserved.** National Treasury is adding R57.6bn to pay for the salaries of teachers, nurses and doctors, among many other critical services above the 2023 MTBPS projections.
5. **Major expenditure** in 2024/25 includes: R480.6bn on learning and culture, R387.3bn on social development and R271.9bn on health. **Also, R297.5bn will be spent on infrastructure** in 2024/25, with R943.8bn over the medium term.
6. At R1.73trn, **tax revenue for 2023/24 is R56.1bn lower than estimated in the 2023 Budget.** Three-year revenue projections are R45.6bn higher than the 2023 MTBPS. The Budget contains a tax increase of R15bn for 2024/25, primarily through not adjusting individual tax brackets. This additional revenue alleviates the immediate fiscal pressure and supports faster debt stabilisation.
7. An **investment allowance for new energy vehicles (NEVs) will be introduced in 2026,** allowing producers to **claim 150% of qualifying investment spending on NEVs** in the first year. R964m has been reprioritised to support the transition to NEVs.
8. Government has raised **US$3.3bn** from International Finance Institutions to support the Just Energy Transition. National Treasury is finalising a disaster risk financing strategy, centred on innovative financing and risk transfer to effectively mitigate climate impacts, boost state capacity and crowd in private participation.
9. A 15% global minimum corporate tax will be introduced to align to the OECD's Pillar Two framework.

**For more information, contact your nearest Deloitte tax office**

**Itireleng Kubeka**, Managing Director, **Deloitte Africa Tax & Legal**
Email: ikubeka@deloitte.co.za

**Gauteng:** **Alex Gwala, Global Business Tax Services Leader, Deloitte Africa Tax & Legal**
Email: agwala@deloitte.co.za

**KwaZulu-Natal:** **Mark Freer, Regional Leader, Deloitte Africa Tax & Legal**
Email: mfreer@deloitte.co.za

**Western Cape:** **Anthea Scholtz, Regional Leader, Deloitte Africa Tax & Legal**
Email: ascholtz@deloitte.co.za