Financial and Fiscal Commission

Submission on the 2024 MTBPS

For an Equitable Sharing of National Revenue

04 November 2024

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1. Executive Summary: FFC Recommendations on the 2024 MTBPS

1.1. The 2024 Medium Term Budget Policy Statement (MTBPS) heralds a critical juncture in budget policy, under the stewardship of the Government of National Unity (GNU). Despite this political landmark, South Africa confronts persistent structural economic and social challenges. Data from the second quarter of 2024 reveal that the official unemployment rate stands at a high 33.5 per cent, with the quarterly Gross Domestic Product (GDP) increasing by a mere 0.44 per cent and annual growth registering only 0.4 per cent in the preceding year. This is exacerbated by deteriorating infrastructure, ineffective investments, and a profligate public sector and state-owned companies marked by widespread structural inefficiencies, resulting in faltering social compact and jeopardises social cohesion. A comprehensive consolidation and restructuring are imperative to address the ongoing stagnation of the South African economy.

1.2. Persistent downside risks from the global economic environment are expected to persist. These encompass the ongoing conflict between Russia and Ukraine, unrest in the Middle East, which disrupt the flow of resources and logistics that connect manufacturing hubs in the East with markets in the West. Anticipated shifts in global monetary policies and fiscal responses to these disturbances are likely to result in higher interest rates, culminating in financial uncertainty and consistently elevated sovereign spreads for South Africa.

1.3. On a positive note, South Africa's headline inflation declined to 4.4 per cent in August and 3.8 per cent in September 2024, marking the lowest level since the COVID-19 period in 2021. Notably reduced annual rates have been recorded in several categories, especially transport, housing, and the restaurant and hotel sectors, indicating a tentative productivity recovery. Over the past six months, the exchange rate against the United States Dollar has experienced a marginal increase that does not detrimentally impact exports, as demonstrated by a sustained trade surplus. Taking these factors into consideration, the Financial and Fiscal Commission concludes that monetary easing could be warranted, contingent on the government's commitment to restoring fiscal discipline by reducing its debt-to-GDP ratio to ensure fiscal sustainability.

1.4. The total loan debt of the national government as a percentage of GDP soared to its highest level reaching 74.6 per cent in the second quarter of 2024. The annual total (net) financing requirement expanded to over R500 billion per annum, surpassing fiscal revenue capabilities by approximately 30 per cent, thus escalating the gross borrowing requirement and accumulating debt. The drawing of R100 billion from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) for the 2024 financial year, and R25 billion annually for subsequent years, will cover only 60 per cent of the Eskom debt-relief arrangement, which totals nearly R250 billion in the 2024 Medium Term Expenditure Framework (MTEF). The fiscal position is anticipated to worsen, influenced by intensifying external risks of declining mineral revenues, and increasing supply-side costs. Domestically, challenges such as the Eskom debt relief arrangement, wage bill

pressures, and the rising debt service costs necessitate robust fiscal restructuring and consolidation.

1.5. The government's contingent liabilities are projected to surpass R1 trillion per annum, with government guarantees expected to constitute approximately half of this amount, thus amplifying fiscal risks in South Africa. Eskom remains the largest beneficiary of these government guarantees. In efforts to enhance the operational performance of the parastatal and secure energy stability, the government has undertaken to absorb R250 billion of Eskom's debt, exerting a substantial impact on the fiscal framework.

1.6. Considering these factors affecting our economy, the Financial and Fiscal Commission's long-run potential growth forecast indicates a more conservative path relative to National Treasury's annual average rate of 1.8 per cent over the 2025 MTEF. Instead, the real GDP growth is projected to be 1.31 per cent for the 2025/26 financial year, 1.53 per cent for 2026/27, and 1.74 per cent for the outermost year of the 2025 MTEF. This growth trajectory suggests an economy beleaguered by persistent structural challenges such as market non-inclusivity, systemic inefficiencies, labour market rigidities, and a high unemployment rate. The projected growth rates are evidently inadequate to provide sufficient employment opportunities for new entrants into the labour force. As a result, the economic and fiscal outlook for South Africa is dependent on substantial reforms and strategic realignments across all government sectors to invest effectively on infrastructure development to positively impact economic performance.

2. Areas of Emphasis for the 2024 MTBPS

Energy Security and Logistics Infrastructure

2.1. The unreliability of electricity supply continues to significantly constrain South Africa's economic performance by adversely affecting functionality and productivity across various sectors. To address this challenge and promote long-term sustainable economic growth, continued investments in energy infrastructure and reforms are essential. This includes enhancing grid efficiency and stability, diversifying energy sources with an emphasis on renewables, and balancing debt sustainability with crucial investments. Furthermore, streamlining regulatory processes to enhance private sector involvement in energy generation and eliminating entry barriers in the South African electricity industry are imperative. These steps are vital for encouraging competitive bidding in the energy sector, thereby fostering a more resilient energy market that can underpin economic growth and development.

2.2. South Africa's growth potential is significantly constrained by operational challenges within its road, rail, and port infrastructure. These issues, ranging from dysfunction, theft, and vandalism to inadequate maintenance and governance failures at Transnet, have adversely impacted trade, escalated operational costs for businesses, and precipitated the degradation of logistics infrastructure. Additionally, the absence of affordable and reliable public transport systems, particularly affecting low-income and rural

populations, has exacerbated inequality. The underperformance of the rail sector alone is estimated to have reduced the GDP by up to 5per cent in 2022, with the minerals sector suffering losses amounting to R50 billion.

2.3. Transnet has recently obtained R23 billion in loans from the African Development Bank and New Development Bank to facilitate its recovery and expansion efforts. It is crucial that government accountability, oversight and support mechanisms are robust to ensure that these borrowed funds are utilized effectively in revenue-generating activities and to meet debt obligations, thereby mitigating the risk of government bailouts. Moreover, strong collaboration between the government and the private sector is essential for the successful implementation of the Freight Logistics Roadmap. Such partnerships are vital for addressing South Africa's logistics challenges, reforming the rail sector, and stimulating economic activity.

Reducing Inequality through Inclusive Employment Productivity Programmes

2.4. Recent data from Statistics South Africa (Stats SA) Quarterly Labour Force Survey indicates a rise in the official unemployment rate by 0.6 percentage points from 32.9 per cent in Q1 2024 to 33.5 per cent in Q2 2024. As of the second quarter of 2024, 8.3 million South Africans were unemployed. Alarmingly, 44.2 per cent of South African youth (aged 15 to 34) were neither employed nor engaged in education or training (NEET). This high unemployment rate has led to millions of South Africans relying on unconditional social grants and government assistance programs, including the Social Relief of Distress (SRD) grant.

2.5. Given the pressures to transition the SRD Grant into a Basic Income Grant (BIG), it is imperative to carefully evaluate its direct and indirect implications: implementation challenges, market incentives, fiscal impacts, and its sustainability. A proposed approach could involve enhancing productivity programmes that offer conditional and therefore, sustainable social relief, thereby promoting inclusive growth and reducing inequality through employment opportunities. Furthermore, for sustainable growth in South Africa’s employment, structural reforms in the labour market are needed to ensure an inclusive transition in the economy.

Supporting Smallholder Farmers as a Lever for Facilitating Socioeconomic Development

2.6. South Africa’s agricultural sector continues to exhibit a dual nature, with smallholder, predominantly Black farmers operating on the margins and contributing minimally to the sector's overall output. This situation poses a significant barrier to both transformation and growth within the sector. Enhancing the productivity of smallholder farmers is crucial for harnessing the multiple benefits associated with improved agricultural performance, including economic growth, employment, rural development, and food security. A strategic approach to achieving this involves facilitating the convergence of smallholder farmers' productivity with that of larger-scale farmers through economies of scale and innovation.

Centralised Wage Bargaining affecting the Intergovernmental Fiscal Relations System

2.7. Compensation of Employees represents the largest expenditure item at the provincial level; however, provinces often have limited scope to influence decisions made at the national level that affect them. It is recommended that there be increased engagement and involvement of provinces in the negotiation processes with the National Bargaining Council concerning annual wage settlements. This approach would ensure that provincial perspectives are better represented and considered in these critical financial decisions affecting the provincial fiscus. Additionally, the National Bargaining Council should investigate the possibilities at the municipal level for granting exemptions to the implementation of wage agreements under specific conditions.

Repositioning Municipal Systems and Structures

2.8. Uncertainty surrounds the updates to the provincial and local government equitable shares for the 2025 Division of Revenue Bill, given its reliance on provincial population, households and various data that will not be available in time. This absence of data will detrimentally affect the allocations to provinces and municipalities. It is imperative that the National Treasury conducts a thorough data and costing exercise to establish a more accurate basis for the horizontal divisions of the revenue formula.

2.9. Underutilisation of funds across various local government conditional grants compromises the efficiency of public sector spending and implementation. The Urban Settlements Development Grant (USDG), which is designed to support the capital projects of metropolitan cities, has only utilized 85.3 per cent of its adjusted allocation. Additionally, local governments have spent just 66.4 per cent of capacity grants by the end of their financial year. Furthermore, municipal data indicates that only 73.2per cent of the revised allocation for infrastructure grants has been expended.

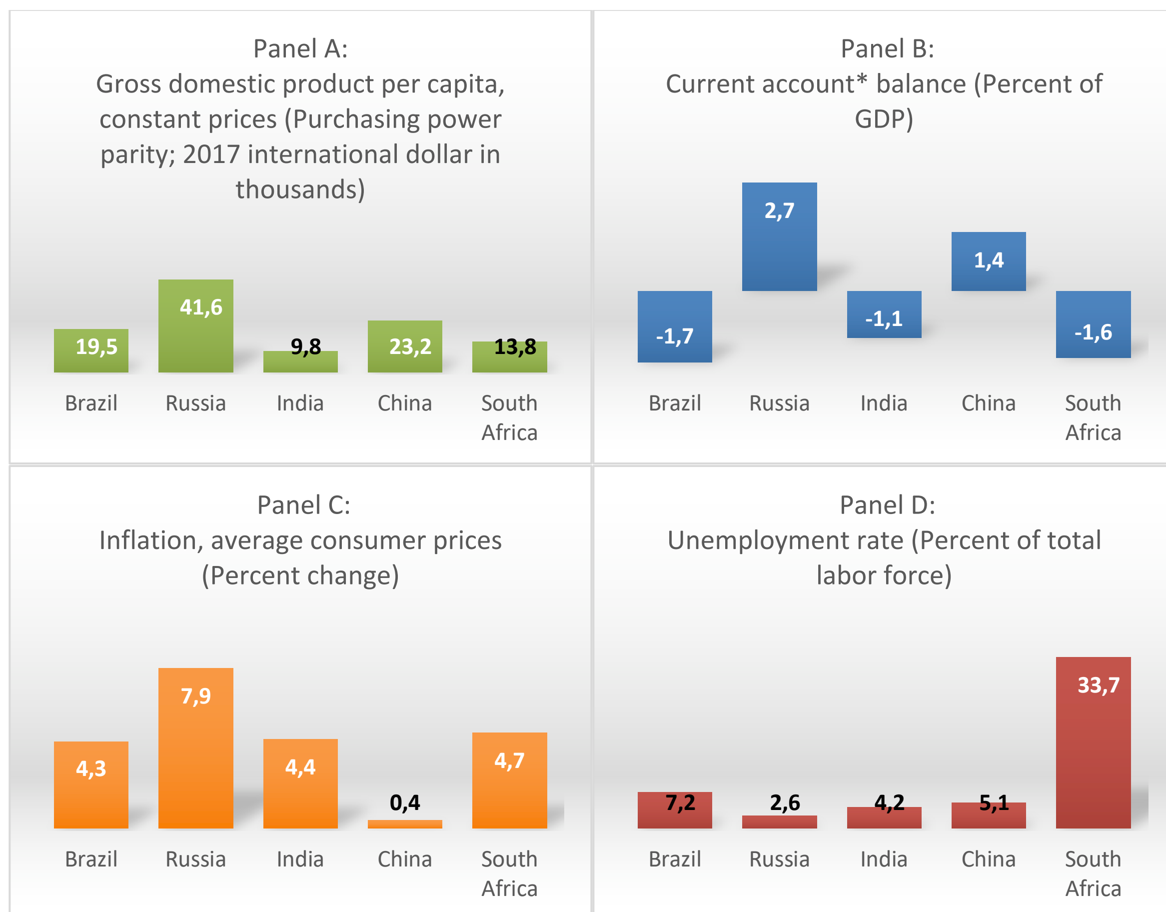
2.10. Several factors have contributed to the escalating municipal debt to Eskom. The Municipal Debt Relief Support Programme, launched by the National Treasury in May 2023, aims to bolster Eskom's balance sheet and facilitate the write-off of certain debts for municipalities. By January 2024, seventy municipalities had received approval to participate in the programme. Despite these efforts, municipal debts continue to rise, and payment defaults persist. To enhance the financial management and governance of municipalities, it is essential that information regarding their financial statements and budgets is made transparent.

3. Medium Term Economic Overview and Prospects

3.1. Globally, the World Bank estimates a 2.4 per cent growth in global GDP, indicating resilience in the first half of 2024, despite numerous challenges. Several nations have commenced the reduction of interest rates in response to a decrease in global inflation to 2.1 per cent as of September. This adjustment enhances the appeal of capital inflows to South Africa, potentially strengthening the Rand and reducing debt servicing costs.

3.2. However, it is widely acknowledged that South Africa's distinct history of racial segregation has significantly influenced its economic trajectory, creating separate equilibria in markets of labour, capital, and socio-economic opportunities. This separation has hindered the nation's potential to find convergence with other countries or country groups by any standard classification, such as advanced versus emerging, or high-, middle-, and low-income categories. The situation is exacerbated by deteriorating infrastructure, inadequate and inefficient capital investments, such as maintenance, repairs, and refurbishments. Additionally, challenges in energy provision and more than a decade of unproductivity and inefficiency have further weakened the fiscal position.

Figure 1: Economic Overview of the BRICS Nations



Source: World Economic Outlook Database (October 2024)
Notes: Current account balance measures the net flow of products, services, income, and transfer payments

3.3. Figure 1 juxtaposes crucial economic indicators for South Africa against those of other BRICS nations: Brazil, Russia, India, and China, to elucidate South Africa's economic standing within this significant bloc. Panel A, focusing on GDP per capita, reveals that despite its developmental strides, India records the lowest GDP per capita among the quintet, indicative of comparatively lower living standards and average income levels at $9.8 thousand international dollars. South Africa follows with a GDP per capita of $13.8 thousand. Russia, on the other hand, distinctly surpasses other BRICS nations with a

GDP per capita of $41.6 thousand, attributable to its smaller population relative to its size of economy and rich natural resources, particularly in oil and gas.

3.4. Panel B, illustrating the current account balance as a percentage of GDP, indicates that Brazil (-1.7 per cent), India (-1.1 per cent), and South Africa (-1.6 per cent) are experiencing negative current account deficits. These deficits suggest a net outflow of payments and exert downward pressure on local currencies. Conversely, Russia and China maintain positive current account balances, primarily attributed to China's robust manufacturing and export sectors and Russia's substantial energy exports. The deficits in Brazil, India, and South Africa highlight underlying structural issues, including reliance on foreign capital, dependency on imported goods, which elevates vulnerability to exchange rate fluctuations and foreign investor sentiment.

3.5. Panel C, which details inflation rates, shows that Russia has the highest rate among the BRICS nations at 7.9 per cent, while China has the lowest at 0.4 per cent. South Africa, with an inflation rate of 4.7 per cent, ranks second highest, surpassing both Brazil and India. the enduring structural domestic factors impacting South Africa's price levels, notably production inefficiencies that create demand-supply imbalances within the economy. Such imbalances lead to price increases rather than genuine improvements in the real value of economic transactions.

3.6. South Africa's unemployment rate, at a significant 33.7 per cent, marks a distinct point of vulnerability in its labour market outcomes compared to other BRICS nations. High unemployment levels are the leading cause to poverty and inequality, which in turn can have profound social and financial consequences, undermining the social compact and jeopardizing social cohesion.

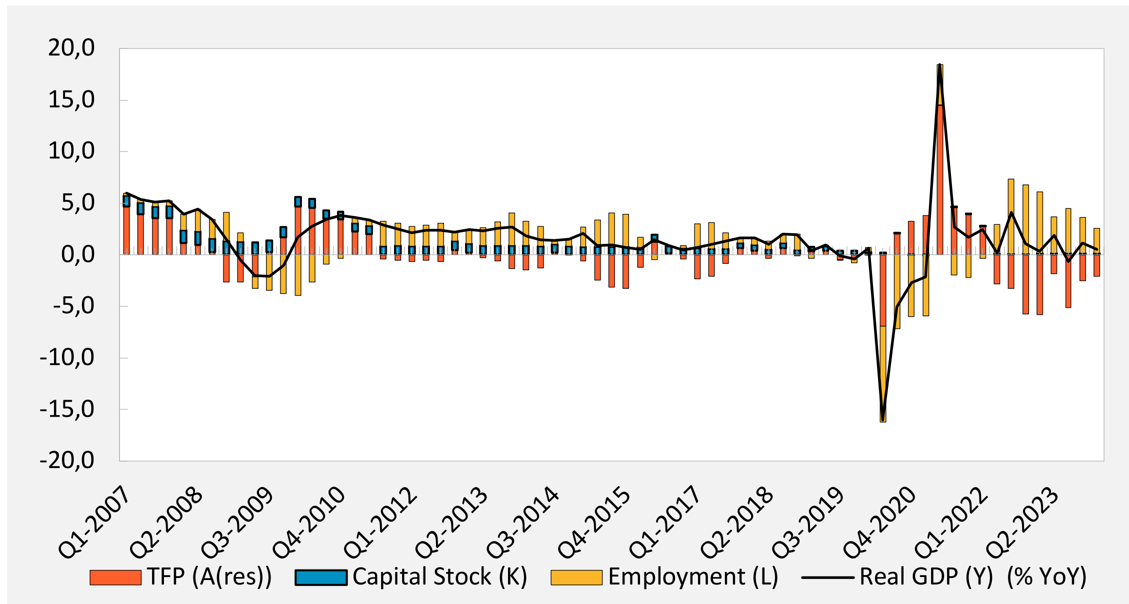
FFC's Growth Review and Projection of the South African Economy

3.7. Figure 2 details the quarter-to-quarter changes in real GDP (Y) as growth, broken down by three production factors: labour employment (L), capital and machinery (K), and estimated total factor productivity (TFP), which includes institutional efficiency and governance, from Q1 2007 to Q1 2024. The analysis shows that before the global financial crisis, all production factors in South Africa demonstrated positive contributions to economic growth in real GDP. However, since 2011, in the aftermath of the financial crisis, economic growth has significantly slowed due to prolonged declines in TFP of production efficiencies with the deterioration of institutional efficiency and governance, and capital investment.

3.8. A temporary and marginal reversal in this trend was noted in 2018. However, the impact of the COVID-19 Pandemic in 2020–2021 precipitated a sharp economic downturn and disrupted the production function for economic growth, significantly decreasing TFP and employment, with repercussions still evident in the data series. While there was a marginal recovery in employment from 2022 post-COVID, TFP continued to decline, and capital contributions to economic growth remained near zero. The analysis indicates

that South Africa's growth problem is caused by inefficiencies in its structural factors and over a decade long of lack of capital investment.

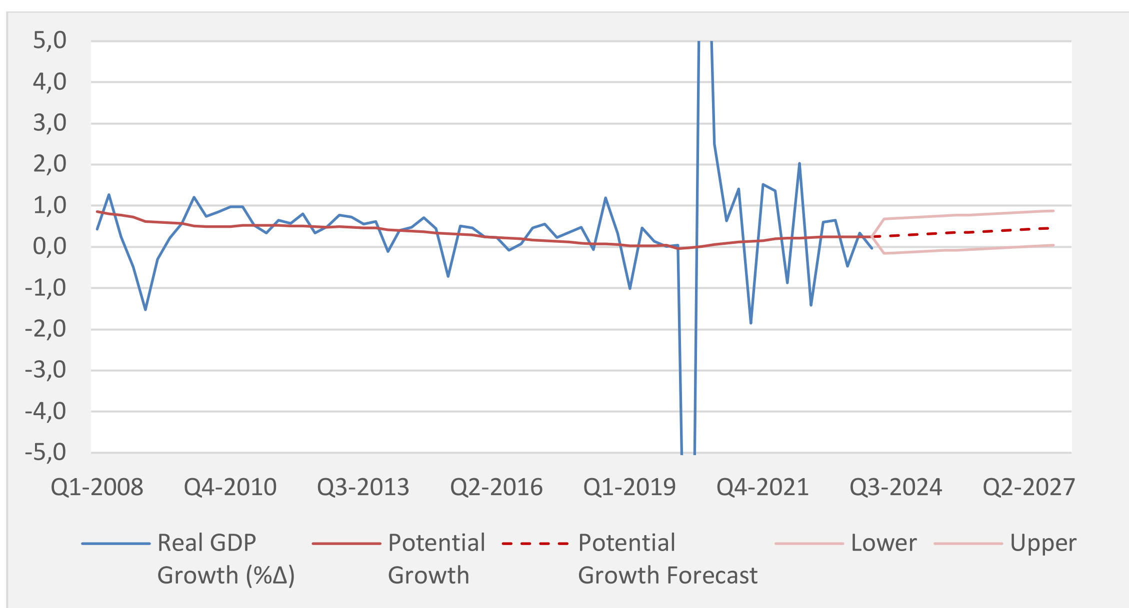
Figure 2: Contributions to Growth - Production Function and Productivity, Q1 2007 – Q1 2024



Source: South African Reserve Bank (2024) and Commission's Own Calculations

3.9. The analysis culminates in the long-term potential growth forecast of the Commission, as illustrated in Figure 3. The data support the conclusion that a reversal of current growth trajectories requires extensive reforms and strategic realignments of institutions to enhance productivity. Moreover, investments in infrastructure capital development are vital for positively and sustainably improving economic performance.

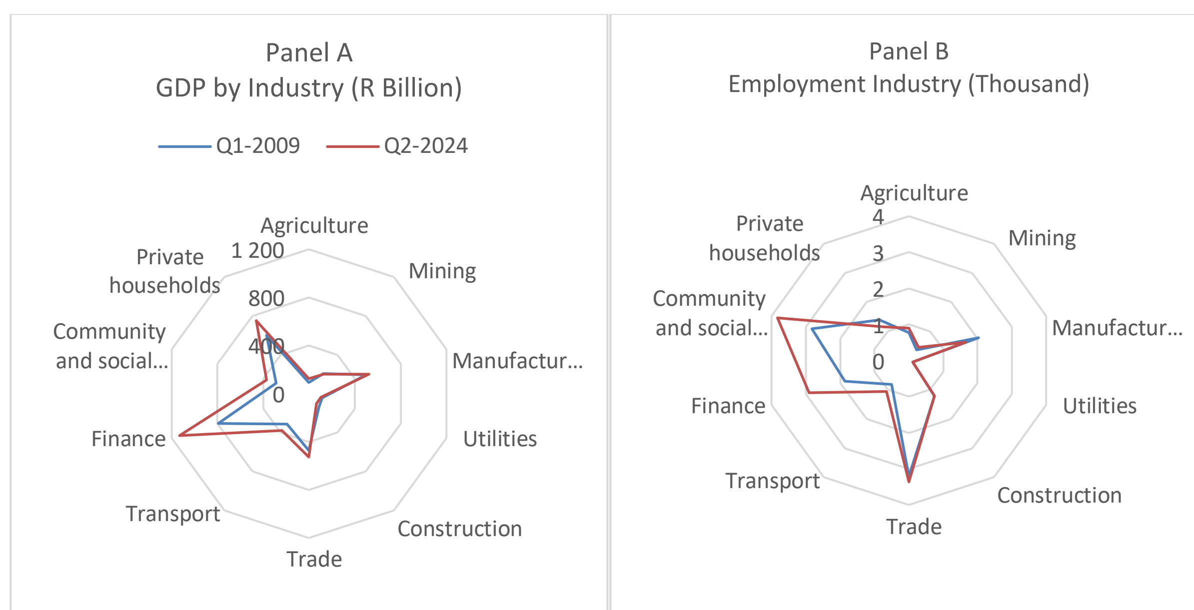
Figure 3: **GDP and Potential Output Growth in** real GDP, quarter-on-quarter change (seasonally adjusted)



Source: Statistics South Africa, Q2 2024 and Commission's Own Calculation

3.10. Considering all historical and empirical factors from the analysis above, the Commission forecasts that real GDP growth will likely register at 1.31 per cent for the 2025/26 financial year, increase to 1.53 per cent for 2026/27, and reach 1.74 per cent for the final year of the 2025 MTEF. The projection includes an upper bound of 2.99 per cent average growth over the medium term and anticipates lower bounds of recessionary risks persisting until 2026/27, supported by a 95 per cent confidence interval. This subdued performance underscores the urgent need for concerted policy measures aimed at restructuring the economy by addressing unemployment, and reallocating public expenditures towards infrastructure development that promotes growth.

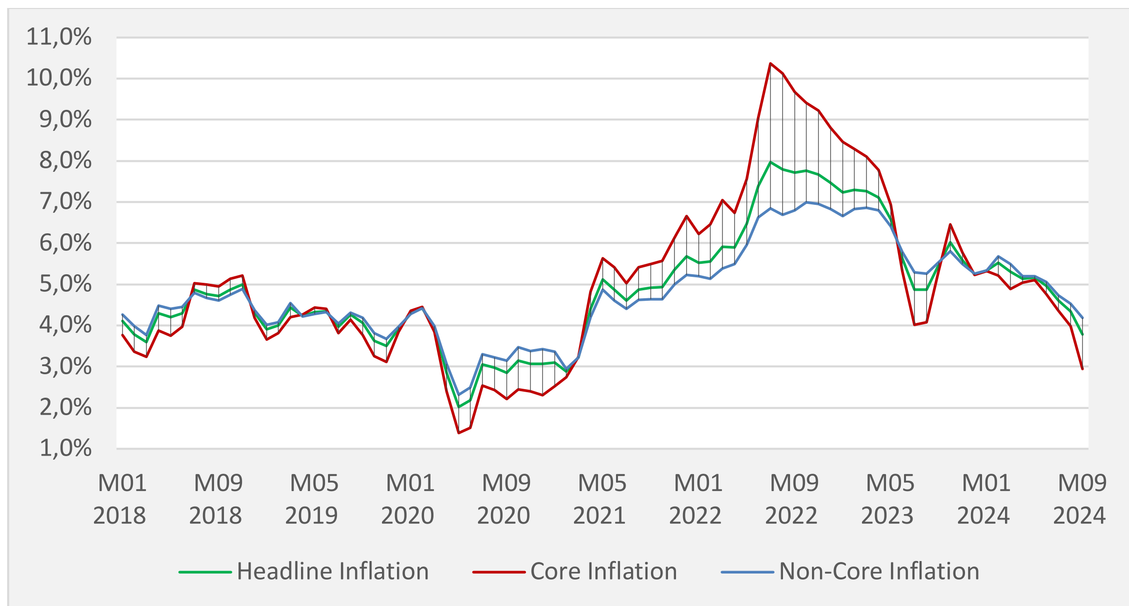
Figure 4: GDP and Employment by Industry, Q1 2009 and Q2 2024



Source: Statistics South Africa (2024)

3.11. Figure 4 provides data on South Africa's GDP (Panel A) and employment (Panel B) by industry classification for Q1-2009 and Q2-2024. During the period under review, the Finance, Transport, and Trade sectors experienced increases in GDP share, indicating a transition towards a service-oriented economy. In contrast, the Construction and Utilities sectors show slight declines in their GDP contributions. Employment trends highlight that GDP and employment growth coincide primarily in the Finance and Transport sectors. However, traditionally labour-intensive sectors such as Agriculture, Mining, and Manufacturing have not shown significant labour absorption. In the public sector, represented by Community and Social Services, modest economic growth coupled with a significant rise in employment has increased pressure on the public sector wage bill and may crowd out private sector activities in the economy. Overall, the data from 2024 points to an evolving economic landscape in South Africa, highlighting the need for targeted policy interventions to foster growth and effectively manage sectoral transitions.

Figure 5: Core and Non-Core Inflation, year-on-year rates (per cent)



Source: Statistics South Africa (2024) and Commission's Own Calculations

Note: Core inflation encompasses food, clothing and footwear, housing and utilities (excluding maintenance and repair, health, transport (i.e. fuel, other running costs, public transport), communication, primary and secondary education.

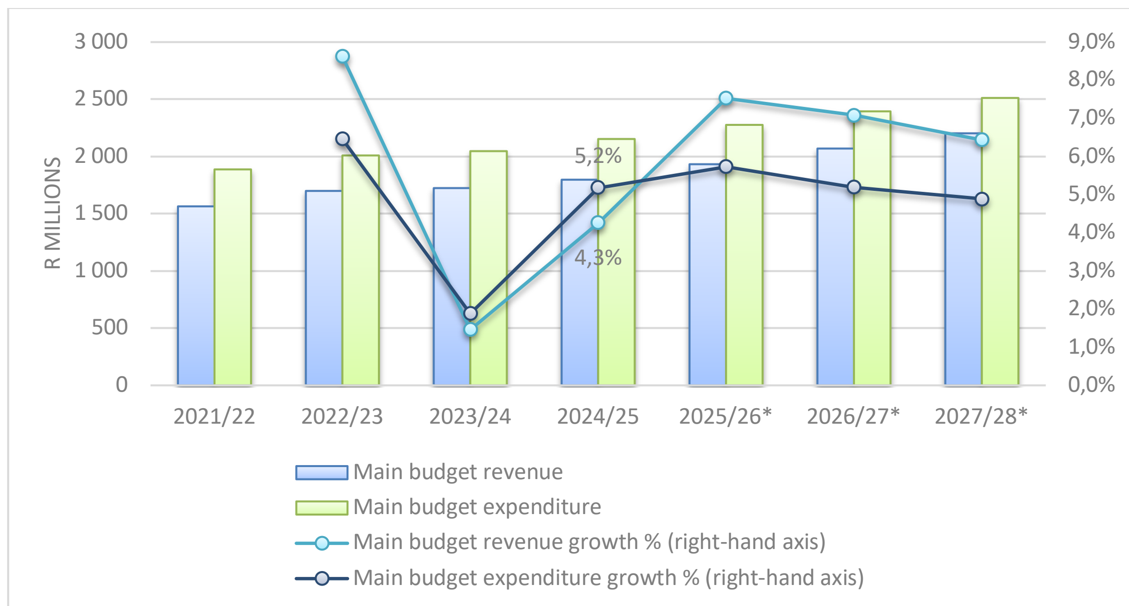
3.12. One of the fundamental pillars for ensuring sustainable and inclusive growth is the stabilization and value certainty of the exchange mechanism by minimizing price volatility in the economy. Figure 5 depicts the trends in core and non-core inflation from 2018 to 2024. The lowest recorded inflation rate during this period was 2.0 per cent in May 2020, largely due to demand-side shocks induced by the COVID-19 pandemic lockdowns. The recent moderation in inflation, particularly core inflation in the latter quarters of 2024, is worth noting.

4. Fiscal Framework: Revenue and Expenditure Outlook

Fiscal Outlook and Policy

4.1. Projected fiscal consolidation over the medium term appears insufficient as main budgeted expenditure is expected to consistently exceed revenue. As depicted in Figure 6 expenditure growth in 2024/25 outpaced revenue growth, registering at 5.2 per cent, and is anticipated to remain above 6 per cent over the medium term. This indicates that the government's spending is not being curtailed in accordance with its policy objectives. Simultaneously, revenue growth is projected to decline, raising further concerns regarding the sustainability of the fiscal framework.

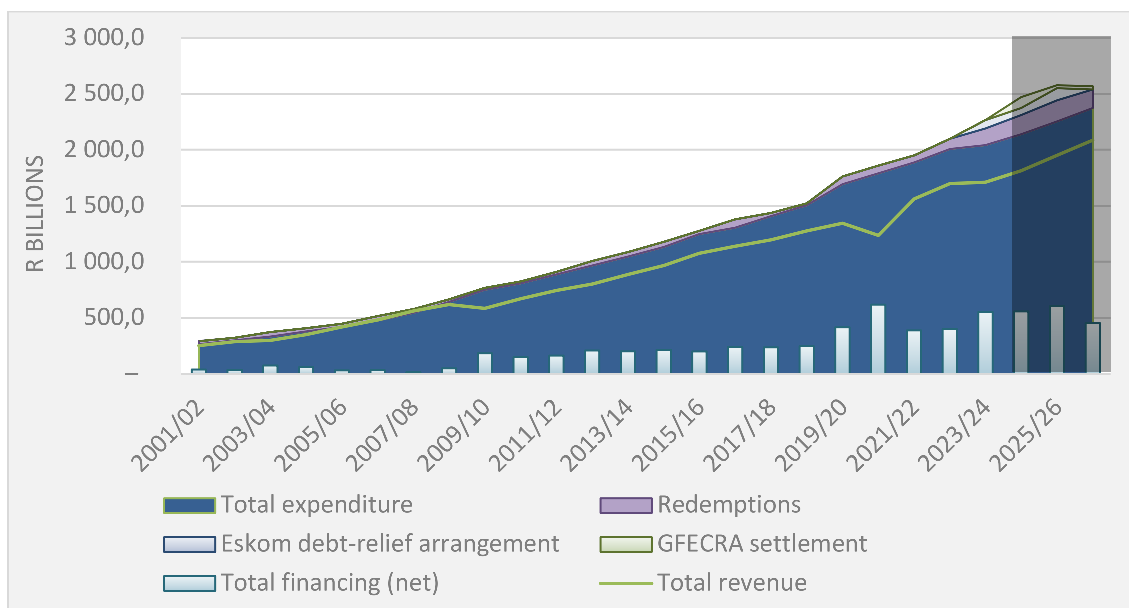
Figure 6: 2024 MTBPS Main Budget Revenue and Expenditure



Source: National Treasury MTBPS 2024

4.2. Figure 7 offers a historical perspective on the fiscal framework, underscoring the extensive growth in total government expenditure, which has consistently outpaced total revenue since the 2008 financial crisis. The widening fiscal gap between revenue and expenditure indicates that the government has followed a trajectory of fiscal expansion, moving further away from a zero-balance budget. Moreover, credit rating downgrades have raised debt redemption costs, while special appropriations for the Eskom debt-relief arrangement have further inflated total financing requirements. Over the long-term, there has been no indication of a reduction in these requirements, pointing to a deepening debt cycle enveloping the South African economy.

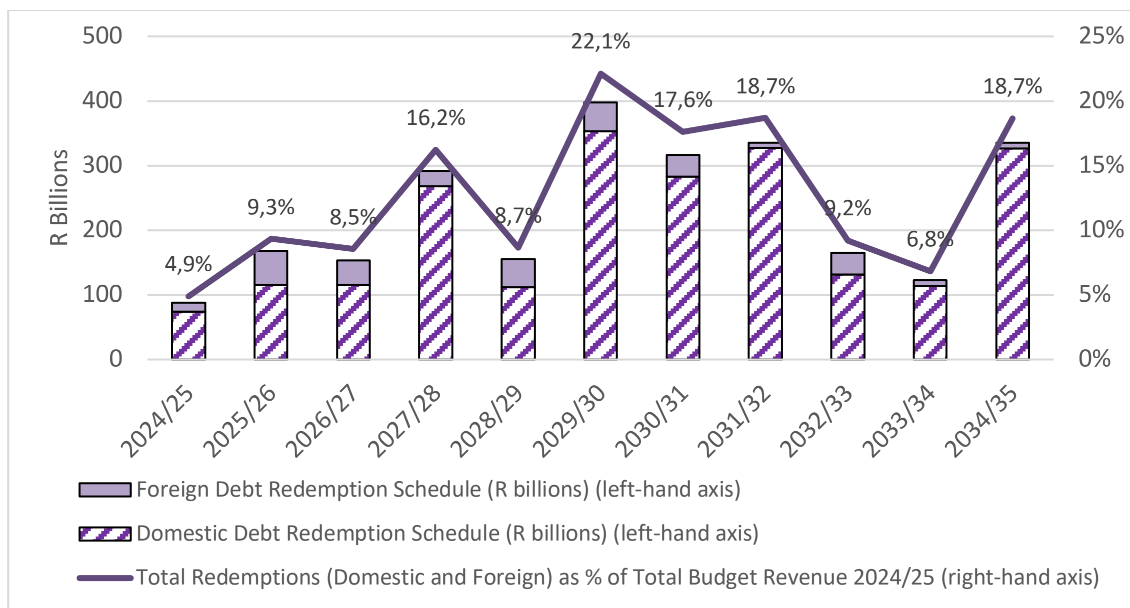
Figure 7: Fiscal Framework Baseline



Source: National Treasury Budget Review 2024

4.3. Figure 8 illustrates the redemption schedules for foreign and domestic marketable bonds or debt as a proportion of total revenue, using 2024/25 as the baseline. The Rand amount of maturing debt, which constitutes a first charge on the National Revenue Fund, is nearly R90 billion in 2024/25. This amount is projected to increase substantially to almost R400 billion within five years, rising from approximately 5 per cent of total revenue in 2024/25 to a peak of 22.1 per cent of total revenue. Although redemptions are subject to renegotiation, the current trend in the redemption schedules underscores the long-term fragility of the fiscal framework.

Figure 8: Domestic and Foreign Debt Redemption Schedules

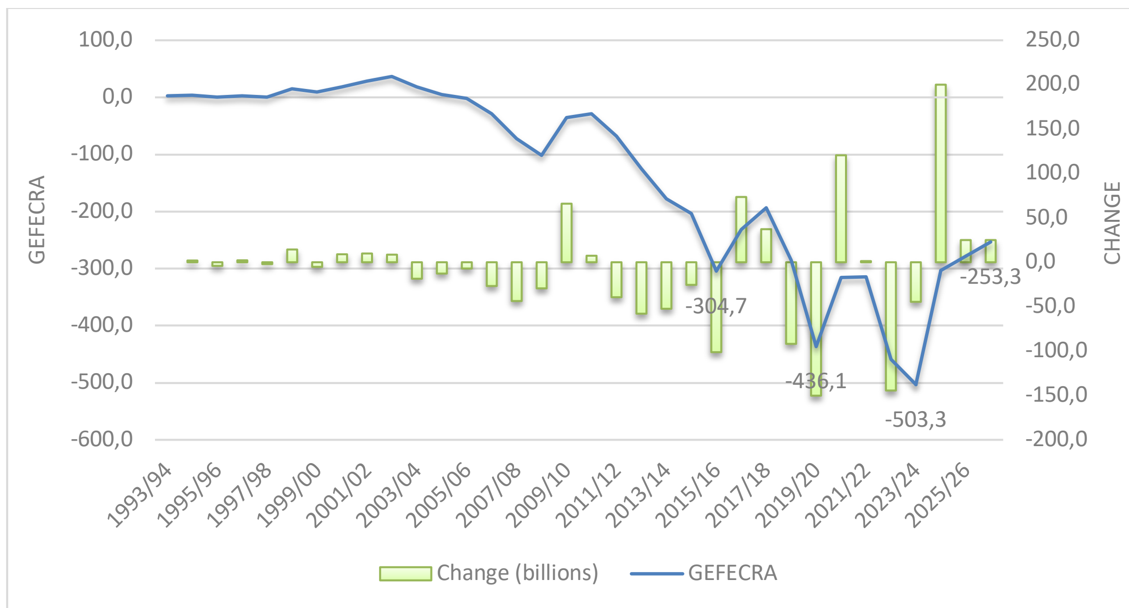


Source: South African Reserve Bank (2024)

4.4. The government's foreign debt portfolio is currently diversified across three currencies: the US Dollar, Canadian Dollar, and Euro. Depreciation of the South African Rand against any of these currencies will increase the debt burden, debt service and debt redemption costs. Significant Rand depreciation or exchange rate volatility would undermine the government's fiscal flexibility, making it more challenging to allocate funds towards domestic capital investments, infrastructure development, and social services.

4.5. Figure 9 presents the historical trend of the Gold and Foreign Exchange Contingency Reserve Account (GEFECRA), which has followed an increasingly volatile path, with substantial deficits beginning in the mid-2000s and worsening after the 2008/09 global financial crisis. The Commission reiterates its stance from the 2024 Budget Submission that relying on a progressively unstable GEFECRA weakens South Africa's capacity to buffer against exchange rate volatility, to keep the price levels stable.

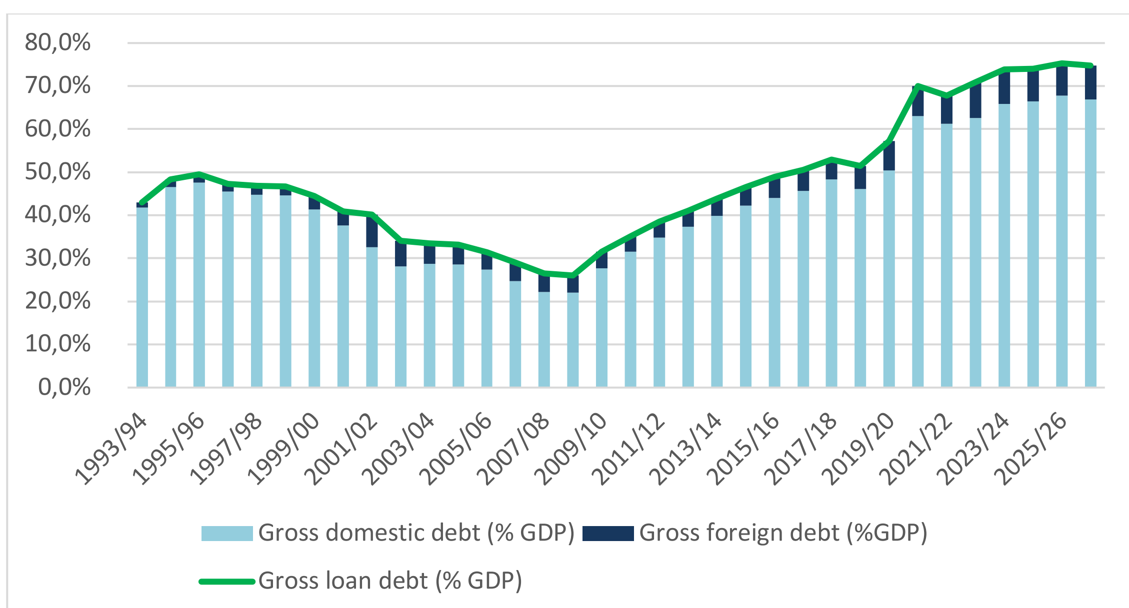
Figure 9: GEFECRA Trend and Volatility since 1994



Source: South African Reserve Bank (2024)

4.6. Figure 10 highlights the rise in gross debt following the 2008/09 global financial crisis and the sharp increase during the COVID-19 pandemic in 2020/21. Historical data indicates that total gross loan debt nearly tripled from 26 per cent of GDP in 2008/09 to 74.7 per cent in 2024/25 (R5.6 trillion), in less than fifteen years. National Treasury projects gross debt to peak at 75.7 per cent of GDP in 2025/26, according to the 2024 MTBPS. South Africa's rising debt-to-GDP ratio is concerning, as it signifies that debt is accumulating faster than its revenue growth, thereby reducing the government's ability to service debt and improve credit ratings.

Figure 10: Gross Debt as a Percentage of GDP: Domestic and Foreign Debt



Source: National Treasury (2024)

Tax Revenue Performance

4.7. In terms of Tax Matters and Revenue Laws, the 2024 MTBPS has tabled six pieces of legislation following the tax proposals tabled for the 2024/25 financial year, namely:

i. Rates & Monetary Amounts Bill – To amend the rates of duty in the Customs and Excise Act, 1964, and the Carbon Tax Act, 2019.

ii. Taxation Laws Bill – To amend the Income Tax Act, 1962, Customs and Excise Act, 1964, Value-Added Tax Act, 1991, Securities Transfer Tax Act, 2007, Mineral and Petroleum Resources Royalty Act, 2008, Employment Tax Incentive Act, 2013, Carbon Tax Act, 2019 and other Taxation Laws Amendment Acts, in terms of rates and item classifications.

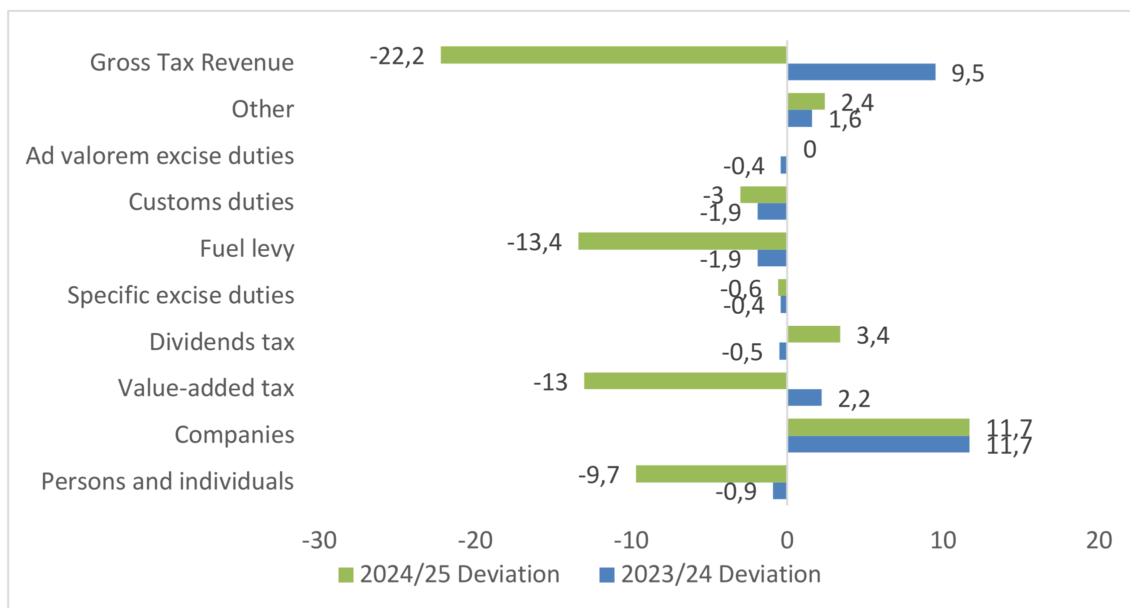
iii. Tax Administration Laws Bill – To amend the administrative powers and functions to implement the Taxation Laws.

iv. Revenue Laws Bill – To amend certain definitions, provisions, Schedules of the Income Tax Act, 1962, Skills Development Levies Act, 1999 and the Unemployment Insurance Contributions Act, 2002.

v. Global Minimum Tax Bill – To introduce the Global Anti-Base Erosion (GloBE) Rules and imposition of the Top-up Tax, to ensure multinational enterprise pay a minimum level of tax on the income arising in each of the jurisdictions where they operate.

vi. Global Minimum Tax Administration Bill – To provide for the administration of the Global Minimum Tax Act.

Figure 11: 2024 MTBPS Tax revenue deviations (2024/25 and 2023/24)



Source: National Treasury MTBPS (2024)

4.8. In-year deviations in tax revenue have been revised downward by R22.3 billion in the 2024/25 adjusted budget (Figure 11), largely due to a reduced need for energy-related imports for power generation, which has lowered import VAT collections. Fuel levy collections are also lower, impacted by a substantial one-off diesel refund payment expected this year. Personal income tax collections have been revised downward due to weaker private-sector employment and lower-than-anticipated wage settlements. Conversely, corporate tax and domestic VAT collections have exceeded the 2024 Main Budget estimates, bolstered by improved business confidence, reduced inflation, and lower borrowing costs, which have supported consumer purchasing power.

Table 1: Comparison Between the Main and Adjusted budgets revenue and expenditure

R billion	Main Appropriation	Special Appropriation	Total Adjustments	Adjusted Appropriation
Total Revenue	1 815.0	–	-17.7	1 797.4
Tax revenue	1 863.0	–	-22.3	1 840.8
Non-tax revenue	41.9	–	4.6	46.5
Southern Africa Customs Union Payments	-89.9	–	-0.0	-89.9
Total expenditure	2 136.0	5.1	11.9	2 153.0
Main budget balance	-320.9	–	-29.6	-355.6

Source: National Treasury 2024 MTBPS
Note: Southern Africa Customs Union (SACU)

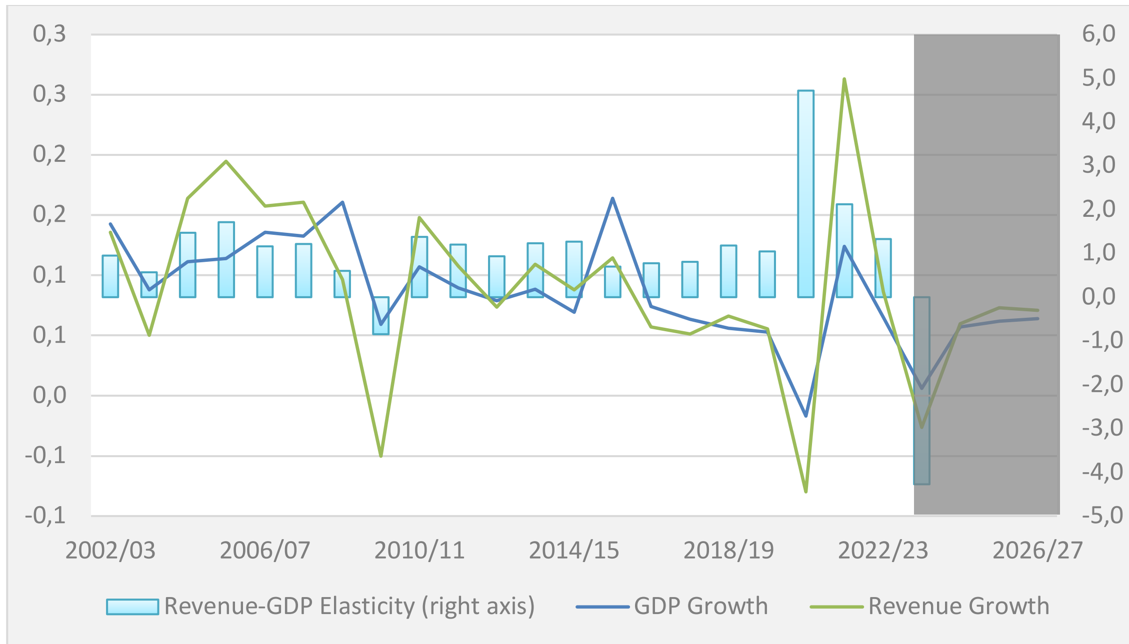
4.9. Maintaining the progressivity of personal income tax is a fundamental principle of South Africa's tax system aimed at alleviating the country's high levels of inequality. It is essential to affirm this progressivity through evidence in the tax administrative data published by the South African Revenue Service.

4.10. The Commission observes that for the first time in 15 years, the government has recorded a primary budget surplus between total revenue and *non-interest* expenditure for the 2023/24 financial year. It is crucial to note, however, that the *interest*, alternatively *debt-service costs*, which constitute 5.2 per cent of GDP annually and exceed 20 per cent of total revenue each year, are a direct charge on the national revenue fund. Given South Africa's junk-grade credit rating, these costs are currently invariable. Therefore, the recent fiscal outcome should not divert attention from the broader imperative of fiscal consolidation, despite the apparent quantitative improvement.

Revenue Performance and Outlook

4.11. Figure 12 analyses the historical trend of Revenue-GDP elasticity in relation to revenue and GDP growth. The data series indicates that, while Revenue-GDP elasticity—or tax buoyancy—has generally remained positive over time, it has exhibited significant volatility, especially since 2020/21 due to the impact of the COVID-19 pandemic, leading up to completely opposite directions of revenue and GDP growth in the latest estimates and negative tax buoyancy.

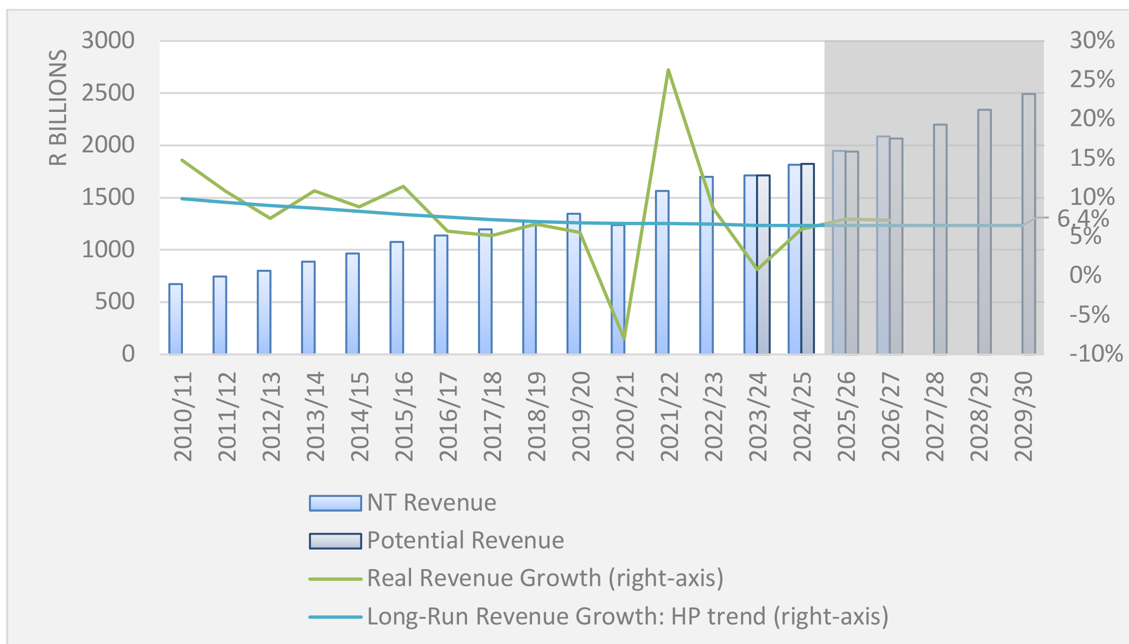
Figure 12: Revenue-GDP Elasticity



Source: South African Revenue Service

4.12. Figure 13 provides Commission's long-run forecasts of potential revenue, based on revenue growths observed in the post-COVID era. Revenue growth is forecasted at 6.4 per cent over the long term (nominal), slightly below National Treasury's predictions, illustrating a more conservative revenue outlook. This long-run revenue forecast is then used to derive the proposed fiscal consolidatory path in Figure 14.

Figure 13: FFC's Long-Run Potential Revenue



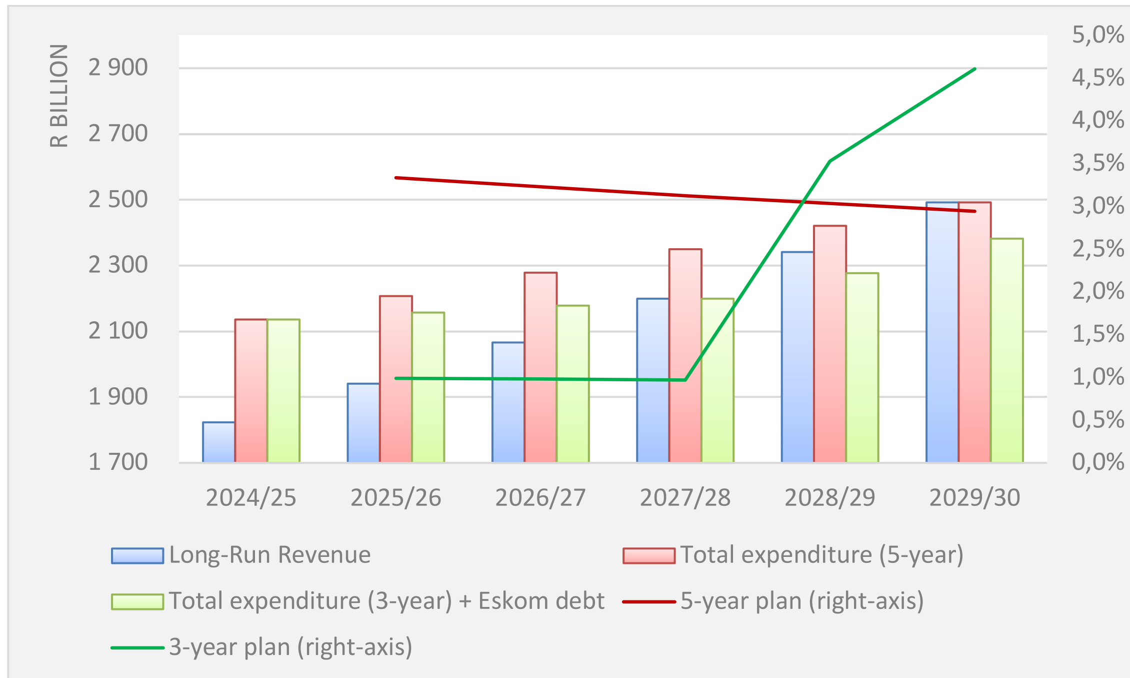
Source: National Treasury and Commission's Own Calculations

Adjusted Fiscal Framework and the FFC's Proposed Fiscal Path

4.13. Maintaining fiscal sustainability and enhancing public sector productivity requires reducing public sector compensation costs to improve state efficiency and build capacity without compromising public service delivery. This can be achieved through restructuring to better align with core government functions and mandates. The Cabinet's endorsement of an early retirement programme, aimed at reducing government employment costs while building state capability by introducing younger, motivated talent into the public sector, is commendable. Additionally, a comprehensive performance and employee audit is essential to identify redundant positions and address the issue of "shirking workers" who may be employed in "hybrid" or "remote" settings. Concurrently, a salary review and benchmarking exercise should accompany restructuring efforts to ensure that retained employees possess the necessary skills for effective service delivery.

4.14. The Commission emphasises that, while the government intended to embark upon a plan of fiscal consolidation to reign in its debt and rising debt-service costs, total government expenditure has continued to increase creating a deepening fiscal crisis. Figure 14 presents the Commission's proposal for fiscal consolidation, illustrating two scenarios to restore fiscal sustainability within the government's expenditure framework: a medium-term (5-year) path and a short-term (3-year) path of fiscal consolidation.

Figure 14: FFC's Fiscal Consolidatory Paths – 3-year and 5-year plans



Source: Commission's Own Calculations

4.15. The three-year consolidation plan is stringent, proposing to cap expenditure growth at 1 per cent over the period to achieve a zero-balance budget between total revenue and expenditure, thereby restoring fiscal credibility within three years. Following this,

expenditure may increase in the subsequent two years, reaching 4.5 per cent by 2029/30, factoring in the Eskom debt-relief arrangement. Alternatively, the Commission suggests a five-year fiscal consolidation path, where expenditure growth would decrease from 3.3 per cent in 2025/26 to 2.9 per cent in 2029/30, excluding Eskom debt considerations. Both fiscal consolidation approaches will require restructuring spending priorities and a firm commitment to fiscal discipline.

Recommendations

- *The Commission's analysis suggests that reversing the current low-growth trajectories necessitates comprehensive reforms and strategic institutional realignments to boost productivity. Additionally, significant investments in infrastructure capital development are essential for positively and sustainably enhancing economic performance.*

- *In light of the recent moderation in inflation and considering South Africa's economic growth structure and industry trends, the Commission believes that monetary easing may be appropriate, conditional upon the government's commitment to reinstating fiscal discipline through reductions in the debt-to-GDP ratio.*

- *Given South Africa's current fiscal position, which is clearly unsustainable due to a lack of economic productivity despite an expansionary fiscal policy stance over the past fifteen years post-financial crisis. The Commission proposes two fiscal consolidation plans: a three-year and a five-year path to achieve a zero-balance budget, thereby restoring fiscal sustainability and fostering a conducive environment for economic growth.*

- *With South Africa facing high debt, significant debt service and redemption costs, and refinancing risks over the coming decade, the Commission recommends that the government reduce expenditure and explore innovative debt restructuring strategies to mitigate the risks associated with principal and interest burdens in the upcoming years.*

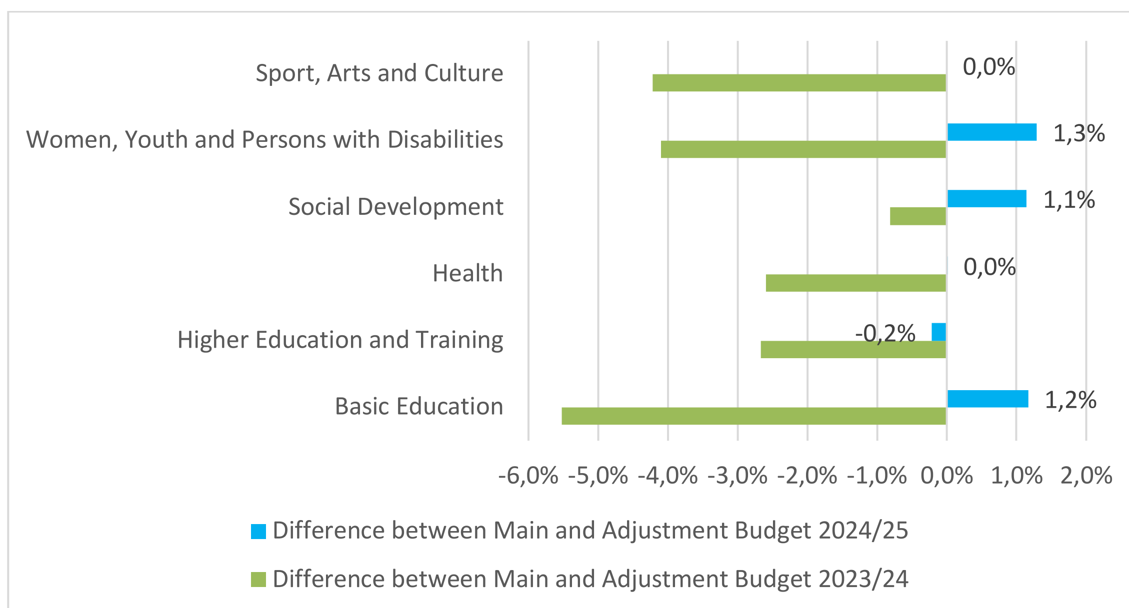
5. 2024 Adjustment Appropriation Bill

5.1. The 2024/25 Adjustments Appropriation Bill proposes adjustments totalling R11.2 billion, which includes amounts outlined in the 2024 Special Appropriation Bill. Figure 15 to Figure 19 calculates the budget adjustments across votes as a proportion to their respective baselines (i.e. Main Budget) for the financial years of 2023/24 and 2024/25. On Learning and Culture, as well as Social Development and Health (Figure 15) while the 2023 MTBPS introduced substantial reductions to these votes, the 2024 MTBPS makes marginal additions (under 2 per cent) to the votes for Basic Education, Women, Youth and Persons with Disabilities, and Social Development.

5.2. The R3.2 billion upward adjustment to the Social Development vote primarily funds two areas: an increase in the **Social Relief of Distress (SRD) Grant** from R350 to R370, and

R1.6 billion allocated to cover outstanding SRD grant payments from 2023/24. The latter highlights persistent challenges within the South African Social Security Agency (SASSA), including delayed grant disbursements and maladministration leading to payments for ineligible beneficiaries. The Commission recommends that the Department of Social Development (DSD) implement more rigorous oversight to establish robust processes and systems that enhance the efficiency and effectiveness of grant administration. No mention is made of the intended phasing out of the SRD grant in 2025.

Figure 15. Difference between Main and Adjusted Budget as a proportion of the Main Budget, 2023/24 and 2024/25: Learning and Culture, Health and Social Development Votes (per cent)

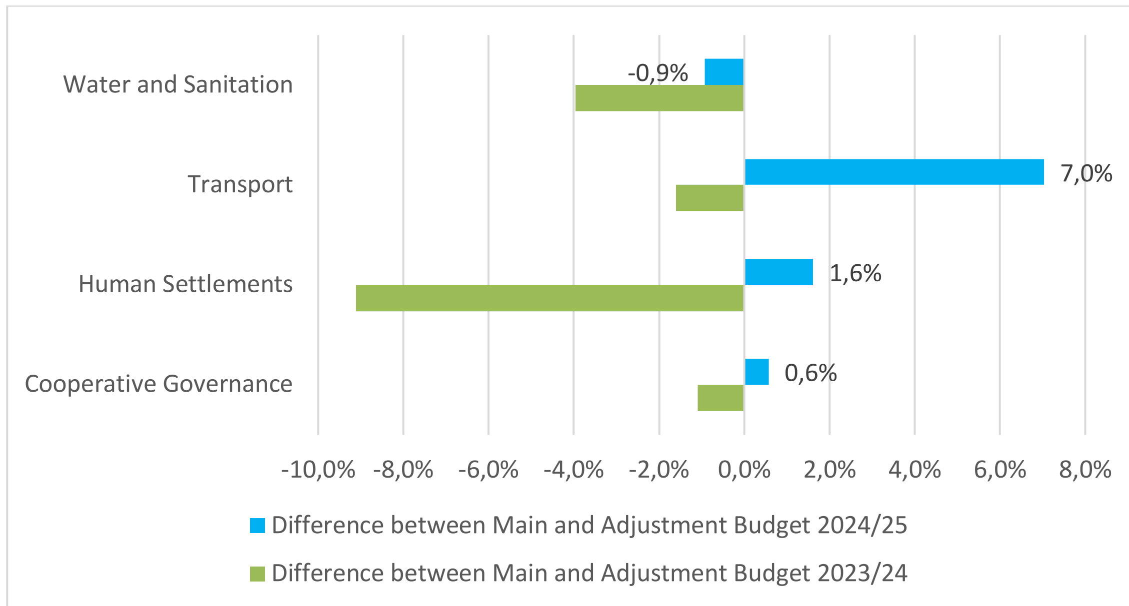


Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

5.3. Figure 16 shows the significant adjustment to the Transport vote. The bulk of this adjustment relates to the R5 billion addition to South African National Roads Agency (Sanral) for debt repayments linked to the **Gauteng Freeway Improvement Project (GFIP)** and the now-scrapped **e-tolls project**. The R5 billion adjustment is the result of the Government's agreement with the Gauteng Provincial Government to cover 30 per cent of the Sanral debt while the national government would cover the balance.

5.4. Figure 16 also emphasises the consecutive downward adjustments to the Water and Sanitation vote. Considering the challenges being experienced in the water sector, the full impact of these reductions on service delivery must be fully understood. The Human Settlements vote is adjusted slightly upwards by 1.6 per cent in 2024/25. The increase is aimed at replenishing the **emergency housing grant** to fund current shortfalls and outstanding historical interventions. Additions to the Cooperative Governance vote is largely in respect of the **Municipal Disaster Recovery Grant** (R684 million), to assist with the reconstruction and rehabilitation of municipal infrastructure that was damaged by floods across the Eastern Cape, Free State, KwaZulu-Natal, Limpopo and Mpumalanga. The importance of oversight to ensure efficient and effective reconstruction and rehabilitation of infrastructure cannot be overstated.

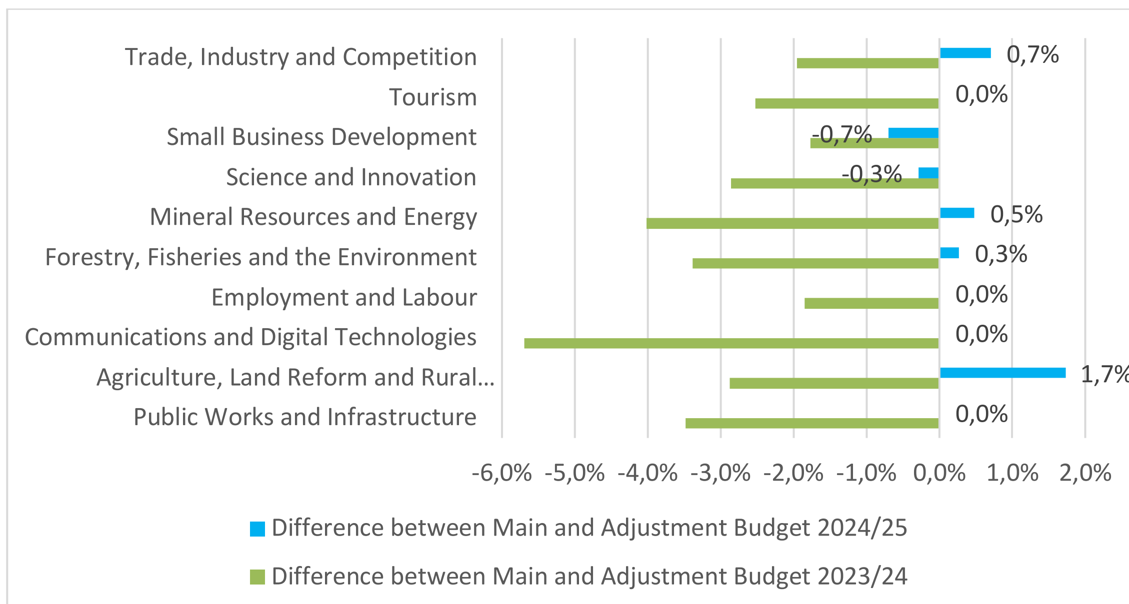
Figure 16. Difference between Main and Adjusted Budget as a proportion of the Main Budget, 2023/24 and 2024/25: Community Services Votes (per cent)



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

5.5. Adjustments to the economic development votes are minimal (Figure 17), considering the significant reductions implemented in 2023/24. Just under R300 million has been added to the Comprehensive Agriculture Support Programme (CASP) grant for Agriculture, Land Reform and Rural Development vote to assist the Western Cape with flood-damaged infrastructure.

Figure 17. Difference between Main and Adjusted Budget as a proportion of the Main Budget, 2023/24 and 2024/25: Economic Development Votes (per cent)



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

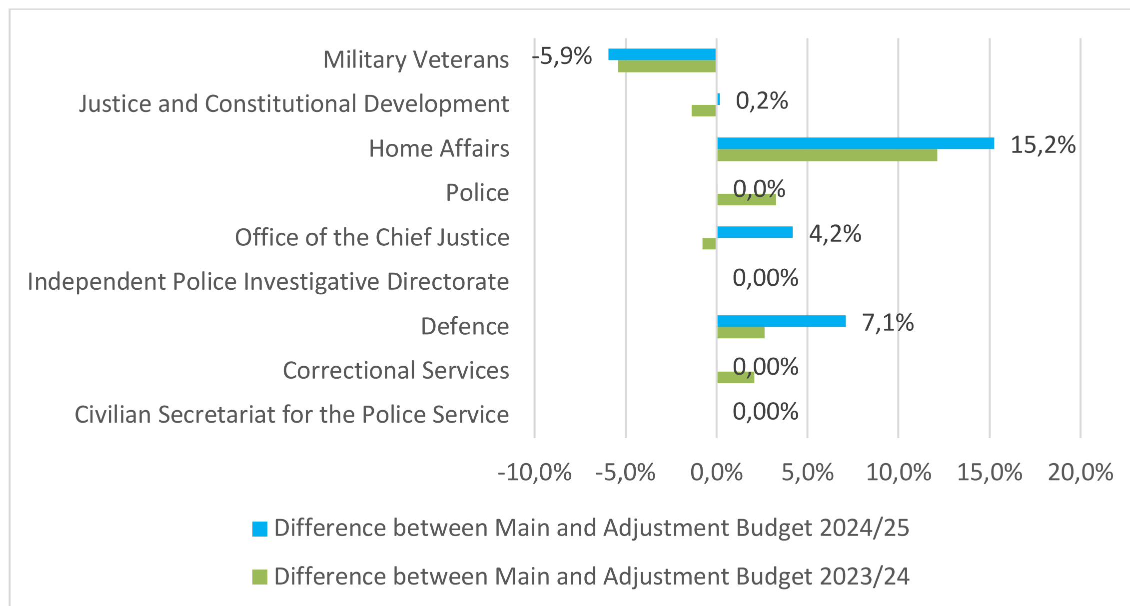
5.6. The largest adjustments within the peace and security cluster (Figure 18) are:

- **Home Affairs** vote: Expenditure (R1.6 billion) incurred for **issuing official documents** (passports and smart identity cards), which is defrayed by revenue generated from issuing the documents

- **Defence** vote: An upward adjustment of 7 per cent relative to its Main Appropriation, equating to R3.7 billion is the largest vote adjustment for two **Southern African Development Community (SADC) missions**, namely **Operation Thiba** in the Democratic Republic of Congo (R2.1 billion) and **Operation Vikela** in Mozambique (R750 million). The Commission commends the government's commitment to promoting regional and global peace and encourages efforts to engage other nations in giving greater supports to these missions to ensure that the fiscal responsibility does not fall disproportionately on South Africa alone.

- **The Office of the Chief Justice** vote receives an upward revision of 4.2 per cent (R51.3 million) relative to its Main Appropriation. This is the result of a shifting of funds between votes from the Military Veterans vote to cover a budget shortfall on compensation of employees. An addition of R158 million is in respect of increases to **judges' salaries**.

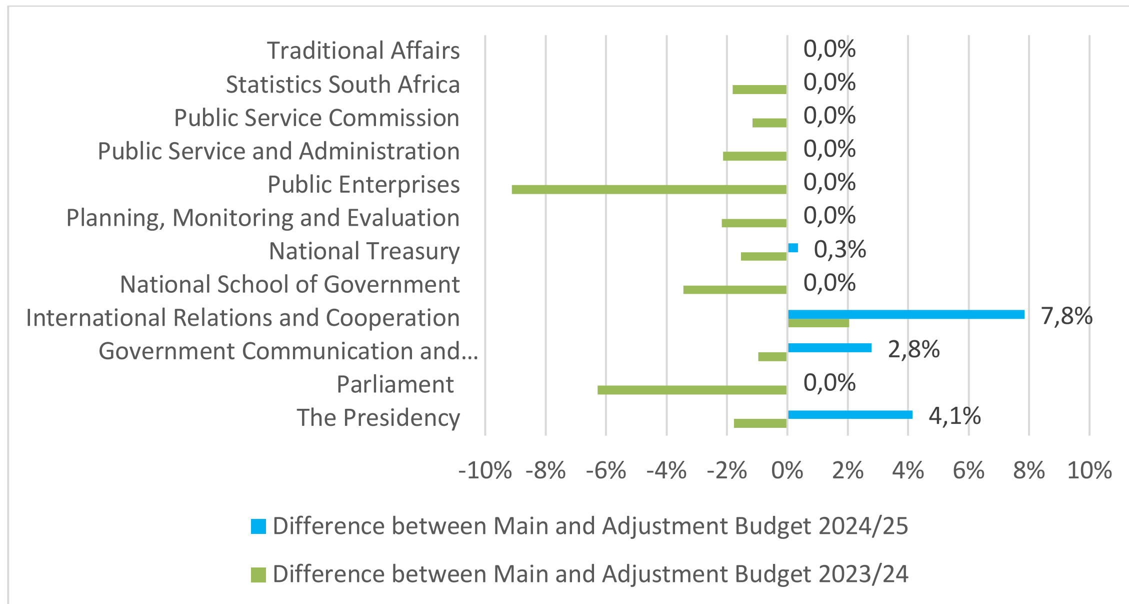
Figure 18.Difference between Main and Adjusted Budget as a proportion of the Main Budget, 2023/24 and 2024/25: Peace and Security Votes (per cent)



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

5.7. Votes in the General Public Services cluster (Figure 19) are generally not affected by the adjustments with the exceptions of the **International Relations and Cooperation** and **The Presidency**. The 7.8 per cent upward revision to the International Relations and Cooperation vote is driven by the legal proceedings against Israel in the **International Court of Justice (ICJ)**, the **G20 presidency events**, and additions due to the shifting of funds from the Department of Higher Education to cover foreign exchange losses.

Figure 19. Difference between Main and Adjusted Budget, 2023/24 and 2024/25: General Public Services Votes (per cent)



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

5.8. In terms of adjustments to the Direct Charges Against the National Revenue Fund (Table 2), the largest upward revision is in respect of **debt service costs** which is adjusted upwards by R6.7 billion, continuing to crowd out spending on other priorities. **Members' Remuneration**, likely linked to the expanded number of ministers that followed the establishment of the Government of National Unity (GNU), increased by R221 million (or 45 per cent). **Judges' salaries** were also adjusted upwards by 13.4 per cent.

Table 2. Total Direct Charges against the National Revenue Fund, 2024/25

R'million	2024			
	Main Appropriation	Special Appropriation	Total Adjustments	Adjusted Appropriation
Total direct charges against the National Revenue Fund	1 027 599	–	9 123	1 036 722
President and deputy president salaries (The Presidency)	8	–	–	8
Members' remuneration (Parliament)	493	–	221	714
Debt-service costs (National Treasury)	382 183	–	6 671	388 854
Provincial equitable share (National Treasury)	600 476	–	–	600 476
General fuel levy sharing with metropolitan municipalities (National Treasury)	16 127	–	–	16 127
National Revenue Fund payments (National Treasury)	–	–	2 080	2 080
Auditor-General of South Africa (National Treasury)	129	–	–	129
Skills levy and sector education and training authorities (Higher Education)	24 500	–	(7)	24 493
Magistrates' salaries (Justice and Constitutional Development)	2 496	–	–	2 496
Judges' salaries (Office of the Chief Justice)	1 175	–	158	1 333
International Oil Pollution Compensation Fund (Transport)	13	–	–	13

Source: National Treasury 2024 MTBPS.

Special Appropriation Bill

5.9. The 2024 Special Appropriation Bill allocates R5.1 billion, with the majority (R5 billion) directed to the Transport Vote, specifically for the South African National Roads Agency (Sanral) to address debt repayment associated with the **Gauteng Freeway Improvement Project**. The Commission acknowledges this adjustment and advises that future projects undergo rigorous feasibility studies.

5.10. The special appropriation to the **Presidency, International Relations and Cooperation and Justice and Constitutional Development votes**, amounting to R95.6 million is in respect of costs associated with South Africa's case against Israel at the International Court of Justice (ICJ). As noted above, the government is encouraged to pursue partnerships with other nations to more equitably distribute the cost burdens associated with promoting global peace.

Table 3. Summary of the 2024 Special Appropriation Bill

Vote	Programme	Amount (R million)
Presidency	Administration (Goods and Services)	17
International Relations and Cooperation	Administration (Goods and Services)	40
Justice and Constitutional Development	State Legal Services (Goods and Services)	38
Transport	Road Transport: Sanral (Payments for Financial Assets)	5 021
Total		5 117

Source: National Treasury 2024 Special Appropriations Bill.

Expenditure from a Functional Perspective

5.11. The year-on-year growth depicted in Figure 20 underscores the government's prioritization of initiatives aimed at stimulating economic growth. Within the economic development cluster, **Economic Regulation and Infrastructure** (projected to grow by 18.2 per cent) and **Job Creation** (10.1 per cent) are expected to show the strongest growth in 2025/26. The Commission supports the government's focus on growth-oriented public infrastructure investment, particularly in rail transport and the water sector. In addition to opening the freight rail network to private operators, the Commission recommends that the Department of Transport, in collaboration with National Treasury, Transnet, the South African Police Service, PRASA, and the private sector, develop and implement data-driven strategies to improve infrastructure maintenance, modernize train tracking and scheduling systems, and prevent vandalism.

5.12. The Commission is particularly concerned about the state of South Africa's water and sanitation infrastructure. The South African Institution for Civil Engineering's (SAICE) 2022 grading of infrastructure indicates that bulk water resources are at risk and poorly maintained. In all areas except for major urban areas, sanitation infrastructure is unfit for

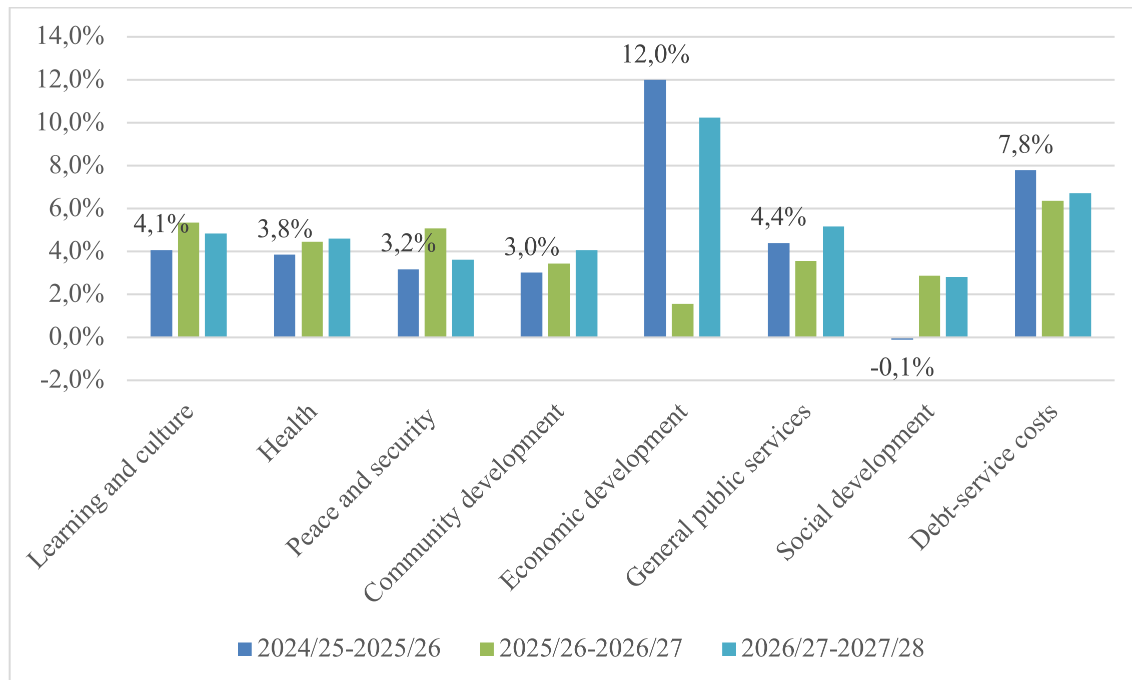
purpose and on the verge of failure. Critical reforms for the water sector as part of Operation Vulindlela are thus supported. The Commission applauds the government's planned emphasis on improving the productivity of smallholder farmers over the 2025 MTEF period per its recommendation made in the Annual Submission.

5.13. The Commission notes with concern that **debt-service costs** in terms of the absolute amount allocated – at a projected R419 billion in 2025/26, is larger than the allocations to Basic Education, Health and Community Development.

5.14. **Basic Education** is the driver of growth within the Learning and Culture function. The Commission welcomes the commitment by the Department of Basic Education to pilot a nutrition programme within the Early Childhood Development (ECD) sector as well as strengthen early grade reading. If successful, these interventions will go a long way in terms of improving educational outcomes. The Commission welcomes the merging of the indirect Schools Infrastructure Backlogs Grant (SIBG) to the direct Education Infrastructure Grant (EIG) to facilitate better education infrastructure outcomes.

5.15. Concerning the **National Health Insurance (NHI)** reform, the Commission notes the focus on developing and preparing systems and infrastructure. However, the Commission is concerned by the lack of implementation following several policy decisions, including those related to universal health care, the NHI, and the decision to make Grade R compulsory. Sound and progressive policies have limited impact without robust implementation frameworks.

Figure 20. Year-on-Year Growth in Expenditure by Function, 2024/25 to 2027/28 (per cent)



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

Recommendations

- *The Commission notes with concern that debt-service costs in terms of the absolute amount allocated – at a projected R419 billion in 2025/26, is larger than the allocations to Basic Education, Health and Community Development.*

- *The Commission recommends and supports the government's initiative to integrate employment opportunities with social support systems, aiming to enhance the strategic impacts of these interventions. This integration is designed to provide sustainable social relief, promote inclusive growth, and reduce inequality through expanded employment opportunities.*

- *The Commission recommends that the Department of Social Development (DSD) implement more stringent oversight to ensure the establishment of proper processes and systems that enhance the efficiency and effectiveness of grant administration.*

- *The Commission commends the government's commitment to promoting world peace both regionally and internationally. However, it recommends that strategies be intensified to encourage other nations to collaborate in these initiatives to ensure that the fiscal burden does not fall disproportionately on South Africa alone.*

- *The Commission acknowledges the special appropriation for the South African National Roads Agency Limited (Sanral) and advises that future projects of this nature undergo rigorous feasibility and devolution studies via a rent-to-transfer model.*

- *The Commission welcomes the government's focus on promoting growth through the prioritisation of infrastructure during the 2025 Medium Term Expenditure Framework (MTEF) period. It advises that to fully capitalise on the potential benefits of infrastructure investments; these allocations must be complemented by robust project management from inception through to development. Additionally, to safeguard the state's investment in completed infrastructure projects, there must be a commitment to ensuring adequate repairs and maintenance.*

6. 2024 Division of Revenue Amendment bill – Provinces

6.1. The 2024 MTBPS budget allocation to provinces has been tabled amidst provincial appeals for additional funding to address expenditure pressures. The Commission emphasises that the budget constraints faced by provinces, particularly in the education and health sectors, must be viewed in light of provincial autonomy in allocating equitable share funding based on locally determined priorities and competing needs. Consequently, any funding adjustments, shortfalls, or cuts should not be assumed to directly correlate with staff numbers or cost pressures within a province, but rather considered within the broader context of policy choices made at the provincial level.

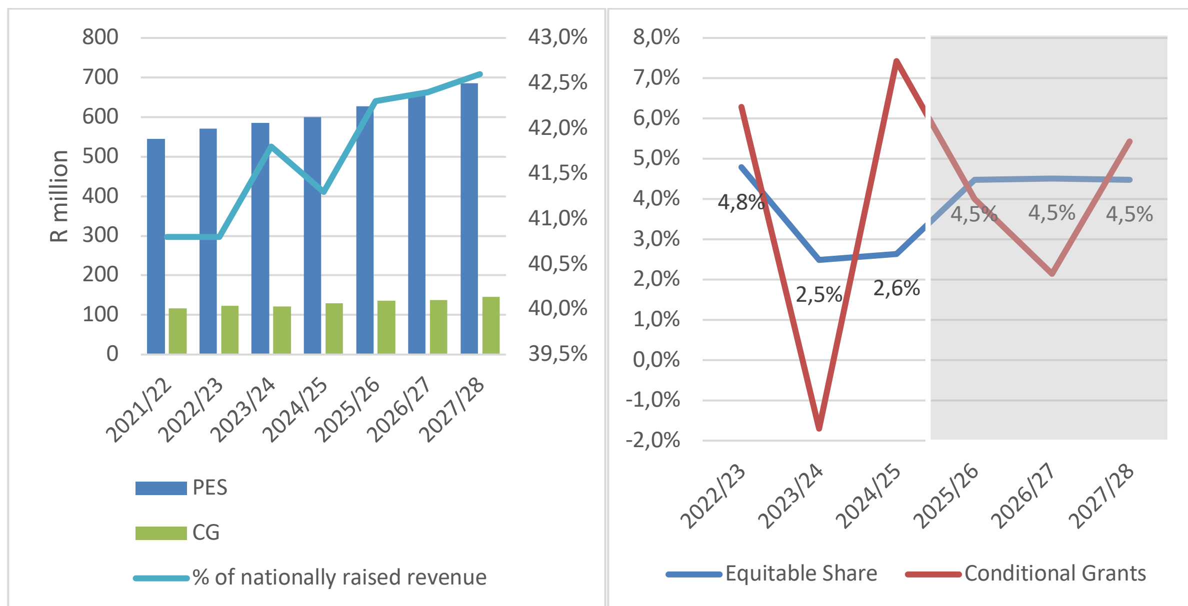
6.2. The Commission underscores that the responsibility of reducing public sector compensation costs to enhance state efficiency and build capacity, without compromising

public service delivery and restoring fiscal sustainability, should be shared equally across all spheres of government. Provinces, as the primary employers of provincial doctors, teachers, and nurses and public administrators, should conduct a comprehensive employee audit to identify redundant positions, improve public sector productivity, and address the issue of "shirking workers" who may be operating in "hybrid" or "remote" settings. A concurrent salary review and benchmarking exercise should accompany restructuring efforts to ensure that retained employees possess the skills essential for effective service delivery.

Provincial equitable share

6.3. Figure 21 summarises the budget allocation to provinces, showing their share of the division of revenue and the growth in equitable share and conditional grants. Over the medium term, provinces are projected to receive 42.4 per cent of the national division of revenue. The 2024 MTBPS includes no additional provisions to the Provincial Equitable Share beyond the 4.5 per cent already allocated, reflecting a recovery from the previous growth rates of 2.5 per cent in 2023/24 and 2.6 per cent in 2024/25.

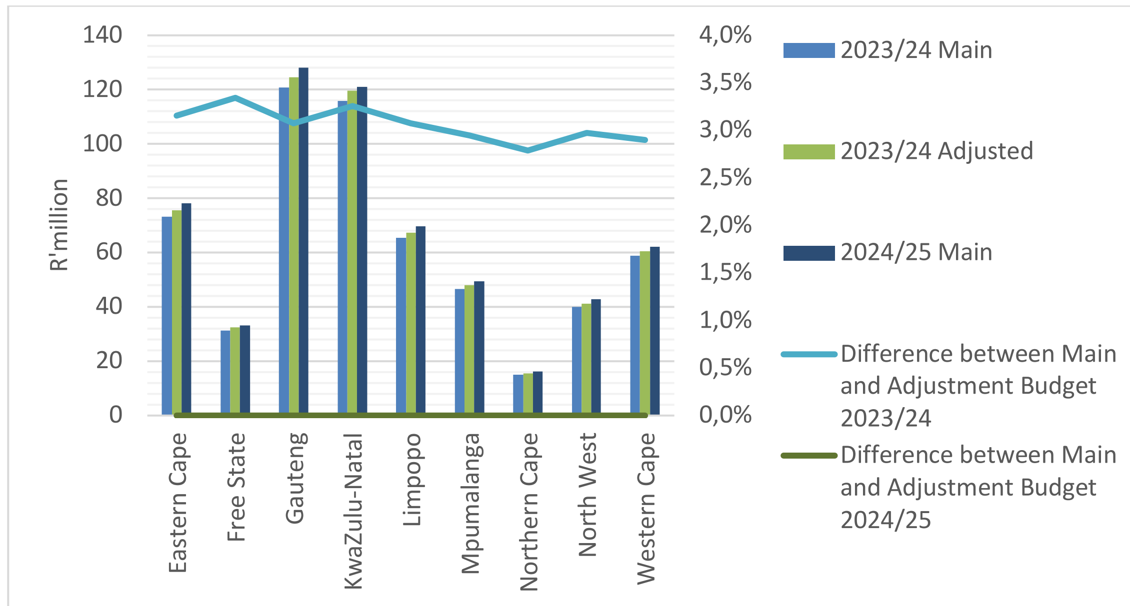
Figure 21: National Transfers to Provinces of Provincial Equitable Share (PES) and Conditional Grants (CG), and year-on-year growth from 2022/23 to 2027/28



Source: National Treasury 2024 MTBPS and Commission's Own Calculations

6.4. Figure 22 illustrates the adjustments to the Provincial Equitable Share for each province for 2023/24 and 2024/25. Adjustments totalling R17.6 billion were made in the 2023/24 Adjusted Budget to address the wage shortfall for employee compensation in the Health and Education sectors, with an average increase of 3.1 per cent across all provinces. In contrast, no adjustments were made in the 2024/25 financial year in the Division of Revenue Amendment Bill.

Figure 22: Difference between Main and Adjusted Budget (and as a proportion of the Main Budget) in 2023/24 and 2024/25: Provincial Equitable Share per Province

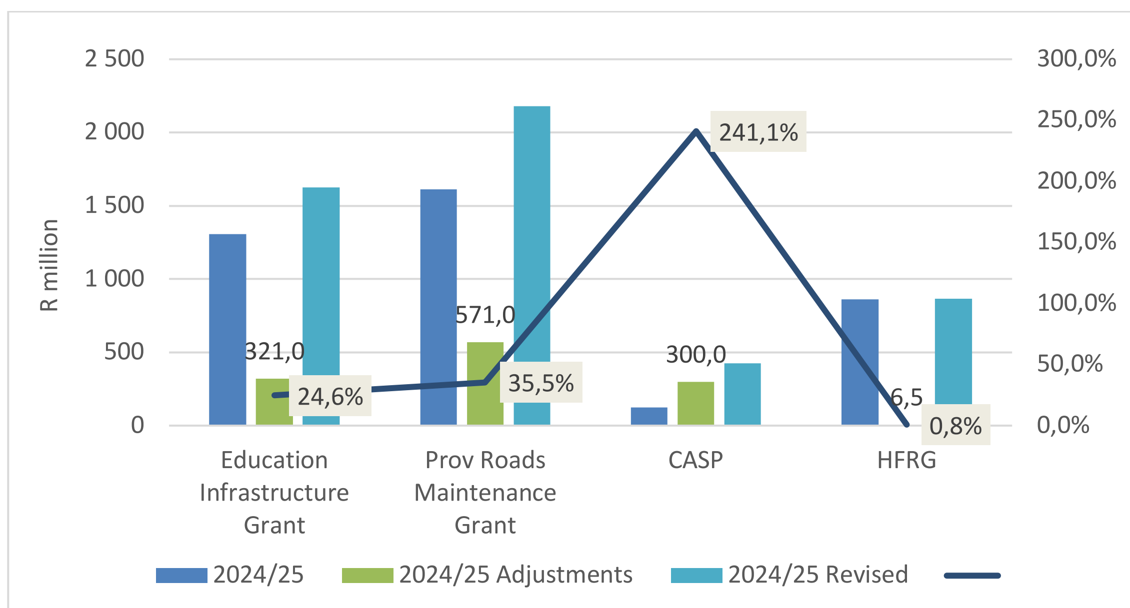


Source: National Treasury 2024 MTBPS and Commission's Own Calculations

Provincial Conditional Grants

6.5. The 2024 adjustment budget allocates additional funds to the Western Cape to help address flood-related damages. Notably, over 47 per cent of these additional funds are provided through the Provincial Roads Maintenance Grant, while 26.8 per cent is allocated via the Education Infrastructure Grant.

Figure 23: 2024 MTBPS Conditional grants adjustments (as a proportion of the Main Budget)



Data Sources: National Treasury 2024 MTBPS and Commission's Own Calculations

6.6. Reforms scheduled for implementation over the 2025 MTEF include merging the Comprehensive Agricultural Support Programme Grant with the Ilima/Letsema Grant. The Commission welcomes this change as it aims to improve effectiveness and aligns with recommendations made in the Commission's Submission for the 2025/26 Division of Revenue. Additionally, the merging of the Education Infrastructure Grant with the School Infrastructure Backlogs Grant is supported, as the Commission has repeatedly noted the poorer performance of indirect grants compared to direct conditional grants in terms of spending and non-financial outcomes. This merger will also foster better alignment with the overlapping objectives of the two grants and help streamline reporting processes.

Recommendations

- *The Commission points out that the budget constraints faced by provinces, especially within the education and health sectors, should be assessed in the context of provincial autonomy over the allocation of equitable share funding, which is determined by local priorities and competing needs. To better understand the underlying causes of these budgetary issues, a detailed analysis is recommended, taking into account the policy decisions made by the provinces.*

- *The Commission highlights the necessity for all spheres of government to share the responsibility of reducing public sector compensation costs. This measure is vital for enhancing state efficiency and capacity building, while ensuring that public service delivery is not compromised, and fiscal sustainability is restored.*

- *The Commission applauds the integration of the indirect Schools Infrastructure Backlogs Grant (SIBG) into the direct Education Infrastructure Grant (EIG). This consolidation is expected to improve education infrastructure outcomes, aligning with previous recommendations made by the Commission. Additionally, the merger of the Comprehensive Agricultural Support Programme Grant with the Ilima/Letsema Grant is also welcomed, as it aims to streamline efforts and resources in the agricultural sector.*

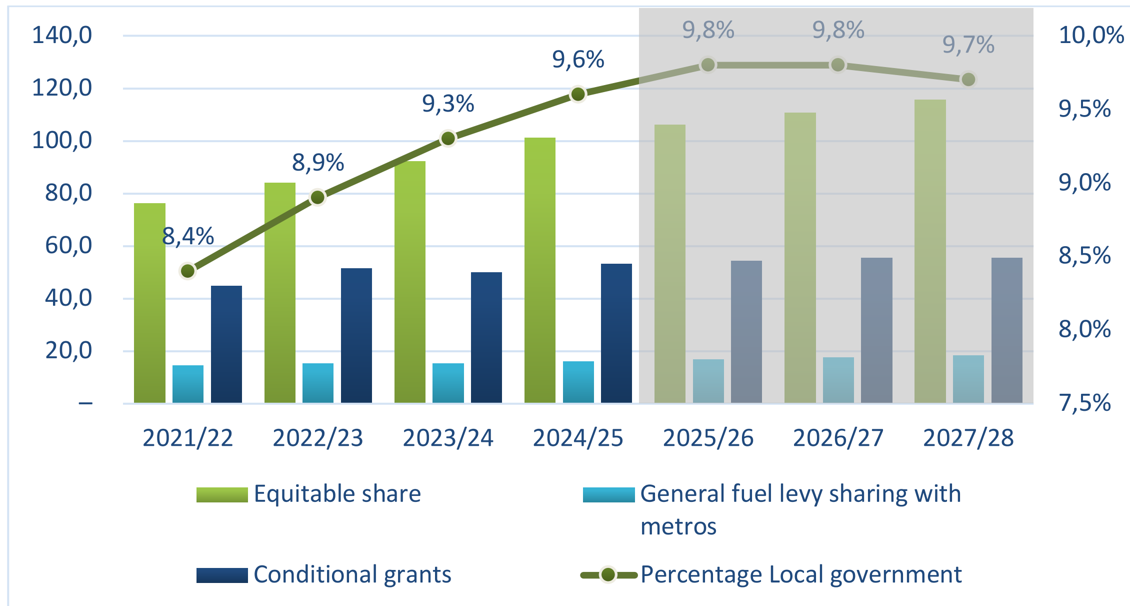
- *With the increasing frequency of natural disasters in South Africa, it is advised that provincial governments proactively manage the risks associated with these events through strategic infrastructure planning and budget adaptation strategies. This approach will help mitigate potential impacts and enhance resilience against natural disasters.*

7. 2024 Division of Revenue Amendment bill – Local Government

7.1. The local government sphere has been facing challenges of poor financial management controls, ineffective budgeting practices, unfunded budgets, and perpetual underspending, resulting in poor performance and institutional weaknesses. Against this backdrop, the local government's medium estimate allocations are tabled.

7.2. Over the 2025 MTEF, the Local Government sphere is estimated to receive R550.5 billion; this is split into three categories, namely: the Local Government Equitable Share (LGES), which is an unconditional transfer; Conditional Grants for addressing mainly infrastructure and capacity needs at R165.2 billion; and General Fuel Levy to metropolitan municipalities at R52.9 billion (Figure 24).

Figure 24: Division of revenue-local government



Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

Local Government Equitable Share (LGES)

7.3. The Local Government Equitable Share (LGES) allocations are formula-driven, based on income and expenditure surveys disaggregated at the municipal level to determine the number of households classified as indigent—those with incomes below the equivalent of two state pensions. The basic component of the formula, which constitutes approximately 80 per cent of the total LGES allocation, determines funding for free basic services to these indigent households within each municipality. Delays in the release of data required for LGES calculations negatively impact the responsiveness of allocations to municipalities, hindering support for indigent households.

7.4. Based on the 2024/25 factor input price for electricity, set at R136 for 50 kWh of free basic electricity (including R13.60 allocated for repairs and maintenance), Table 4 illustrates the varying unit costs of electricity across seven metropolitan municipalities. This variation underscores the need for National Treasury to conduct a cost-unpacking exercise to ensure that the rationale behind funding the free basic electricity component is sound, transparent and accurately reflected in the formula.

Table 4 Cost comparison between Municipal Tariff and Allocation for Free Basic Electricity

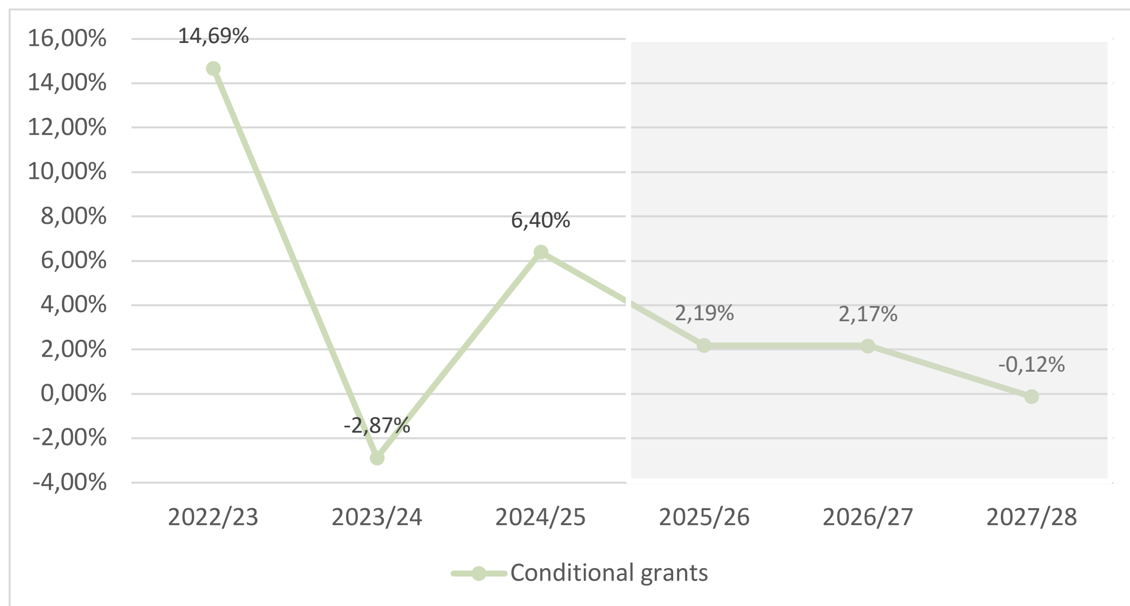
	UNIT COST	COST PER 50KWH (R)	REPAIRS AND MAINTENACE ALLOCATION	COST OF PROVIDING PER CENT FREE BASIC ELECTRICITY
BUFFALO	2.31	115.5	13.6	129.1
NMB	3.09	154.5	13.6	168.1
CPT	2.37	118.5	13.6	132.1
JHB	2.16	108	13.6	121.6
EKURHULENI	2.32	116	13.6	129.6
ETHEKWINI	2.17	108.5	13.6	122.1
TSHWANE	2.72	136	13.6	149.6

Source: Municipal Tariff lists 2024/25 and National Treasury 2024

Local Government Conditional Grant

7.5. Given the role of municipalities in developing and maintaining basic infrastructure, which is crucial for facilitating growth, the performance of conditional grant funding allocated to these programmes should be diligently monitored.

Figure 25 Nominal changes in Local Government Conditional Grant allocations

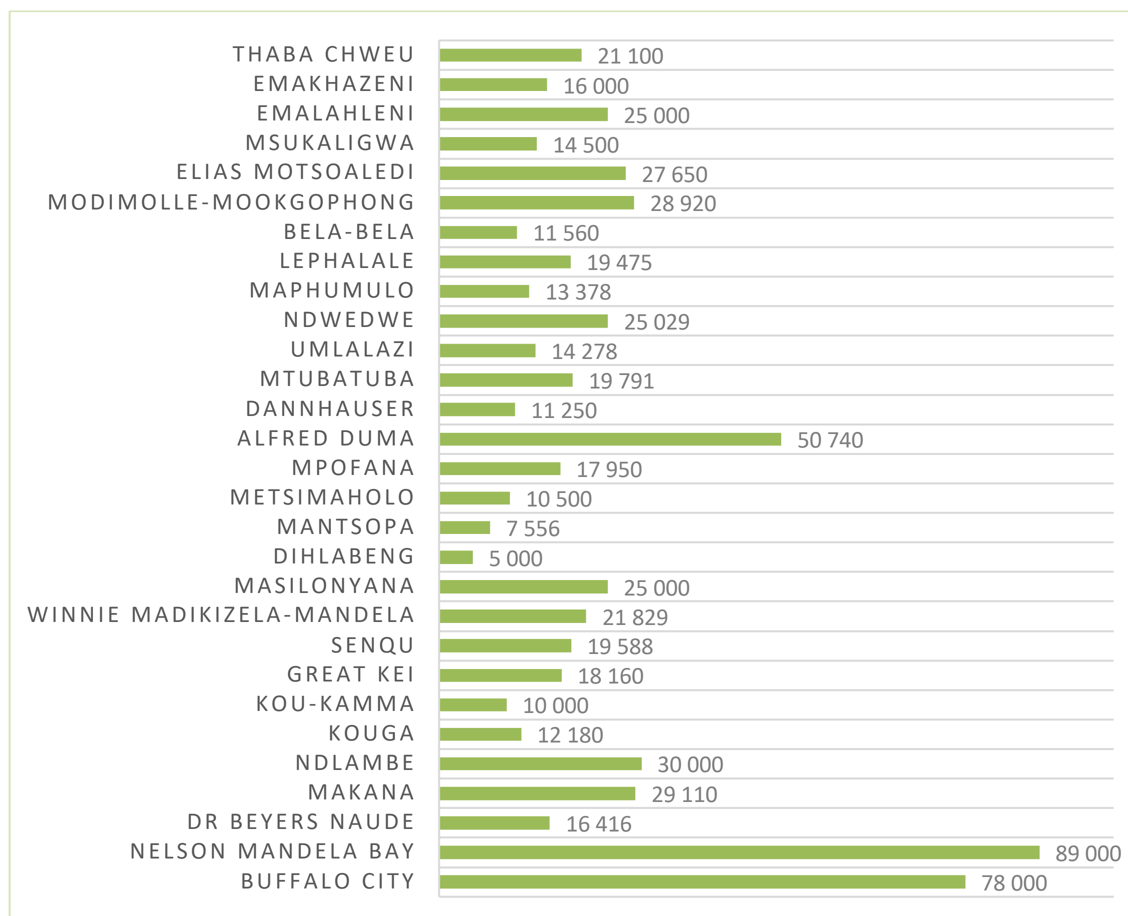


Source: National Treasury 2024 MTBPS and Commission's Own Calculations.

7.6. As part of the 2024 Division of Revenue Bill Amendment concerning conditional grant allocations, three local government grants are affected: the Municipal Disaster Recovery Grant (MDRG), the Regional Bulk Infrastructure Grant (RBIG), and the Public Transport Network Grant (PTNG). The adjustment to RBIG funding will notably impact Drakenstein Local Municipality, with a reduction of R225 million for the 2024/25 financial year.

7.7. Figure 26 illustrates the amendments made to the Municipal Disaster Recovery Grant, providing additional funding to 28 municipalities for the 2024/25 financial year. Most of these municipalities had not been allocated this funding at the start of the financial year, except for Dr Beyers Naude Municipality. Buffalo City and Nelson Mandela Bay Metropolitan Municipalities are receiving the highest allocations in this amendment.

Figure 26 Municipal Disaster Recovery Grant 2024/25 adjusted allocation



Source: National Treasury 2024 DoR Amendment Bill.

7.8. The proposed changes on the PTNG will only affect the City of Johannesburg and Buffalo City municipalities, each at R150 million. The revision to this grant is due to the reprioritisation of funding towards the Taxi Relief Fund, which aims at legitimising the taxi industry.

Recommendations

- *The Commission supports the review of the Local Government White Paper as recommended in its submissions. This review will promote a differentiated approach tailored to address the distinct challenges faced by municipalities across the sphere, ensuring that each area's unique issues are appropriately managed.*

- *The Commission recommends that the National Treasury collaborate with Statistics South Africa (StatsSA) to undertake a rolling household migration study. This study is*

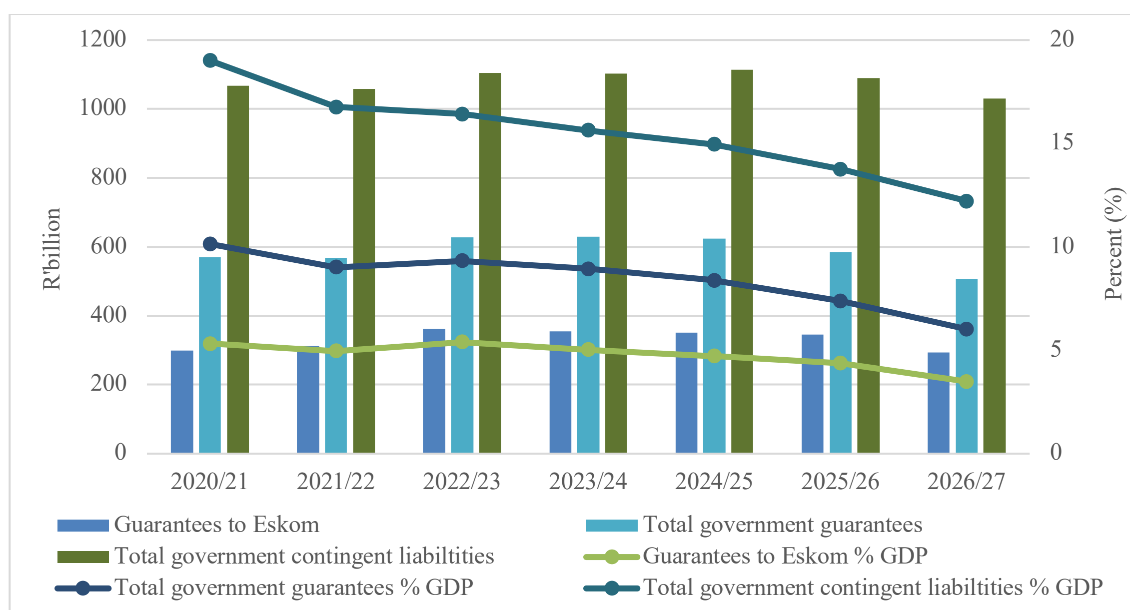
aimed at addressing discrepancies in the census data used in the master frame sample. Additionally, a costing exercise should be conducted to establish a more accurate basis for the horizontal division of revenue formula, ensuring equitable distribution of funds.

8. Fiscal Risk Statement

Contingent Liabilities

8.1. Total contingent liabilities for 2023/24 amounted to R1.10 trillion, with a projected decline to R1.03 trillion by 2026/27. Despite this downward trend, these liabilities remain a significant portion of the country's GDP, exceeding 10 per cent, as shown in Figure 27 peaking at 19 per cent of GDP in 2020/21.

Figure 27: Contingent liabilities and government guarantees



Source: National Treasury 2024 Budget and 2024 MTBPS

8.2. A substantial portion of the government's contingent liabilities consists of government guarantees, legally binding commitments in which the government assumes responsibility for servicing another entity's debt under specific conditions. Government guarantees totalled R629.7 billion in 2023/24 and are projected to decrease to R507.3 billion by 2026/27, primarily due to reduced exposure to Eskom and the South African National Roads Agency Limited (SANRAL). In 2023/24, guarantees to Eskom represented 56.2 per cent of total government guarantees, with this share expected to increase in the first two years of the medium term due to the Eskom debt-relief arrangement.

Compensation of Employees (CoE) Data

8.3. Compensation of Employees (CoE) remains one of the largest expenditure items in the fiscus. Data from National Treasury indicates that CoE in the public sector is projected to consume 37 per cent of consolidated government revenue in 2024/25. In other words,

for every R100 of government revenue in the 2024/25 financial year, R37 will be allocated to CoE to deliver public services and functions, albeit with uncertain quality of delivery.

8.4. As shown in Figure 28, CoE as a share of total consolidated expenditure is projected to decrease to 31.4 per cent by the end of 2027/28, aligning with the government's efforts to reduce compensation costs and enhance public sector productivity. The Commission stresses that fiscal consolidation does not necessarily imply a direct reduction in the number of essential personnel, such as doctors, nurses, teachers (in provinces), or front-line service providers (in local government). The specific impact of such cuts will largely depend on a restructuring strategy that realigns resources to core mandates, eliminating duplications and overlapping functions.

Figure 28: Compensation of Employees (% share of consolidated expenditure, 2020/21-2027/28

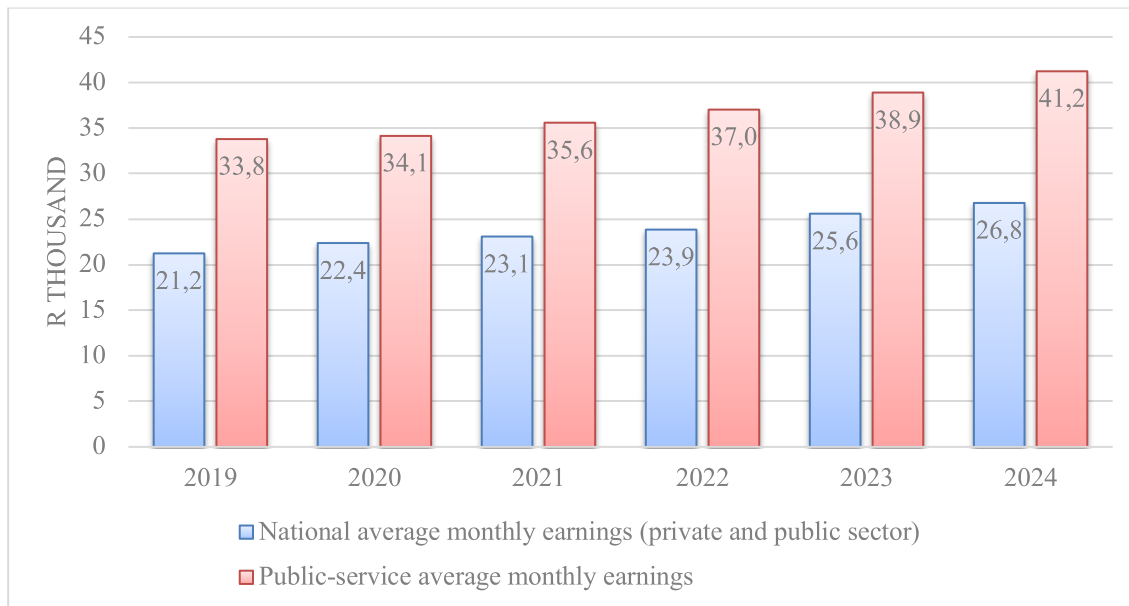
Sources: National Treasury 2024 Budget and 2024 MTBPS

8.5. From 2025/26, the public sector wage bill will once again emerge as a key pressure point for the national fiscus and a strain on the government's fiscal consolidation efforts. Wage negotiations at the 2023 Public Sector Coordinated Bargaining Council (PSCBC) resulted in a two-year wage settlement of a 7.5 per cent increase for 2023/24 and a capped CPI-linked increase between 4.5 per cent and 6.5 per cent for 2024/25.

8.6. Public-sector wages in South Africa significantly exceed the national average, as shown in Figure 29. Since 2019, public-sector earnings have been at least 50 per cent higher than the national average, reaching R41 200 in 2024 compared to the national average of R26 800. This disparity is driven by factors such as occupation-specific dispensations, aimed at attracting and retaining skilled professionals, and cost-of-living adjustments that frequently outpace inflation. The Commission views the current COE levels and recent wage negotiation outcomes as significant threats to fiscal sustainability, driving total

expenditure above inflation and beyond fiscal revenue capacity. This trajectory is likely to result in a larger fiscal deficit and escalating government debt.

Figure 29: Average Monthly Remuneration



Source: National Treasury 2024 MTBPS

8.7. Cabinet has approved the reintroduction of an early retirement programme, with National Treasury allocating R11 billion over the next two fiscal years (R4.4 billion in 2025/26 and R6.6 billion in 2026/27) to support this initiative. Further details will be provided in the 2025 February Budget. The government aims for a voluntary uptake of 30 000 workers, which is expected to generate annual cost savings of R2 billion over the medium term, based on the assumption that higher-income positions will be replaced by lower-paid individuals. While this renewed effort to manage public sector wage costs by introducing younger talent into the public sector is supported, the Commission recalls the limited success of the 2019 early retirement initiative, which similarly targeted 30 000 civil servants but yielded only around 3 000 approved applications.

8.8. To maximize the impact of this initiative, the Commission's 2025/26 Division of Revenue submission emphasizes the urgent need for a comprehensive overhaul of the South African public sector's organizational structure and performance management system. This reform should realign all programmes with core mandates, eliminate duplications and overlapping functions, and enhance productivity and service delivery outcomes. Aligning the early retirement programme with these broader reforms could enable the government to achieve more substantial savings and improve public service delivery.

9. The 2024 MTBPS and FFC's Recommendations

With respect to the Medium-Term Economic Overview and Fiscal Framework:

9.1. *The Commission's analysis suggests that reversing the current low-growth trajectories necessitates comprehensive reforms and strategic institutional realignments to boost productivity. Additionally, significant investments in infrastructure capital development are essential for positively and sustainably enhancing economic performance.*

9.2. *In light of the recent moderation in inflation and considering South Africa's economic growth structure and industry trends, the Commission believes that monetary easing may be appropriate, conditional upon the government's commitment to reinstating fiscal discipline through reductions in the debt-to-GDP ratio.*

9.3. *Given South Africa's current fiscal position, which is clearly unsustainable due to a lack of economic productivity despite an expansionary fiscal policy stance over the past fifteen years post-financial crisis. The Commission proposes two fiscal consolidation plans: a three-year and a five-year path to achieve a zero-balance budget, thereby restoring fiscal sustainability and fostering a conducive environment for economic growth.*

9.4. *With South Africa facing high debt, significant debt service and redemption costs, and refinancing risks over the coming decade, the Commission recommends that the government reduce expenditure and explore innovative debt restructuring strategies to mitigate the risks associated with principal and interest burdens in the upcoming years.*

With respect to the 2024 Adjustment Appropriation bill and the Special Appropriation Bill

9.5. *The Commission notes with concern that debt-service costs in terms of the absolute amount allocated – at a projected R419 billion in 2025/26, is larger than the allocations to Basic Education, Health and Community Development.*

9.6. *The Commission recommends and supports the government's initiative to integrate employment opportunities with social support systems, aiming to enhance the strategic impacts of these interventions. This integration is designed to provide sustainable social relief, promote inclusive growth, and reduce inequality through expanded employment opportunities.*

9.7. *The Commission recommends that the Department of Social Development (DSD) implement more stringent oversight to ensure the establishment of proper processes and systems that enhance the efficiency and effectiveness of grant administration.*

9.8. *The Commission commends the government's commitment to promoting world peace both regionally and internationally. However, it recommends that strategies be intensified to encourage other nations to collaborate in these initiatives to ensure that the fiscal burden does not fall disproportionately on South Africa alone.*

9.9. *The Commission acknowledges the special appropriation for the South African National Roads Agency Limited (Sanral) and advises that future projects of this nature undergo rigorous feasibility and devolution studies via a rent-to-transfer model.*

9.10. *The Commission welcomes the government's focus on promoting growth through the prioritisation of infrastructure during the 2025 Medium Term Expenditure Framework (MTEF) period. It advises that to fully capitalise on the potential benefits of infrastructure investments; these allocations must be complemented by robust project management from inception through to development. Additionally, to safeguard the state's investment in completed infrastructure projects, there must be a commitment to ensuring adequate repairs and maintenance.*

With respect to 2024 Division of Revenue Amendment Bill for Provinces and Local Government

9.11. *The Commission points out that the budget constraints faced by provinces, especially within the education and health sectors, should be assessed in the context of provincial autonomy over the allocation of equitable share funding, which is determined by local priorities and competing needs. To better understand the underlying causes of these budgetary issues, a detailed analysis is recommended, taking into account the policy decisions made by the provinces.*

9.12. *The Commission highlights the necessity for all spheres of government to share the responsibility of reducing public sector compensation costs. This measure is vital for enhancing state efficiency and capacity-building, while ensuring that public service delivery are not compromised and fiscal sustainability is restored.*

9.13. *The Commission applauds the integration of the indirect Schools Infrastructure Backlogs Grant (SIBG) into the direct Education Infrastructure Grant (EIG). This consolidation is expected to improve education infrastructure outcomes, aligning with previous recommendations made by the Commission. Additionally, the merger of the Comprehensive Agricultural Support Programme Grant with the Ilima/Letsema Grant is also welcomed, as it aims to streamline efforts and resources in the agricultural sector.*

9.14. *With the increasing frequency of natural disasters in South Africa, it is advised that provincial governments proactively manage the risks associated with these events through strategic infrastructure planning and budget adaptation strategies. This approach will help mitigate potential impacts and enhance resilience against natural disasters.*

9.15. *The Commission supports the review of the Local Government White Paper as recommended in its submissions. This review will promote a differentiated approach tailored to address the distinct challenges faced by municipalities across the sphere, ensuring that each area's unique issues are appropriately managed.*

9.16. *The Commission recommends that the National Treasury collaborate with Statistics South Africa (StatsSA) to undertake a rolling household migration study. This study is aimed at addressing discrepancies in the census data used in the master frame sample. Additionally, a costing exercise should be conducted to establish a more accurate basis for the horizontal division of revenue formula, ensuring equitable distribution of funds.*

With respect to Fiscal Risks

9.17. *The Commission welcomes the continuing efforts to decrease the reliance on government guarantees, as these obligations weaken the fiscal and economic stance of the country. It is vital to sustain this reduction to lessen fiscal risks, enhance the nation's creditworthiness, and attract more foreign investment.*

9.18. *The Commission reiterates that fiscal consolidation should not automatically lead to reductions in the number of essential personnel such as doctors, nurses, and teachers in provinces, or front-line service providers in local government. The actual impact of these reductions depends significantly on a restructuring strategy that efficiently reallocates resources to essential services while eliminating redundancy and overlap.*

9.19. *The Commission applauds the initiatives aimed at reducing public sector wage costs through the implementation of an early retirement programme, which simultaneously introduces a younger demographic into the workforce to boost state capability. It further recommends that a thorough performance and employee audit be conducted across the public sector to evaluate the efficacy and efficiency of these measures.*

For and on behalf of the Commission

Dr Patience Nombeko Mbava
Chairperson