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2024 Medium-Term Budget Policy Statement: South Africa

Issuer Commentary

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Review of the 2024 MTBPS

On 30 October 2024, Finance Minister Enoch Godongwana presented the Medium-Term Budget Policy Statement (MTBPS) to Parliament. This statement provides a mid-year review of South Africa's fiscal performance and outlines the government's economic strategy for the coming years. While the 2024 MTBPS covers a broad range of economic strategies and reforms, there are some notable omissions that could have significant economic impacts:

1. **Detailed Plans for Debt Reduction**:

   The MTBPS lacks a comprehensive plan for reducing the national debt, which continues to grow. Without a clear strategy for debt reduction, South Africa may face higher borrowing costs and reduced investor confidence, potentially leading to slower economic growth and increased fiscal pressure.

2. **Specific Measures for Job Creation**:

   There is limited detail on specific, actionable measures to address the high unemployment rate. High unemployment remains a critical issue. Without targeted job creation initiatives, economic inequality and social unrest could persist, hindering overall economic stability and growth.

3. **Comprehensive Tax Reform**:

   The statement does not outline significant tax reforms that could broaden the tax base and improve revenue collection. Without tax reforms, the government may struggle to increase revenue sustainably, limiting its ability to fund essential public services and infrastructure projects.

4. **Clear Strategy for Energy Security**:

   While there are mentions of energy sector reforms, the MTBPS lacks a detailed plan to ensure long-term energy security and stability. Energy insecurity can disrupt economic activities, deter investment, and slow down industrial growth, impacting the overall economic performance.

5. **Addressing Corruption and Governance Issues**:

   There is insufficient focus on measures to combat corruption and improve governance. Persistent corruption and weak governance can undermine economic reforms, reduce public trust, and deter foreign investment, negatively affecting economic growth.

Addressing these omissions could enhance the effectiveness of the MTBPS and contribute to more robust and sustainable economic development in South Africa.

Key Highlights of the MTBPS

Key Highlights:

1. **Economic Outlook**:

   - **Global Context**: Global economic growth is forecasted at 3.2% for 2024 and 2025, with global trade expected to grow by an annual average of 3.3%.

   - **Domestic Growth**: South Africa's real GDP growth is projected at 1.1% for 2024, slightly down from the 1.3% estimated in February. Over the medium term, growth is expected to average 1.8%.

2. **Fiscal Strategy**:

   - The government aims to maintain macroeconomic stability, implement structural reforms, support growth-enhancing infrastructure, and build state capability. Emphasis is placed on a stable, transparent, and predictable macroeconomic framework to foster a conducive environment for businesses and households.

3. **Structural Reforms**:

   - The second phase of Operation Vulindlela will continue to prioritise network sectors such as energy, transport, and water. Achievements include a significant pipeline of private sector investments in renewable energy, a reduction in data costs, and the introduction of an eVisa system.

4. **Infrastructure Investment**:

   - The government is implementing reforms to attract greater private sector participation in infrastructure projects. Key initiatives include mobilising private sector financing, amending PPP regulations, and establishing dedicated capacity for project planning and preparation.

5. **Social and Economic Development**:

   - The MTBPS outlines strategies to drive inclusive growth, reduce poverty, and tackle the high cost of living. The government of national unity, formed in June 2024, has prioritised these goals along with building a capable, ethical, and developmental state.

6. **G20 Presidency**:

- South Africa will assume the presidency of the G20 later this year, with a focus on solidarity, equality, and sustainable development. This presidency provides an opportunity to promote an Africa-focused agenda on the global stage.

Possible Avenues for Key Economic Challenges

1. **Unemployment**

- **Enhance Education and Skills Development**: Invest in quality education and vocational training programmes that align with industry needs. This includes promoting lifelong learning and upskilling opportunities.

- **Foster Entrepreneurship and Small Business Development**: Provide financial assistance, mentorship, and training to aspiring entrepreneurs. Create incubators and accelerators to nurture small businesses and foster innovation.

- **Promote Labour Market Flexibility**: Implement flexible labour laws that allow for part-time work, internships, and temporary employment. Reduce payroll taxes to make hiring more affordable for businesses.

Economic Impact:

- **Unemployment Rate**: South Africa's unemployment rate is one of the highest globally, at around 33%. Reducing unemployment will significantly lower poverty and inequality and boost economic growth.

- **GDP Growth**: A 1% reduction in unemployment can potentially increase GDP by approximately 0.5%.

2. **GDP Growth**

- **Implement Structural Reforms**: Focus on sectors with high growth potential such as technology, renewable energy, and manufacturing.

- **Enhance Public Infrastructure Investment**: Invest in infrastructure projects that can boost economic activity and create jobs.

- **Promote Private Sector Investment**: Create a conducive environment for private sector investment through clear regulations and incentives.

Economic Impact:

- **GDP Growth Rate**: South Africa's GDP growth is projected at 1.1% for 2024. Effective reforms and investments could potentially double this growth rate over the medium term.
- **Employment**: Increased GDP growth can lead to higher employment rates, reducing the unemployment rate by up to 2% over five years.

3. **Debt Management**

- **Fiscal Consolidation**: Implement measures to reduce the budget deficit through efficient expenditure and revenue enhancement.
- **Debt Restructuring**: Negotiate better terms for existing debt and explore options for refinancing.
- **Economic Growth**: Focus on policies that stimulate economic growth, thereby increasing government revenue and reducing the debt-to-GDP ratio.

Economic Impact:

- **Debt-to-GDP Ratio**: South Africa's debt-to-GDP ratio is projected to stabilise at around 70% by 2025 with effective debt management.
- **Borrowing Costs**: Improved debt management can reduce borrowing costs by up to 1%, saving billions in interest payments annually.

4. **Low Benefit from Expansive Natural Resources**

- **Value Addition**: Invest in processing and manufacturing industries to add value to raw materials before export.
- **Sustainable Resource Management**: Implement policies that ensure sustainable extraction and use of natural resources.
- **Community Involvement**: Ensure that local communities benefit from resource extraction through job creation and social development programmes.

Economic Impact:

- **Export Revenue**: Adding value to natural resources can increase export revenue by up to 20%.

- **Local Employment**: Sustainable resource management and community involvement can create thousands of jobs in resource-rich areas.

5. **Infrastructure Management**

- **Public-Private Partnerships (PPPs)**: Encourage private sector participation in infrastructure projects to leverage additional funding and expertise.
- **Efficient Maintenance**: Develop a robust maintenance strategy to ensure the longevity and efficiency of infrastructure.
- **Integrated Planning**: Implement integrated infrastructure planning to ensure that projects are aligned with national development goals.

Economic Impact:

- **GDP Growth**: Infrastructure investment can increase GDP by 0.3% annually.
- **Employment**: Infrastructure projects can create significant employment opportunities, with a potential increase in employment by 0.15% by 2028.

Additional Challenges and Solutions

Corruption and Governance:

- **Solutions**: Strengthen anti-corruption measures, enhance transparency, and improve governance structures.
- **Economic Impact**: Reducing corruption can increase GDP growth by up to 1% annually and improve investor confidence.

Energy Security:

- **Solutions**: Invest in renewable energy projects, improve energy infrastructure, and promote energy efficiency.
- **Economic Impact**: Ensuring energy security can boost GDP growth by up to 0.5% annually and reduce business operational costs.

Social Inequality:

- **Solutions**: Implement social welfare programmes, promote inclusive growth, and ensure equitable access to education and healthcare.

- **Economic Impact**: Reducing inequality can enhance social stability, improve economic performance, and foster a more inclusive society.

Addressing these challenges with targeted solutions and understanding their economic impacts can significantly improve South Africa's economic prospects and ensure sustainable development.

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