3

FISCAL POLICY AND THE BUDGET FRAMEWORK

Revised budget framework

Stronger growth in the South African economy – described in chapter 2 – rests in part on continued strengthening of the public finances. Government's fiscal policy objectives are discussed below, together with a review of key fiscal indicators and a summary of the proposed framework for the 2000 Budget.

Robust spending growth

The revised budget framework provides for an increase in spending on public services of over R7,5 billion a year over the new MTEF period. Total expenditure is budgeted to grow at 7,3 per cent a year over the next three years.

Lower interest on debt

Increased spending is based on the revised macroeconomic projections described in chapter 2, which include somewhat higher nominal GDP growth than anticipated at the time of the 1999 Budget. Lower interest on state debt – partly as a result of reduced debt through state asset restructuring receipts – contributes R2,2 billion to the increase in available resources in 2000/01.

Healthy revenue trends

National revenue exceeded the revised budget estimate by R4,5 billion in 1998/99, contributing both to increased revenue projections and further scope for lowering the burden of tax on citizens and the economy. The budget framework allows for a moderate reduction in the tax-GDP ratio over the next three years, while also providing for the phasing in of the new skills development levy.

General government tax revenue, which includes social security and local government taxes, is expected to decline steadily from 26 per cent of GDP in 1998 to about 25 per cent of GDP in 2002 and beyond.

Budget deficit 2,8 per cent of GDP

The national budget deficit is projected to fall from 2,8 per cent of GDP in 1999/00 to 2,4 per cent in 2002/03. This reflects strong revenue trends, improved expenditure management and the recovery of GDP growth projected for the next three years.

Declining public sector borrowing requirement

Taking into account a moderate rise in borrowing by government enterprises and by provincial and local government, the public sector borrowing requirement is projected to decline to 3,0 per cent of GDP over the next three years.

Fiscal policy considerations

Balance between conflicting objectives

The budget framework must achieve a balance between three broad objectives:

- reducing the overall burden of tax, so as to reduce the costs of investment and job creation and release household spending power;
- lowering the budget deficit, to improve the sustainability of the public finances and contribute to lower interest rates; and
- providing for the social, developmental and infrastructural expenditure responsibilities of the State.

Improved long run growth, employment creation and an equitable distribution of income are the underlying goals of fiscal policy. Government seeks to contribute to accelerated investment and strengthen public service delivery within the context of an affordable and sustainable budget framework.

Fiscal policy goals

Increased investment and sustainable growth are supported through the following fiscal policy objectives:

- moderating the level of government consumption spending relative to GDP, including public service personnel expenditure;
- enhancing capital formation by general government and public corporations;
- reducing the level of government dissaving, in part through steady reductions in the budget deficit;
- stabilising the level of debt and reducing debt service costs;
- lowering the burden of tax on the economy, both through broadening the tax base and reducing the distorting effects of tax; and
- reprioritising government expenditure to support growth, employment, income redistribution and extending economic opportunities.

Key fiscal indicators

Changed GDP ratios

Upward revisions in South Africa's main national accounts aggregates result in changed key measures of fiscal performance. The budget deficit was 2,6 per cent of GDP in 1998/99, compared to 3,0 per cent measured against the previous GDP index. Total tax revenue is now around 26 per cent of GDP, whereas it reached nearly 30 per cent of the former aggregate. Government consumption expenditure is 20,2 per cent of the new GDP, compared to 23 per cent of the previous estimate.

Trends in several key fiscal indicators since 1994 are summarised in table 3.1.

Table 3.1: Key fiscal trends (national accounts estimates)

	1994	1995	1996	1997	1998
Government consumption expenditure (% of GDP)	20,0%	18,3%	19,4%	19,8%	20,2%
Gross fixed capital formation (real growth):					
General government		6,0%	5,3%	4,4%	2,5%
Public corporations		15,8%	10,6%	9,7%	51,4%
General government saving (% of GDP)	-5,9%	-4,2%	-4,9%	-4,9%	-3,9%
Interest on public debt (% of GDP)	5,5%	5,9%	6,4%	6,1%	6,3%
Average yield on long-term government stock	16,8%	14,6%	16,2%	14,1%	16,4%
General government tax revenue (% of GDP)	24,4%	24,1%	24,7%	24,9%	26,0%
Distribution of general government expenditure (% of current expenditure):					
Interest on public debt	17,5%	20,0%	20,5%	19,7%	20,3%
Subsidies and transfers	19,0%	18,2%	17,2%	16,3%	14,9%
Final consumption expenditure					
Individual services	28,3%	27,9%	26,5%	30,0%	30,1%
Collective services	35,1%	33,8%	35,9%	34,0%	34,7%

Several conclusions emerge from this.

Rise in government consumption expenditure

Final consumption expenditure by government has increased relative to GDP since 1995, partly reflecting the impact of public service remuneration trends since 1996.

Strong growth in capital spending

The contribution of the public sector to capital formation has been strong, reflected both in real (though declining) growth in general government investment spending and a particularly sharp increase in investment by public corporations in 1998. Estimated gross fixed capital formation by public corporations grew by 51,4 per cent in 1998, as Telkom and South African Airways, amongst others, substantially raised their investment spending.

Declining government dissaving

As mentioned in chapter 2, general government dissaving, which is now calculated after taking into account government consumption of fixed capital (depreciation), has fallen from 5,9 per cent of GDP in 1994 to 3,9 per cent in 1998, brought about largely by the reduction in the national budget deficit.

Interest on debt affected by higher interest rates

Interest on public debt peaked at 6,4 per cent of GDP in 1996, but recorded an increase again in 1998 in the context of financial uncertainty and high interest rates. After falling to 14,1 per cent in 1997, interest rates on long-term government debt averaged 16,4 per cent in 1998.

Rising tax-GDP ratio

General government tax revenue has increased from 24,4 per cent of GDP in 1994 to 26,0 per cent in 1998. This includes taxes collected by the SA Revenue Service as part of the national budget, provincial and local government taxes, unemployment insurance contributions and South African tax revenue diverted to other countries in terms of the SA Customs Union agreement.

Distribution of government spending

The distribution of general government current expenditure shows several broad features:

- interest on debt has been about 20 per cent of current expenditure since 1995;
- subsidies on products or production and current transfers to households (mainly social grants) and the rest of the world have fallen from 20 per cent to 15 per cent of the total – partly as a result of the phasing out of the general export incentive scheme and early retirement and voluntary severance offers;
- final consumption expenditure on individual (household) services, such as education and health care, has increased from 28,3 per cent to 30,1 per cent of current spending;
- final consumption expenditure on collective services, such as defence, police and administrative functions, has ranged between 33,8 per cent and 35,9 per cent of current expenditure.

Fiscal policy aims

Contribution of fiscal policy to growth

The trends outlined above suggest a mixed contribution of fiscal policy to growth and investment – positive capital spending trends; uneven progress in reducing debt service costs and interest rates; a rising tax burden; increasing government consumption expenditure and a downward trend in subsidies and transfers.

Fiscal policy aims

Taking into account the fiscal policy goals set out above, Government has adopted the following aims for the three years covered in the 2000 Budget estimates:

- to lower government consumption expenditure to 19 per cent of GDP by 2002;
- to maintain real growth in general government capital formation of 5 per cent a year;
- to reduce general government dissaving by 1 per cent of GDP a year;
- to reduce interest on public debt to 5,5 per cent of GDP by 2002; and
- to lower general government tax revenue to 25 per cent of GDP by 2002.

Wider scope of fiscal planning

These indicators relate to the wider general government and public sector accounts – of which the national budget is the main part. Consistent with these aims, fiscal planning and budget documentation will in future cover the full range of government agencies and public sector entities.

Revenue, expenditure and the budget deficit

Revenue growth exceeds spending growth

National budget revenue has increased by an average of 13,5 per cent since 1995/96, while total expenditure has grown by 10,3 per cent a year. As shown in table 3.2, the budget deficit has fallen from 4,6 per cent of GDP in 1995/96 to an estimated 2,6 per cent in 1998/99.

Preliminary outcome of 1998/99 budget

The preliminary budget outcome for the 1998/99 year includes total revenue of R184,5 billion – R4,5 billion more than the revised estimate published in the February 1999 *Budget Review* and 12,8 per cent more than 1997/98 revenue. Expenditure exceeded the February estimate by R0,4 billion, and was 7,4 per cent more than in 1997/98. These estimates include several technical changes that should be noted when comparing revenue and expenditure with previous estimates:

- Revenue includes the charge on the proceeds of demutualisation received from Sanlam in 1998/99 (and the Old Mutual in 1999/00), and the transfer of these proceeds to the Umsobomvu Trust will be recorded as expenditure;

Table 3.2: National budget outcome: 1995/96 – 1998/99

R billion	1995/96	1996/97	1997/98	1998/99 1999 Budget estimate	1998/99 Preliminary outcome
Total revenue	**126,1**	**146,5**	**163,5**	**180,0**	**184,5**
per cent of GDP	*22,3%*	*23,2%*	*23,5%*	*24,0%*	*24,6%*
per cent increase		*16,2%*	*11,6%*	*10,1%*	*12,8%*
Total expenditure[1]	**151,8**	**175,3**	**189,9**	**203,6**	**204,0**
per cent increase		*15,5%*	*8,3%*	*7,2%*	*7,4%*
Budget deficit	**25,7**	**28,8**	**26,5**	**23,6**	**19,5**
per cent of GDP	*4,6%*	*4,6%*	*3,8%*	*3,1%*	*2,6%*

1 Excluding revaluation of maturing foreign loans of R30 million in 1995/96, R942 million in 1996/97, R659 million in 1997/98 and R682 million in 1998/99.

- Revenue includes receipts from the RDP Fund of foreign grants in terms of international cooperation agreements, and the corresponding project spending is included in expenditure; and

- Expenditure excludes the revaluation of maturing foreign loans, previously reflected as a “management cost” in state debt costs and now shown on an accrual basis in foreign loan financing, in keeping with international practice.

Inclusion of skills development levies

With effect from 2000/01, the budget estimates will also include provision for the national skills development levy-grant programme.

Revised estimates for 1999/00 and the 2000/01 to 2002/03 period are set out in table 3.3.

Revaluation of maturing foreign loans

The Budget estimates provided for R2,1 billion in state debt costs for the revaluation of a US$750 million bond due to be repaid in December 1999. Based on recent exchange rate trends, a revaluation of R2,0 billion is now expected. Taking this into account, total estimated expenditure in 1999/00 will amount to R218,6 billion, and the budget deficit will be R24,6 billion, or 3,0 per cent of GDP. In the 2000 Budget estimates, the revaluation of foreign loans will be excluded from expenditure, as announced in the 1999 *Budget Review*.

These projections show the national budget deficit falling to 2,4 per cent of GDP in 2002/03.

Table 3.3: Revised medium term budget framework

	1999/00		2000/01		2001/02		2002/03
R billion	1999 Budget	Revised	1999 Budget	Revised	1999 Budget	Revised	
Revenue	**191,7**	**194,0**	**207,4**	**210,7**	**222,3**	**227,3**	**243,0**
Per cent of GDP	*23,5%*	*24,0%*	*23,5%*	*23,9%*	*23,3%*	*23,7%*	*23,5%*
Expenditure	**214,7**	**216,6**	**230,7**	**234,2**	**247,2**	**251,6**	**267,9**
Per cent increase	*5,4%*	*6,2%*	*7,4%*	*8,1%*	*7,2%*	*7,5%*	*6,5%*
Interest on debt	46,1	44,7	49,8	47,6	52,6	50,8	53,0
Contingency reserve	1,1	-	3,5	2,0	8,0	4,0	8,0
Non-interest spending	**167,5**	**171,9**	**177,4**	**184,6**	**186,6**	**196,9**	**206,9**
Deficit	**23,0**	**22,6**	**23,3**	**23,4**	**25,0**	**24,4**	**24,9**
Per cent of GDP	*2,8%*	*2,8%*	*2,6%*	*2,7%*	*2,6%*	*2,5%*	*2,4%*
Gross domestic product[1]	813,9	809,2	881,1	881,9	952,1	957,5	1034,6

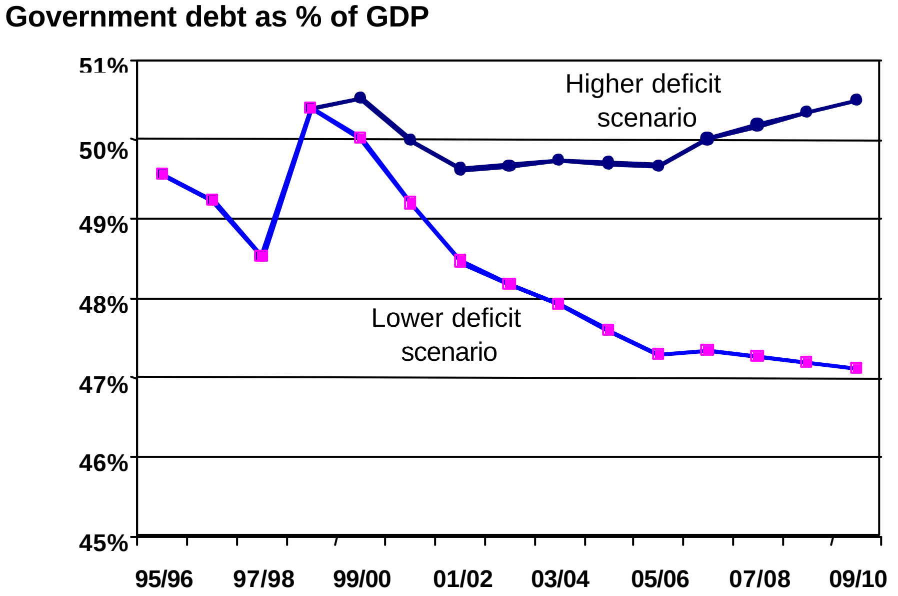
[1] The 1999 Budget projections of GDP growth and inflation are applied to the new estimate of 1998/99 GDP, to obtain the adjusted 1999 Budget GDP projections used here for comparative purposes.

Debt sustainability

Increase in debt as % of GDP

Of particular importance is the ongoing sustainability of the consolidated debt of national government and the wider public sector. The slowdown in economic growth since 1997 together with persistent high interest rates have contributed to the increase in the level of government debt relative to GDP to 50,3 per cent at the end of March 1999, up from 48,3 per cent at the end of 1997/98. Debt service costs remain over 20 per cent of national budget expenditure.

Figure 3.1: Debt sustainability projections



Assumptions	1999/00	2000/01	2001/02	Subsequent years
Higher deficit (% GDP)	3,0	3,0	3,0	3,0
Lower deficit (% GDP)	2,8	2,7	2,5	2,4
Real GDP growth (%)	1,7	3,6	3,4	3,2

Impact of the budget deficit on the debt-GDP ratio

Figure 3.1 illustrates the sensitivity of the debt–GDP ratio to the national budget borrowing requirement. Assuming that the financing requirement is fully met through borrowing, these projections suggest that a phased lowering of the budget deficit to 2,4 per cent of GDP leads to a steady decline in government debt relative to GDP. In contrast, a deficit of 3 per cent of GDP leaves the debt–GDP ratio more or less unchanged. So, assuming that debt continues at 2,4 per cent of GDP in later years, the new budget framework contributes a reduction of over 3 percentage points in the ratio of debt to GDP over a ten year period.

Benefits of reduced debt

Lower government debt over time contributes to lower debt service costs. It also reduces the vulnerability of the economy to adverse economic shocks, which typically lead to both slower growth and higher real interest rates. In contrast, a rising debt–GDP ratio heightens the severity of the adjustment forced on the economy by adverse balance of payments developments or international financial shocks.

Revenue projections

Growth in revenue

National budget revenue is projected to grow at an annual average rate of 7,8 per cent over the next three years, illustrated in figure 3.2.

Figure 3.2: Total revenue – medium term projections

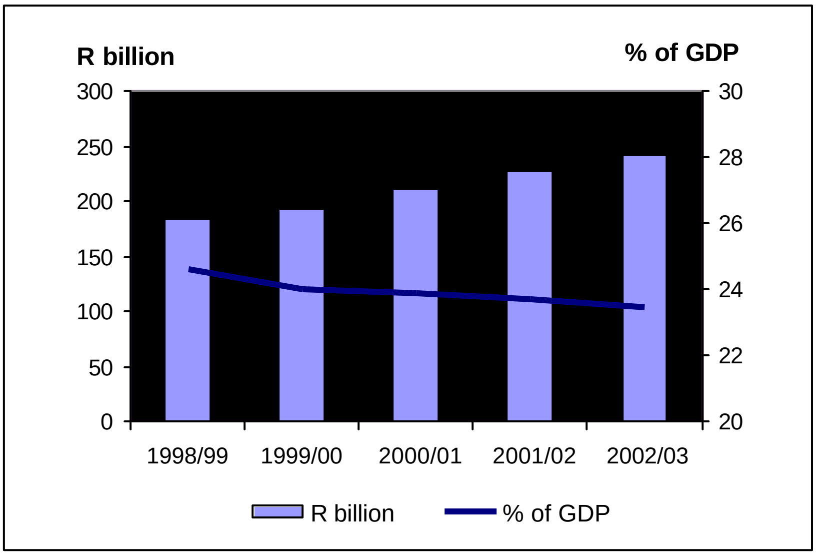


Table 3.4 shows the envisaged changes to the 1999 Budget estimates, and the projected trend in revenue as a per cent of GDP.

Table 3.4: Medium term revenue projections

	1998/99	1999/00		2000/01	2001/02	2002/03
R billion	Outcome	Budget	Revised	Medium term estimates		
National budget revenue	**183,7**	**190,9**	**193,0**	**209,3**	**224,8**	**240,3**
Grants (RDP Fund)	0,5	0,8	0,4	0,4	0,4	0,4
Demutualisation & other levies	0,3	-	0,6	0,1	0,1	0,1
Skills development levies	-	-	-	1,0	2,0	2,2
Total revenue	**184,5**	**191,7**	**194,0**	**210,7**	**227,3**	**243,0**
Per cent of GDP	*24,6%*	*23,5%*	*24,0%*	*23,9%*	*23,7%*	*23,5%*
Per cent increase	*12,8%*	*3,9%*	*5,2%*	*8,6%*	*7,8%*	*6,9%*
Real growth	*4,8%*	*-2,3%*	*-0,7%*	*3,3%*	*2,7%*	*2,1%*
Change from 1999 Budget	**4,5**		**2,3**	**3,4**	**5,0**	

Upward adjustment in revenue estimates

The additional R4,5 billion in revenue in 1998/99 derived mainly from higher taxes on income (R3,4 billion above the revised estimate). Revenue collections have remained buoyant in 1999/00, increasing by 8,2 per cent for the first six months of the year over the corresponding period in 1998/99. An additional R2,1 billion in national budget revenue is projected for the 1999/00 year.

Charge on demutualisation proceeds

Additional revenue in 1998/99 also included the R279 million charge on the demutualisation of Sanlam. Projected 1999/00 revenue includes R577 million received as a charge on the Old Mutual demutualisation proceeds, bringing total proceeds to be transferred to the Umsobomvu Trust to R855 million.

Donor funded expenditure

The preliminary budget outcome for 1998/99 includes foreign grant receipts of the RDP Fund of R522 million. The revised estimate for 1999/00 is R350 million, and the budget estimates for subsequent years include foreign grants amounting to R400 million a year. These receipts and the associated expenditure are no longer voted by Parliament in the departmental appropriations, but will continue to be reported in the budget documentation.

Increase in revenue in 2000 Budget

The strengthening of economic growth results in higher revenue projections for the 2000 budget. The revised budget framework provides for R3,4 billion more revenue in 2000/01 and R5,0 billion more in 2001/02 than anticipated in the 1999 Budget projections. At the same time, the revised framework permits steady reductions in the tax-GDP ratio and further progress towards a more competitive tax environment.

Introduction of skills development levies

Total revenue projections include provision for the phasing in of skills development levies, imposed on private sector employers at a rate of 0,5 per cent of payroll in 2000/01, increasing to 1,0 per cent in 2001/02.

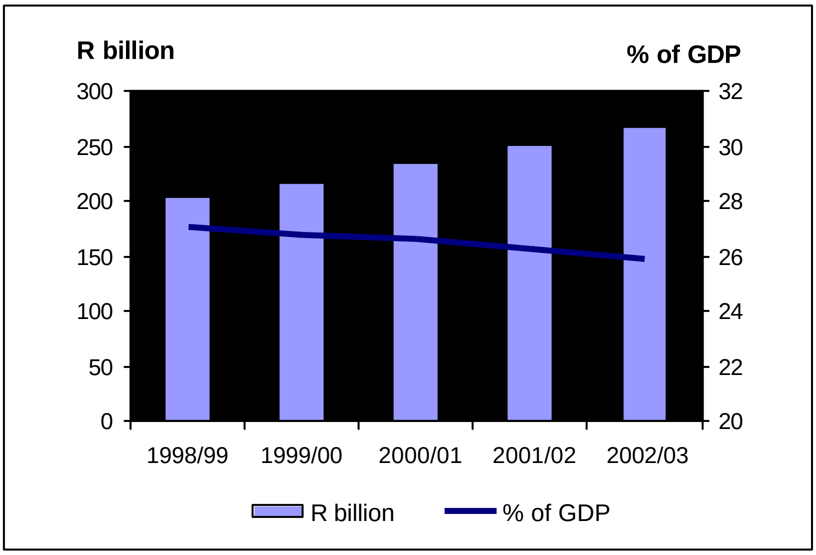
National budget expenditure

Robust expenditure growth

The revised estimates provide for an average annual expenditure growth of 7,4 per cent over the next three years. In real terms, this is an average annual growth of 2,3 per cent.

Table 3.5 shows the changes in expenditure estimates by comparison with the February 1999 Budget estimates, and expenditure growth is illustrated in figure 3.3.

Figure 3.3: Total expenditure – medium term projections



Adjustments to the 1999/00 Budget

The Adjustments Estimate for 1999/00 adds R2,2 billion to projected national budget expenditure, including the committed transfer of R855 million to the Umsobomvu Trust. The Adjustments Estimate provides for:

- a reduction of R1,4 billion in projected interest on state debt;
- additional allocations of R1,5 billion to national departments;
- additional transfers of R1,4 billion to provinces;

- a further R203 million for local government, in support of Y2K-related expenses;
- R250 million for additional improvements in conditions of service; and
- approved rollovers of R2,6 billion out of unspent 1998/99 appropriations, partially offset by projected under-spending and savings of R2,1 billion in the current year.

Table 3.5: Medium term expenditure projections

	1998/99	1999/00		2000/01	2001/02	2002/03
R billion	Outcome	Budget	Revised	Medium term estimates		
National budget expenditure	**203,5**	**213,9**	**215,3**	**232,7**	**249,2**	**265,2**
Debt service costs	42,6	46,1	44,7	47,6	50,8	53,0
Contingency reserve		1,1	-	2,0	4,0	8,0
Available non-interest expenditure	**160,8**	**166,7**	**170,7**	**183,2**	**194,4**	**204,2**
per cent increase	*6,6%*	*4,0%*	*6,1%*	*7,3%*	*6,1%*	*5,1%*
Committed funds:						
RDP donor-funded spending	0,5	0,8	0,4	0,4	0,4	0,4
Umsobomvu & other funds		-	0,9	0,1	0,1	0,1
Skills development funds				1,0	2,0	2,2
Total expenditure	**204,0**	**214,7**	**216,6**	**234,2**	**251,6**	**267,9**
per cent of GDP	*27,1%*	*26,4%*	*26,8%*	*26,6%*	*26,3%*	*25,9%*
per cent increase	*7,4%*	*5,4%*	*6,2%*	*8,1%*	*7,5%*	*6,5%*
real growth	*-0,3%*	*-1,1%*	*0,3%*	*2,8%*	*2,3%*	*1,7%*
Changes from 1999 Budget						
Debt service costs	-0,1		-1,4	-2,2	-1,8	
Contingency reserve			-1,1	-1,5	-4,0	
Available non-interest expenditure	0,6		4,0	7,5	10,5	
Committed funds	-0,2		0,4	-0,3	-0,3	
Total expenditure	**0,4**		**1,9**	**3,5**	**4,4**	

Increase in non-interest spending

In sum, the revised 1999/00 budget provides for R4 billion more in non-interest expenditure allocations.

Projected available expenditure

The available non-interest expenditure level in the MTEF refers to the total nationally-financed spending to be shared between the national, provincial and local spheres of government.

Before expenditure is divided equitably among the three spheres of government, two items are set aside from the total. These are:

- debt service costs – the nation's obligations to pay debt service costs are a statutory claim against expenditure; and
- the contingency reserve – a proportion of the total available resources is not allocated at this stage.

Lower debt service costs

The revised budget framework provides for lower debt service costs over the MTEF period than the 1999 Budget estimates, mainly resulting from:

- the lower deficit in 1998/99, which in turn reduced the net borrowing requirement in that year; and
- debt reduction and lower borrowing associated with state asset restructuring, including the conversion of SASRIA to a state-owned public company in 1999 and anticipated proceeds of further privatisation transactions.

Together with the continued reduction in the annual budget deficit, these factors permit debt service costs to be reduced from 5,7 per cent of GDP in 1998/99 to a projected 5,1 per cent in 2002/03.

Provision for contingencies

A contingency reserve is set aside within the expenditure envelope to deal with unforeseen circumstances. This ensures that Government can adjust to adverse macroeconomic developments, or make funds available for natural or other disasters, within the agreed overall expenditure programme.

A drawdown of R1,5 billion in 2000/01 and R4,0 billion in 2001/02 in the contingency reserve set aside in the 1999 Budget is made in the revised Budget framework, contributing to the increase in available expenditure. A reserve of R2,0 billion in 2000/01 will be retained in the 2000 Budget, increasing to R4,0 billion in 2001/02 and R8,0 billion in 2002/03.

Increase in available expenditure

The revised estimates provide for increases in non-interest expenditure allocations of R7,5 billion in 2000/01 and R10,5 billion in 2001/02, bringing the available non-interest expenditure level to R183,2 billion in 2000/01, increasing to R204,2 billion in 2002/03. The projected functional and economic breakdown of expenditure is set out in chapter 4, and the division of available resources between national, provincial and local government is discussed in chapter 5.

Social and economic priorities

In revising the overall expenditure level, Government is mindful of both fiscal policy considerations and the wide range of social, economic and developmental responsibilities of the State. Spending pressures over the current MTEF period include:

- strengthening and modernising the justice system;
- upgrading the quality and effectiveness of education;
- maintaining public infrastructure and reinforcing safety and health standards on roads, public transport and public buildings;
- provision for training and strengthening management capacity in the public sector;
- transformation of social services in response to HIV/AIDS; and
- provision of basic services, especially to the rural poor, by maintaining and re-inforcing existing programmes as well as through implementation of poverty relief and Jobs Summit programmes.

Defence arms procurement

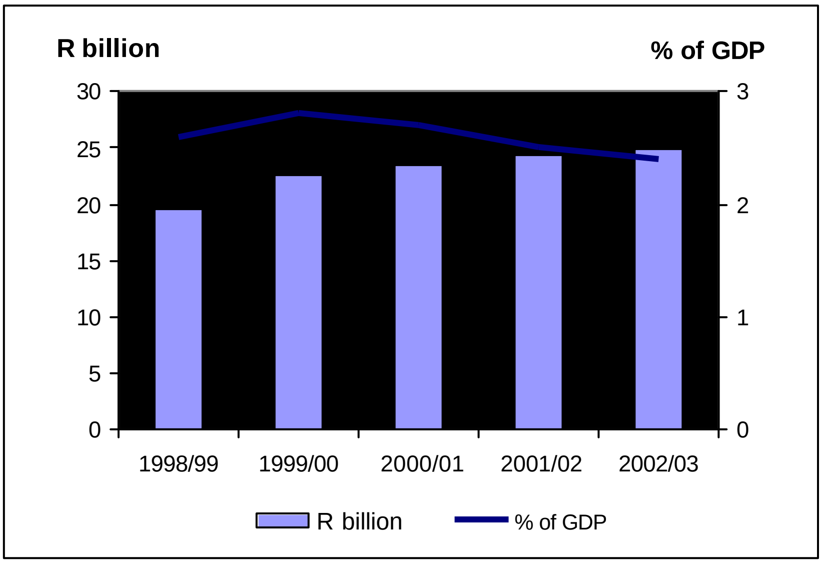
The available expenditure projections include supplementary allocations to the Defence vote of R2,8 billion, R3,8 billion and R4,5 billion over the next three years to meet the projected additional expenditure associated with new arms procurement contracts.

The budget deficit and the public sector borrowing requirement

Budget deficit declines as % of GDP

The projected trend in the national budget deficit over the MTEF period is illustrated in figure 3.4.

Figure 3.4: Budget deficit – medium term projections



Composition of the public sector borrowing requirement

For fiscal policy purposes, it is the overall public sector borrowing requirement (PSBR) that represents the broader claim of government on available savings. This includes the national budget deficit, after taking into account extraordinary payments and receipts and some adjustments for differences in timing between recorded exchequer account transactions and cash flows. It also includes the surplus or deficit of provinces, local government, extra-budgetary agencies and non-financial public enterprises.

PSBR of 3,7% of GDP in 1998/99

Table 3.6 shows the borrowing requirements of the various components of the public sector since 1995/96. The public sector borrowing requirement has declined from R35,6 billion, or 5,6 per cent of GDP, in 1996/97 to an estimated R27,6 billion in 1998/99, which is 3,7 per cent of GDP.

Table 3.6 Public sector borrowing requirement: 1995/96-1998/99

	1995/96	1996/97	1997/98	1998/99	
R billion *deficit (+) / surplus (-)*				1999 Budget estimate	Preliminary outcome
National budget deficit	**25,7**	**28,8**	**26,5**	**23,6**	**19,5**
Cash-flow & other adjustments	1,6	3,3	-2,4	0,7	1,7
Extraordinary payments[1]	3,1				0,9
Proceeds of state asset restructuring, oil sales & other extraordinary receipts	-1,3	-1,6	-2,9	-2,7	-3,0
Main budget borrowing requirement	**29,1**	**30,5**	**21,2**	**21,6**	**19,1**
Plus:					
Provincial governments	-1,3	2,5	6,2	-2,1	-3,2
Social security funds	0,2	0,2	0,3	0,8	0,3
Extra-budgetary institutions	0,4	1,1	1,4	1,8	1,8
Local authorities	0,5	0,8	0,8	0,5	1,0
General government borrowing requirement	**28,9**	**35,1**	**29,9**	**24,1**	**19,0**
per cent of GDP	*5,1%*	*5,6%*	*4,3%*	*3,2%*	*2,5%*
Plus:					
Non-financial public enterprises	1,1	0,5	2,3	1,6	8,6
Total borrowing requirement	**30,0**	**35,6**	**32,2**	**25,7**	**27,6**
per cent of GDP	*5,3%*	*5,6%*	*4,6%*	*3,4%*	*3,7%*

Source: SA Reserve Bank

1 Transfer of R3,1 billion to the Gold and Foreign Exchange Reserve Account in 1995/96 and assumption of debt of former regional authorities of R0,9 million in 1998/99.

Significant trends include:

- a marked reduction in the main budget borrowing requirement since 1996/97;
- a consolidated provincial deficit of R6,2 billion in 1997/98, followed by a cash-flow surplus of R3,2 billion in 1998/99;
- steady increases in the consolidated shortfalls of extra-budgetary agencies and local government (including local government enterprises); and
- a steep increase in the borrowing requirement of public enterprises in 1998/99.

Increased borrowing by public corporations

In 1998/99 public corporations and central government enterprises recorded a deficit to cover both operating losses and investment requirements of R8,5 billion, or 1,2 per cent of GDP – more than double the total borrowing of public enterprises over the previous three years. This includes the borrowing of Eskom, Telkom and the Transnet group of companies, to finance the purchase of new aircraft and telecommunications equipment, amongst other significant investment initiatives.

Forward cover losses

These estimates do not include provision for the losses incurred by the Reserve Bank as a result of foreign exchange forward market operations since 1997. In the context of considerable international financial instability, losses amounting to some R14,4 billion – 1,9 per cent of GDP – were recorded on the Gold and Foreign Exchange Contingency Reserve Account in 1998/99. These are liabilities of government, although not yet incorporated into government loan debt.

Table 3.7: Public sector borrowing requirement - medium term projections

	1998/99	1999/00		2000/01	2001/02	2002/03
R billion	Outcome	Budget	Revised	Medium term estimates		
National budget deficit	**19,5**	**23,0**	**22,6**	**23,4**	**24,4**	**24,9**
per cent of GDP	*2,6%*	*2,8%*	*2,8%*	*2,7%*	*2,5%*	*2,4%*
General government borrowing requirement	**19,0**	**27,4**	**24,4**	**25,6**	**25,8**	**26,9**
per cent of GDP	*2,5%*	*3,4%*	*3,0%*	*2,9%*	*2,7%*	*2,6%*
Public sector borrowing requirement	**27,6**	**29,1**	**28,1**	**29,1**	**29,7**	**31,0**
per cent of GDP	*3,7%*	*3,6%*	*3,5%*	*3,3%*	*3,1%*	*3,0%*
Change from 1999 Budget	**-0,6**		**-1,0**	**2,4**	**2,0**	

Public sector borrowing targets

Projections of the public sector borrowing requirement over the 2000/01 to 2002/03 period must accordingly take account of the national budget deficit, prospective state enterprise restructuring proceeds, possible conversion of the Gold and Foreign Exchange Contingency Reserve Account liability into loan debt, debt obligations of other public sector entities to be taken on by the fiscus, and the financing requirements of provinces, social security funds, local authorities and the non-financial public enterprises. Government aims to lower the overall public sector borrowing requirement to 3,0 per cent of GDP by 2002/03.

Conclusion

Budget projections have been revised to reflect the improved growth projections for the South African economy and to take account of social, economic and developmental spending responsibilities of government.

Lower interest on debt, higher spending on services

The lowering of the budget deficit to below 3,0 per cent of GDP, and debt reduction associated with state asset restructuring, have contributed to substantial downward adjustments in projected debt service costs. Together with improved revenue trends, this enables Government to plan for a R7,5 billion increase in spending on public services in 2000/01 and beyond, while continuing to reduce both the tax burden and the budget deficit relative to GDP.

Strengthened fiscal policy framework

This is a budget framework that provides for further progress in Government's reconstruction and development spending programmes, while continuing to strengthen the role of fiscal policy in promoting investment, growth and financial stability.