3

Fiscal framework

Against the background of the fiscal consolidation that has been achieved over the past five years, South Africa is well placed to respond appropriately to the social and development challenges of the years ahead, despite deteriorating prospects in the global economy. Highlights of the budget framework for the next three years include:

- *Further tax relief, together with strong growth in social and infrastructure spending, sustaining the momentum of economic growth and development*
- *The contribution of reduced public borrowing to lower inflation and declining interest rates*
- *Continued declines in debt service costs as a percentage of GDP, releasing resources for spending on public services*
- *Real non-interest spending grows by 3,7 per cent a year over the MTEF period*
- *Over and above the forward estimates in the 2001 Budget, additional allocations of R8,9 billion in 2002/03 and R11,8 billion in 2003/04 to departments, provinces and local government.*

Introduction and overview

Fiscal policy, responding to the global economic slowdown, contributes towards growth prospects through real tax cuts and strong growth in spending

The growth-oriented fiscal stance announced in last year's Medium Term Budget Policy Statement and given further impetus in the 2001 Budget, remains a key point of departure for the years ahead. Government aims to reinforce investment and job creation, broaden and enhance public service delivery and target additional resources at reducing poverty and vulnerability. In a context of heightened international uncertainty, South Africa's economic growth and development can build on a stable and robust fiscal stance and budget framework.

As outlined in Chapter 2, the global economic slowdown has negatively affected prospects this year and will inhibit trade and expansion somewhat over the period ahead. Business and consumer confidence have been dented, leading to delays in investment plans and sluggish consumption spending. Mindful of this context, Government proposes a continuation of the expansionary bias in the fiscal stance in the 2002 Budget, while emphasising structural reforms aimed at improving the quality and effectiveness of spending.

This chapter explains the fiscal policy adjustments proposed for the forthcoming MTEF period.

Fiscal policy adjustments include increased spending on key services, restructuring of the Post Office and the UIF and stronger infrastructure growth

- Expenditure increases will be focused on health services and social grants, municipal infrastructure and housing, improved police and justice services and critical administrative services to citizens. Budgetary provision for the electrification programme will be stepped up.
- Shortfalls in the operating budgets of the Post Office and Unemployment Insurance Fund will have to be met over the next three years, allowing for a period of restructuring in order to restore self-sufficiency.
- Moderate easing of the overall tax burden will continue, with relief particularly for low- and middle-income wage-earners. Enhancing the capacity of the SA Revenue Service continues to be a key priority in the budget.
- Provision in the budget framework for the proceeds of the Telkom public share offer and the sale of M-CELL shares is deferred to 2002/03.
- Spending on public infrastructure is expected to grow by 8,8 per cent in real terms over the next three years, boosted by several public-private partnerships and other projects of public enterprises and extra-budgetary government agencies.

Budget deficit of 2,3% in 2001/02 and 2,6% in 2002/03

Following several years of consolidation bringing the budget deficit down to 2,0 per cent of GDP last year, a deficit of 2,3 per cent is projected for the current year. It is anticipated that the budget deficit will widen to 2,6 per cent of GDP in 2002/03 before falling to 2,2 per cent by the end of the new MTEF period. Total government debt will continue to fall as a percentage of GDP and debt service costs will decline steadily as a share of expenditure and of GDP.

The 2001 Budget signalled a shift from stabilisation to growth in the fiscal stance, and from macroeconomic adjustment to microeconomic reform in government's broader economic strategy. Lower interest rates represent both the outcome of our successful fiscal adjustment and an opportunity to accelerate public and private sector investment going forward.

The challenge in the years ahead will continue to be to reinforce the competitiveness of the economy, its capacity to create jobs and its support for urban and rural upliftment. The framework for the 2002 Budget recognises that sustainable social and economic development requires steady progress across several fronts. The downturn in the international environment heightens the importance of sound and balanced fiscal and economic policies. Government intends to strengthen the momentum of economic recovery through measured tax relief, well-targeted increases in key spending programmes and sustainable investment in social and economic infrastructure.

Budget framework aims to strengthen momentum of growth

Fiscal trends since 1996

Table 3.1 summarises the anatomy of South Africa's fiscal performance over the past five years. It shows:

Progress in key fiscal indicators since 1996

- A moderation in government consumption expenditure relative to GDP in recent years
- Recovery of public sector investment (capital formation) this year after a period of decline
- Stabilisation of the aggregate tax burden at about 26 per cent of GDP
- Steady progress in reducing interest on public debt as a percentage of GDP, following the reduction in the budget deficit since 1996
- A marked reduction in the average interest rate on government debt.

After a 5,4 per cent decline in gross capital formation by general government in 1999, there was a small increase of 0,1 per cent in 2000, while real growth of 1,8 per cent (seasonally adjusted and annualised) was recorded in the first half of 2001. Public corporations increased their contribution to fixed capital formation by 4,7 per cent in real terms in the first two quarters of 2001. Regulatory change in the telecommunications industry and the restructuring of state assets are expected to spur additional investment in infrastructure in the years ahead.

Government consumption expenditure peaked in 1998 as a share of GDP, and has since been declining. Efforts to increase employment, particularly in the criminal justice and health sectors are likely to yield a moderate rise in Government consumption expenditure over the medium term. Stronger growth in infrastructure investment and social security transfers is anticipated in the 2002 Budget,

Government consumption expenditure has stabilised alongside steady growth in government services to individuals (mainly education and health care) and collective functions (justice, defence and administrative services, for example). Transfers to households (including social grants and housing subsidies) are expected to increase further in the new MTEF period, together with a relative shift in favour of spending on municipal services and infrastructure.

Table 3.1: Key fiscal trends (national accounts estimates)

	1996	1997	1998	1999	2000	2001[1]
Government consumption expenditure						
(% of GDP)	19,4%	19,8%	20,0%	19,4%	18,4%	18,3%
Gross fixed capital formation (real growth)						
General government	5,3%	4,4%	2,5%	-5,4%	0,1%	1,8%
Public corporations	10,6%	9,7%	51,4%	-17,2%	-14,0%	4,7%
General government saving (% of GDP)	-5,0%	-4,7%	-3,5%	-2,6%	-1,8%	-1,2%
Interest on public debt of general government (% of GDP)	6,3%	6,1%	6,3%	6,2%	5,9%	5,7%
Yield on long-term government stock at period end	16,2%	14,1%	16,4%	14,0%	12,9%	10,9%
General government tax revenue (% of GDP)	24,7%	24,9%	26,3%	26,4%	25,9%	26,0%
Distribution of general government expenditure (% of current expenditure):						
Interest on public debt	20,3%	19,6%	20,3%	20,4%	20,3%	
Subsidies and transfers	17,3%	16,5%	15,5%	15,7%	16,2%	
Compensation of employees	45,3%	45,2%	45,7%	46,0%	45,6%	
Final consumption expenditure						
Individual services	27,8%	30,2%	30,2%	29,1%	29,4%	
Collective services	34,5%	33,8%	33,9%	34,8%	34,1%	

1 *2001 figures based on data to end June; yield on long-term debt at end July 2001.*

Government has reduced borrowings, contributing to lower interest rates and inflation and improving the prospects for increased investment in the economy

Government dissaving – which is calculated by taking current revenue less current expenditure and adjusting for the consumption of fixed capital (depreciation) – has fallen from 5,9 per cent of GDP in 1995 to 1,8 per cent in 2000, and further to 1,2 per cent in the first half of 2001. This steady strengthening in the structure of the public finances has accompanied the reduction in the budget deficit in recent years. It is expected that government dissaving will decline to zero by 2003, as aggregate spending shifts further towards capital spending.

As the deficit has declined, so have interest rates and inflation. Debt service costs peaked in 1998 at 6,3 per cent of GDP. In 1998, almost a quarter of all tax revenue went to pay interest costs on past debt. In 2000, debt service costs declined to 5,9 per cent of GDP and are projected to fall to 5,7 per cent this year. Declining interest costs allow Government to increase spending in real terms without borrowing more or raising the burden of taxation.

Tax revenue, as listed in table 3.1, includes taxes collected by SARS, provincial and local Governments and social security funds. Part of this revenue is diverted to our Southern African Customs Unions (SACU) partners in terms of the SA Customs Union agreement. After a long period of increase, the general government tax ratio has stabilised at about 26 per cent of GDP.

Fiscal targets will focus on accelerated capital formation within a sound fiscal framework, declining dissavings and a stable tax to GDP ratio

Table 3.2 highlights Government's key fiscal policy aims for the MTEF period. While tax revenue and consumption expenditure are expected to remain broadly stable relative to GDP, capital expenditure is targeted to accelerate and the public sector borrowing requirement will increase somewhat as the investment programmes of public corporations and municipalities get under way.

Table 3.2: Key fiscal policy aims

Percentage of GDP	1996	2000	2004
Government consumption expenditure	19,4	18,4	18,0
General government saving	-5,0	-1,8	0,0
Interest on general government public debt	6,3	5,9	5,5
General government tax revenue	24,7	25,9	26,0
	1995/96	**2000/01**	**2004/05**
Public sector borrowing requirement	5,0	1,8	2,4
	1995–2000		**2000-2004**
Gross fixed capital formation by general government (average annual real growth)	1,4%		5,0%

2000/01 Budget outcome

The preliminary outcome for main budget revenue in 2000/01 is R216,0 billion or 24,1 per cent of GDP. This figure is R2,6 billion higher than the revised figure published at the time of the 2001 Budget and R5,6 billion higher than the original budget estimate. Revenue in 2000/01 was 8,8 per cent higher than the yield in 1999/00.

Table 3.3: National budget outcome: 1997/98 – 2000/01

R billion	1997/98	1998/99	1999/00	2000/01 2001 Budget estimate	2000/01 Preliminary outcome
Total revenue	**163,5**	**184,3**	**198,6**	**213,4**	**216,0**
per cent of GDP	*23,4%*	*24,6%*	*24,5%*	*23,8%*	*24,1%*
per cent increase	*11,6%*	*12,7%*	*7,7%*	*7,5%*	*8,8%*
Total expenditure	**189,9**	**201,4**	**214,8**	**235,0**	**233,9**
per cent increase	*8,2%*	*6,0%*	*6,6%*	*9,5%*	*8,9%*
Budget deficit (-)	**-26,5**	**-17,1**	**-16,2**	**-21,7**	**-18,0**
per cent of GDP (-)	*-3,8%*	*-2,3%*	*-2,0%*	*-2,4%*	*-2,0%*

Estimated expenditure during the 2000/01 fiscal year is R233,9 billion or 26,1 per cent of GDP. This is R1,1 billion lower than the revised estimate printed in the 2001 Budget Review and R0,5 billion higher than the original 2000 Budget estimate. Growth in spending picked up to 8,9 per cent in 2000/01, up from a sluggish 6,6 per cent in the previous year. Underspending in 2000/01 was lower than in 1999/00, mainly due to structural changes to conditional grants and improved capacity in government.

The national budget deficit in 2000/01 was 2,0 per cent of GDP, as it was in 1999/00.

Framework for the 2002 Budget

Overview

The budget framework for 2002 signals strong growth in spending, particularly on infrastructure and social development, financed through lower debt service costs and moderately higher borrowings

The proposed framework for the 2002 Budget is set out in table 3.4. These estimates take into account the changes to the 2001/02 estimates to be considered by Parliament in the 2001 Adjustments Budget.

While economic growth over the MTEF period is projected to be lower, inflation is likely to be marginally higher than projected in the 2001 Budget.

Robusat revenue performance in 2001/02

Revenue performance for the first half of the 2001/02 fiscal year has been markedly better than expected, resulting in an upward adjustment of the revenue forecast for this fiscal year and projections for the MTEF period.

Additional spending over the MTEF period will be financed through both upward adjustments in revenue projections and a modest increase in the budget deficit compared with the forward estimates published in the 2001 Budget. The budget framework provides for real growth in non-interest spending of 3,7 per cent a year over the MTEF period, including provision for contingencies.

Decline in debt service cost projections

Projected debt service costs for this year remain unchanged. Over the MTEF period ahead, debt costs are projected to be somewhat lower than the 2001 Budget projections, due to lower interest rates and the benefits of the debt restructuring initiatives in progress.

This year, the Adjusted Estimates indicate an increase in the spending level of R2,8 billion over the February budget estimate. Taking into account a R2 billion contingency reserve for the 2001/02 year, the Adjusted Estimates include additional allocations of R4,8 billion, provision for rollovers from the previous year and anticipated underspending of about R2 billion.

Table 3.4: Revised national budget framework 2001/02 to 2004/05

	2001/02		2002/03		2003/04		2004/05
R billion	2001 Budget	Revised	2001 Budget	Revised	2001 Budget	Revised	
Revenue	**233,4**	**238,2**	**252,9**	**254,7**	**273,1**	**276,8**	**299,3**
per cent of GDP	*23,6%*	*24,5%*	*23,6%*	*24,1%*	*23,6%*	*24,1%*	*24,1%*
Expenditure	**258,3**	**261,1**	**277,3**	**282,6**	**297,5**	**304,8**	**327,3**
per cent increase	*9,9%*	*11,6%*	*7,4%*	*8,3%*	*7,3%*	*7,9%*	*7,4%*
Interest on debt	48,1	48,1	49,7	48,0	51,0	50,6	53,1
Contingency reserve	2,0	0,0	4,0	2,0	8,0	4,0	8,0
Non-interest available expenditure	**210,2**	**213,0**	**227,7**	**234,6**	**246,5**	**254,3**	**274,2**
Deficit (-)	**-24,9**	**-22,8**	**-24,5**	**-27,9**	**-24,4**	**-28,0**	**-28,0**
per cent of GDP (-)	*-2,5%*	*-2,3%*	*-2,3%*	*-2,6%*	*-2,1%*	*-2,4%*	*-2,2%*
GDP	**987,2**	**974,1**	**1 069,3**	**1 057,5**	**1 154,9**	**1 148,2**	**1 244,3**

Strong revenue performance underpinned by growth in company taxes and improved revenue collection allows for a reduction in the budget deficit

The revised deficit projection for 2001/02 is 2,3 per cent of GDP. Over the MTEF period, the deficit rises from 2,3 per cent in 2001/02 to 2,6 per cent in 2002/03 and then declines to 2,2 per cent in 2004/05.

The revised budget framework makes provision for an increase in spending over the forward estimates published in the 2001 Budget of R8,9 billion in 2002/03 and R11,8 billion in 2003/04. An additional R13,3 billion is made available to departments in 2004/05, above the baseline 6 per cent increase to departmental and provincial budgets over their 2003/04 estimates.

Medium term revenue projections

Main budget revenue for 2001/02 is projected to be R238,2 billion or 24,5 per cent of GDP. The healthy revenue performance in this financial year is in part a result of unexpectedly large receipts from secondary tax on companies and tax on profits of platinum mines. Improved revenue administration continues to underpin the robust revenue performance, while also serving to promote better corporate governance and improved customs administration.

Medium term framework allows for a moderate decline in tax–GDP ratio

For forward planning purposes, it is recognised that some of this year's additional revenue is non-recurrent. Strong company profits, especially from platinum group metals, are not likely to recur in 2001 and 2002 given the drop in the prices of these metals and the global economic slowdown. The medium term framework accordingly allows for a moderate decline in the overall revenue-GDP ratio in 2002/03 and beyond.

Main budget revenue comprises gross tax receipts collected by SARS (including the skills development levy), non-tax revenue collected by Government departments, less transfers to our Customs Union partners. Details are set out in Chapter 4.

Tax performance and adjustments to the fiscal framework allow for a reduction in tax rates, particularly for low and middle-income workers

Main budget revenue as a percentage of GDP is projected to grow by 7,9 per cent a year over the MTEF period, slower than the 8,6 per cent a year forecast in the 2001 Budget, mainly due to slower economic growth. Revenue is projected to be R254,7 billion in 2002/03, R276,8 billion in 2003/04 and R299,3 billion in 2004/05, amounting to 24,1 per cent of GDP in each of the three years. These projections allow for inflation-related adjustments in excises and other tax thresholds, and also provide for further income tax relief for lower- and middle-income taxpayers.

Table 3.5 sets out the revenue outcome for 2000/01, a revised estimate for 2001/02 and projections for the next three years.

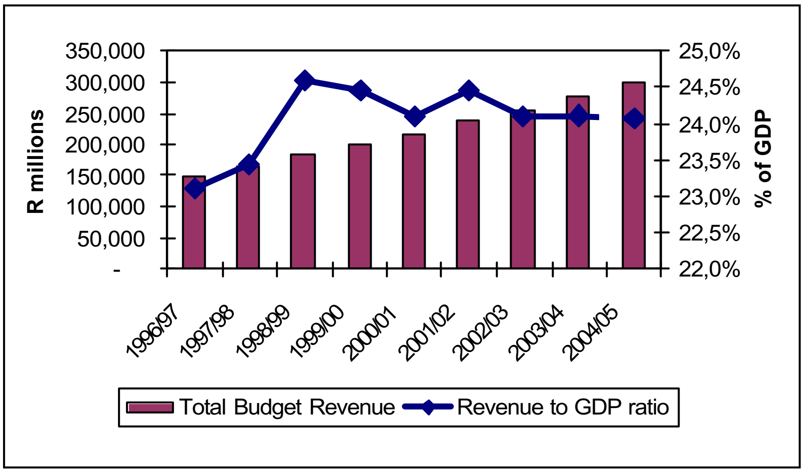
Table 3.5: Medium term revenue projections 2000/01 to 2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
R billion	Outcome	Budget	Revised	Medium term estimates		
National budget revenue	**216,0**	**233,4**	**238,2**	**254,7**	**276,8**	**299,3**
per cent of GDP	*24,1%*	*23,6%*	*24,5%*	*24,1%*	*24,1%*	*24,1%*
per cent increase	*8,8%*	*9,4%*	*10,3%*	*6,9%*	*8,7%*	*8,1%*
Real growth	*1,6%*	*3,2%*	*4,1%*	*1,6%*	*3,7%*	*3,4%*
Change from 2001 Budget			**4,8**	**1,9**	**3,7**	

Projected increase in earmarked skills development funding

National budget revenue includes earmarked funding for skills development. This year, the skills development levy rose from 0,5 per cent to 1 per cent of employer payrolls and R2,75 billion is expected to be raised for transfer to sector education and training authorities (SETAs) and the National Skills Fund. Anticipated receipts for the medium term rise from R2,95 billion in 2002/03 to R3,37 billion in 2004/05.

Figure 3.1: Main budget revenue 1996/97 to 2004/05



RDP Fund and foreign technical assistance of R750 million a year

Receipts to the RDP Fund from donor aid and technical co-operation agreements for 2001/02 are expected to amount to R700 million, rising to about R750 million in subsequent years. These receipts are not deposited into the National Revenue Fund and the expenditure is not voted by Parliament. However, departments are still required to report on these receipts and the programmes that are funded through donor aid in the Estimates of National Expenditure and in departmental reports.

National budget expenditure

Total expenditure of R261,1 billion, or R2,8 billion more than the 2001 Budget estimate, is expected in 2001/02. Over the MTEF period, spending is set to rise 7,8 per cent a year. Non-interest spending rises by 8,8 per cent or 3,7 per cent a year in real terms over the next three years. This faster real growth in spending is largely made possible by the steadily declining burden of debt service costs in overall expenditure as a result of the reduction of the deficit in recent years.

The budget framework provides for real growth in non-interest spending of 3,7 per cent a year over the next three years

Spending of R282,6 billion is projected for 2002/03, R304,8 billion in 2003/04 and R327,3 billion in 2004/05. Excluding debt service costs, non-interest spending in 2002/03 is projected to be R234,6 billion or 22,2 per cent of GDP. This is 10,2 per cent more than the revised 2001/02 spending total or 4,6 per cent higher in real terms.

Table 3.6: Medium term national budget expenditure projections

	2000/01	2001/02		2002/03	2003/04	2004/05
R billion	**Outcome**	**Budget**	**Revised**	**Medium term estimates**		
Debt service costs	46,3	48,1	48,1	48,0	50,6	53,1
Contingency reserve	0,0	2,0	0,0	2,0	4,0	8,0
Non-interest expenditure	187,6	210,2	213,0	234,6	254,3	274,2
per cent increase	*10,6%*	*11,3%*	*13,5%*	*10,2%*	*8,4%*	*7,8%*
Total expenditure	**233,9**	**258,3**	**261,1**	**282,6**	**304,8**	**327,3**
per cent of GDP	*26,1%*	*26,2%*	*26,8%*	*26,7%*	*26,5%*	*26,3%*
per cent increase	*8,9%*	*9,9%*	*11,6%*	*8,6%*	*7,9%*	*7,4%*
Real growth (non-interest expenditure)	*3,3%*	*5,0%*	*7,1%*	*4,6%*	*3,4%*	*3,2%*
Changes from 2001 Budget						
Debt service costs	0,1		0,0	-1,6	-0,5	
Contingency reserve	0,0		-2,0	-2,0	-4,0	
Non-interest expenditure	-1,3		2,8	6,9	7,8	

Table 3.6 sets out the expenditure outcome for 2000/01, budgeted and revised expenditure estimates for 2001/02 as well as spending projections for the MTEF period.

For 2001/02, debt service costs are projected to come in as budgeted at R48,1 billion. In 2003/02 debt costs are projected to be R48,0 billion or R1,6 billion lower than the 2001 forward estimate and in 2003/04 R50,6 billion or R0,5 billion lower than anticipated. Despite a moderate rise in the deficit to be financed, debt service costs continue to decline as a percentage of GDP and of expenditure due to lower real interest rates, debt restructuring and anticipated proceeds from privatisation.

Expenditure on skills programme expected to be R2 billion

With effect from 2000/01, national budget expenditure includes the skills development programme financed through earmarked skills levies. In the first year, R970 million was transferred to the National Skills Fund and SETAs, part of which will be given back to companies who spend money on approved training courses. Transfers in 2001/02 are expected to be about R2 billion, out of available funds of about R3,4 billion.

The expenditure estimates for 2001/02 and beyond include several other new commitments.

Fiscal adjustments include the electrification programme, the UIF and the Post Office shortfall

- The electrification programme, previously funded by Eskom, is now supported through the Minerals and Energy vote. R600 million was voted in 2001/02 and this will increase to R950 million a year in the 2002 Budget. This expenditure is partly offset by dividend and tax payments by Eskom, which previously was exempt from these revenue obligations.
- In this year's Adjustments Budget, R605 million is proposed on the Labour vote to provide for shortfalls of the Unemployment Insurance Fund. It is expected that the UIF will need to be supported for a further three years before adjustments to contributions and benefits in terms of new legislation will restore the fund to self-sufficiency.
- A subsidy of R300 million a year for the Post Office is reintroduced this year, beginning with a R600 million transfer in 2001/02 to cover two years of operating losses.

Contingency reserve increase over the MTEF period

As in previous years, a contingency reserve is set aside for each of the three years. The reserve rises from R2 billion in 2002/03 to R4 billion in 2003/04 and to R8 billion in 2004/05. This reserve allows Government to respond to adverse natural or economic occurrences that might threaten the budget framework. In addition, in future years, half the contingency reserve is drawn for new spending priorities that Government identifies.

After setting aside the contingency reserve and debt service costs, the revised spending estimates allow for an increase in spending over the 2001 Budget forward estimates of R8,9 billion in 2002/03, R11,8 billion in 2003/04 and R13,3 billion in 2004/05.

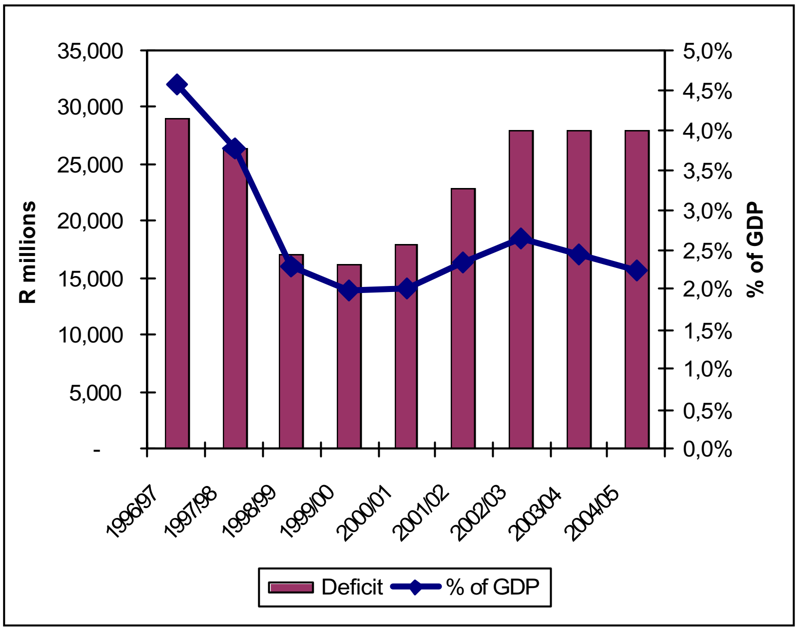
The budget deficit

Budget deficit rises to 2,6 per cent of GDP next year before declining to 2,2 per cent by 2004/05

The budget deficit for 2001/02 is now estimated to be R22,9 billion or 2,3 per cent of GDP, compared with a budgeted 2,5 per cent. Taking into account the anticipated economic slowdown and in order to reinforce government expenditure growth in the context of limited demand for available capital funds, Government proposes to raise the budget deficit to 2,6 per cent or R27,9 billion in 2002/03. In 2003/04, the deficit is set to decline to 2,4 per cent of GDP and to 2,2 per cent of GDP in 2004/05.

South Africa's healthy fiscal position and comparatively low foreign debt has helped to cushion the economy against international economic uncertainties. Against this background, it is possible to respond appropriately to the current downturn while continuing to bring the overall debt-GDP ratio down over the medium term.

Figure 3.2: Main budget deficit 1996/97 to 2004/05



Debt restructuring contributes to lower interest costs

Debt service costs have been favourably affected by a debt-switching programme this year, converting old, high yield debt to cheaper, more liquid benchmark instruments. While raising the nominal stock of debt by approximately

R1,8 billion in 2001/02, the switching programme will save about R400 million a year in interest costs over the next decade.

The revised budget framework recognises that the initial public offer of shares in Telkom and the sale of shares in M-Cell are now expected to take place in 2002/03 and not the current year. It is expected that R3 billion in restructuring proceeds will flow to the fiscus in this fiscal year and R15 billion in 2002/03.

Social security funds

Social security funds are financed through earmarked taxes

South Africa's principal social security benefits are old age grants, disability payments and family and child grants. These are financed out of general revenue appropriated for these programmes in provincial social development votes. Several other social programmes rely on mandatory levies and taxes.

Table 3.7: Social security funds 1998/99 to 2004/05[1]

R million	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Road accident fund							
Income	2 291	2 398	2 162	2 615	2 904	2 944	3 219
Expenditure	1 981	2 302	2 651	3 294	3 586	3 914	4 290
Surplus	310	96	-489	-679	-682	-970	-1 071
Compensation Funds							
Income	1 951	2 571	2 960	3 072	3 293	3 530	3 784
Expenditure	1 145	1 271	1 886	1 801	2 153	2 326	2 512
Surplus	806	1 300	1 074	1 271	1 140	1 204	1 272
Unemployment Insurance Fund							
Income	2 590	2 796	2 890	3 787	3 918	4 136	4 346
Expenditure	3 004	3 607	3 758	3 814	3 578	3 829	4 097
Surplus	-414	-810	-868	-27	360	307	249
Total social security funds							
Income	6 832	7 765	8 012	9 474	10 117	10 610	11 349
Expenditure	6 132	7 180	8 295	8 909	9 318	10 069	10 898
Surplus	702	585	-283	564	797	541	450

1 Social security numbers do not correspond exactly to SA Reserve Bank figures due to timing differences.

Social security funds provide prescribed income maintenance or welfare benefits and are financed by earmarked levies or compulsory contributions by employers, employees and purchasers of fuel.

The four social security funds are the Unemployment Insurance Fund (UIF), Workman's Compensation Fund, Mines and Works Compensation Fund and the Road Accident Fund. Over the past few years, Government has published data on the income and expenditure of the social security funds in the annual Budget Review as part of the consolidated central government finances.

Road Accident Fund is under review

The Road Accident Fund is currently operating a cashflow deficit and an upward adjustment in the fuel levy assigned to the Fund will in due course need to be effected. A review is currently in progress of the legislation, funding and administration of this programme.

Compensation funds in surplus

The Compensation funds, administered by the Department of Labour, currently run a surplus of some R1 billion a year. The Unemployment Insurance Fund, in contrast, is in deficit and will receive a temporary subsidy from the Labour vote while a number of legislative and administrative reforms are introduced aimed at broadening the revenue base, reforming benefits and improving expenditure control.

Extra–budgetary infrastructure initiatives

Infrastructure spending is largely outside main budget

Government's infrastructure investment and service delivery responsibilities are largely met through entities operating outside of the main budget framework. These include rail, air and harbour services, national road maintenance, water and electricity supply, the Post Office, telecommunications and broadcasting and more specialised functions such as the weather bureau and nuclear technology.

While some of these functions are fully financed through tariffs and service charges, others rely on budgetary transfers. Funds for capital projects in some instances come from national, provincial or municipal budgets – in other cases, public entities retain revenue for investment, borrow funds directly on the capital market or raise finance from lending institutions such as the Development Bank of SA.

New infrastructure projects will contribute to social and economic development

In the years ahead, several investment projects will get under way, boosting real public sector investment growth beyond the budgetary projection of 8,8 per cent a year and extending infrastructure services in support of broader social and economic development.

- Water projects under consideration include the Skuifraam Dam to supplement water supply in the Western Cape and further developments in several regional water schemes.
- Negotiations have been completed for the ‘platinum highway’ toll road concession linking the N4 north of Pretoria with Botswana.
- A substantial rehabilitation and realignment of the east coast road linking East London, Umtata, Port St Johns and the Port Shepstone-Durban highway is under review.
- Investment in a deep-sea port at Coega near Port Elizabeth is planned. Other planned industrial development zones include Richards Bay and East London.
- The proposed gas pipeline from Mozambique to South Africa is a major investment in ensuring an affordable energy source for Southern Africa over the next twenty years.
- A rehabilitation of the Rail Commuter Corporation’s rolling stock is in progress. A commuter rail link is planned for the Khayelitsha community in Cape Town.
- A high-speed rail link between Johannesburg and Pretoria is under investigation.
- Investment in telecommunications will be boosted by the recent issue of a third cellular network licence, the proposed issue of a second national operator licence and further upgrading of Telkom’s network and services following its planned public share issue.
- Two emergency call centres are being built by the Department of Communications in Cape Town and Johannesburg.

Public entities and public private partnerships used to leverage additional infrastructure investment in public services

The wider public sector borrowing framework outlined below takes account of the financing requirements of several of these initiatives. In other cases – notably, the toll road concessions and further investment in telecommunications – private investment will provide funding through direct equity participation or public-private partnerships.

Public sector borrowing requirement

The public sector borrowing requirement (PSBR) represents the full claim of general government and public entities on the capital markets. The largest component of the borrowing requirement is the national budget deficit, although extra-budgetary agencies such as the National Roads Agency and the Trans-Caledon Tunnel Authority are also significant borrowers from time to time. The surpluses or deficits of social security funds, provinces, municipalities and public enterprises also contribute to the total public sector borrowing requirement.

Public sector borrowing requirement came in at 1,8 per cent of GDP in 2000/01, reflecting further strengthening of the fiscal position

The PSBR has declined since 1995 mainly due to the reduction in the national budget deficit. The PSBR for 2000/01 is estimated as R16,2 billion or 1,8 per cent of GDP, well below the February 2001 forecast of 2,7 per cent. This is mainly due to a larger surplus in provinces than anticipated and a smaller main budget deficit.

With the anticipated delay in the Telkom public share offer and sale of M-Cell shares, the PSBR in 2001/02 is now expected to be 2,3 per cent of GDP, compared with a February Budget estimate of 1,3 per cent. Government will draw on an international syndicated loan of R12 billion

Table 3.8: Public sector borrowing requirement: 1997/98-2000/01

R billion deficit (+) / surplus (-)	1997/98	1998/99	1999/00	2000/01	
				2001 Budget Estimate	Preliminary outcome
Main budget deficit	**26,5**	**17,1**	**16,2**	**21,7**	**18,0**
Extraordinary payments	0,0	0,9	1,5	2,3	2,3
Extraordinary receipts	-2,9	-2,7	-7,1	-2,8	- 2,7
Main budget borrowing requirement[1]	**23,5**	**15,3**	**10,5**	**21,1**	**17,6**
Social security funds	-1,2	-0,7	-0,6	0,2	0,3
Provinces	6,1	-2,1	-3,4	-1,9	- 3,6
Extra-budgetary institutions	1,6	2,2	2,6	1,5	1,7
Local government	1,3	1,0	1,3	1,0	1,5
General government borrowing	**31,3**	**15,7**	**10,4**	**21,9**	**17,5**
per cent of GDP	*4,5%*	*2,1%*	*1,3%*	*2,4%*	*2,0%*
Plus:					
Non-financial public enterprises	-2,1	5,4	- 1,0	2,0	-1,3
Public sector borrowing requirement	**29,2**	**21,1**	**9,4**	**23,9**	**16,2**
per cent of GDP	*4,2%*	*2,8%*	*1,2%*	*2,7%*	*1,8%*

[1] Due to classification and timing differences, these estimates do not correspond fully with the SA Reserve Bank government finance statistics.

($1,5 billion) in meeting the 2001/02 financing requirement and the Telkom and M-Cell transactions are expected to take place in 2002/03. The Budget estimate that R7,4 billion in domestic bonds will be bought back this year remains unchanged.

Public sector borrowing is expected to rise to 2,4 % of GDP

In 2002/03, the PSBR is projected to be 1,6 per cent due to the anticipated proceeds from privatisation. Taking into account investment plans of public enterprises and municipalities and several extra-budgetary agencies with infrastructure responsibilities, the PSBR is expected to reach about 2,4 per cent of GDP by 2004/05. Table 3.8 shows the revised public sector borrowing requirement for the period 1997/98 to 2000/01. Table 3.9 shows the projected borrowing requirement for 2001/02 to 2004/05.

Significant trends in these tables include:

- A slowdown in borrowing by public entities since 1998/99
- A marked reduction in the national budget deficit
- A shift from a deficit position to a surplus position in provincial governments
- An increase in borrowing at local government level, partly reflecting the financial stress of restructuring in this sphere of Government.

Table 3.9: Public sector borrowing requirement - medium term projections

	2000/01	2001/02		2002/03	2003/04	2004/05
R billion	**Outcome**	**Budget**	**Revised**	**Medium term estimates**		
Main budget deficit	**18,0**	**24,9**	**22,8**	**27,9**	**28,0**	**28,0**
Extraordinary payments	2,3	0,6	0,6	0,0	0,00	0,00
Extraordinary receipts	- 2,7	-18,0	-3,0	-15,0	-5,0	-5,0
Main budget borrowing	**17,6**	**7,5**	**20,4**	**12,9**	**23,0**	**23,0**
Other government borrowing[1]	- 0,1	2,0	1,0	1,5	2,0	2,5
General government borrowing	**17,5**	**9,4**	**21,4**	**14,4**	**25,0**	**25,5**
per cent of GDP	*2,0%*	*1,0%*	*2,2%*	*1,4%*	*2,2%*	*2,0%*
Plus:						
Non-financial public enterprises	-1,3	3,0	1,0	2,0	3,0	4,0
Public sector borrowing requirement	**16,2**	**12,4**	**22,4**	**16,4**	**28,0**	**29,5**
per cent of GDP	*1,8%*	*1,3%*	*2,3%*	*1,6%*	*2,4%*	*2,4%*

[1] *Social security funds, provinces, extra-budgetary institutions and local government.*

Government debt declining as a percentage of GDP with foreign debt at just 3,6 per cent of GDP.

Total national Government debt stood at R399,3 billion or 44,5 per cent of GDP at the end of 2000/01. Foreign debt of national Government is still low by international standards, amounting to R31,9 billion or 3,6 per cent of GDP at the end of 2000/01. South Africa enjoys a favourable status amongst emerging economies in terms of access to international capital markets, being able to raise capital abroad at relatively low interest rates.

Government financial guarantee liabilities declining

At the end of calendar 2000, total financial guarantees by Government stood at R79,1 billion, down from R81,3 billion at the end of 1999. This reduction in contingent liabilities mainly reflects a reduction in the actuarial deficit on the Government Employees Pension Fund, for which Government stands guarantee.

Forward cover losses by the SARB are liabilities of government

In 1999/00, a net profit of R5,2 billion was achieved on the Gold and Foreign Exchange Contingency Reserve Account. However, as a result of the depreciation in the rand since the beginning of 2000, the loss as a result of activities of the SA Reserve Bank in the foreign exchange market in 2000/01 was R9,0 billion. The accumulated losses on this account up to 31 March 2001 is R18,2 billion. Although these are liabilities of Government, they are not yet incorporated into government loan debt.

Conclusion

Fiscal policy aims to promote growth and development

South Africa’s fiscal policy stance aims to promote sustained growth and broad-based development of the economy and public services. The fiscal consolidation of recent years allows Government to adopt a more expansionary stance in the context of the present slowdown in the international economy. In the 2002 Budget, Government will continue the acceleration of real spending, particularly on municipal infrastructure and social services, while continuing a steady moderation of the overall tax burden, particularly on lower and middle-income taxpayers.

Through these measured adjustments to revenue, spending and financing plans, together with a growth-oriented restructuring of public sector programmes and institutions, Government will contribute to steady improvements in the growth and development performance of the South African economy.