3

Fiscal policy and the budget framework

The 2004 Medium Term Budget Policy Statement underscores Government's continued commitment to a fiscal framework that supports economic growth and development while advancing social development and providing relief for the most vulnerable members of society. The recovery of the global economy and the continued growth of the domestic economy provide an opportunity to extend public service delivery further, while ensuring that growth in expenditure does not undermine stability of the fiscus and economy as a whole. The budget framework presented here provides for growth in real non-interest expenditure of 4,3 per cent per year.

The fiscal framework sees a moderate increase in the deficit next year to 3,5 per cent of GDP as growth in expenditure accelerates. By the second year, the deficit ratio declines as spending growth moderates and revenue performance improves. In addition to rising investment in infrastructure, higher income support, social and municipal services, the fiscal framework takes account of rising investment by state owned enterprises and municipalities financed, in the main, on their own balance sheets.

Overview

Real growth in spending of 4,3 per cent a year

The budget framework set out in this chapter serves to underscore an expansionary fiscal policy initiated in the 2001 Budget. Non-interest spending rises by an average of 4,3 per cent over the next three years, the deficit increases next year and then declines to 2,7 per cent by 2007/08, the overall tax burden remains moderate and debt service costs stabilise over the forecast period.

Buoyant domestic demand, rising investment and the continued expansion of the global economy create an environment supportive of economic growth in South Africa. This provides an opportunity for Government to contribute further to meeting the mandate given by South Africans to reduce poverty and generate work opportunities through increased economic growth.

The 2005 MTEF provides the resources to fund rising social security spending, targeted real increases in remuneration to improve service delivery and growth in capital expenditure to support economic development. Key features of the 2005 MTEF include:

- Real growth of non-interest expenditure of 4,3 per cent a year
- Increases over the 2004 Budget baseline allocations total R50 billion
- An increase in the budget deficit to 3,5 per cent of GDP in 2005/06, thereafter declining to 3,2 per cent in 2006/07 and 2,7 per cent by the final year of the framework
- Continued surpluses of the consolidated social security funds
- Growth in consumption expenditure and transfers to households during the first two years of the framework, while capital expenditure increases throughout in line with Government's commitment to infrastructure development.

Fiscal policy: goals, trends and targets

Fiscal trends confirm sound fiscal performance

The outcomes of key fiscal indicators are listed in table 3.1. These figures outline South Africa's fiscal path since 1999, and give projections for the final year of the MTEF. The figures presented are for calendar years and are for general government based on the system of national accounts. They are accordingly not strictly comparable with the cash-based budgets used by government. The key features are summarised below:

- After a period of erratic performance, the current trend of growth in gross fixed capital formation by general government is now firmly entrenched. Strong growth was recorded in both 2002 and 2003 and this trend is set to continue over the MTEF.

- Investment by public corporations continues to accelerate, albeit off a low base. It is expected that capital investment from this sector will remain strong over the MTEF as the investment plans of state enterprises are implemented.

- Government dissaving, defined as current revenue less current expenditure after adjusting for depreciation, has weakened from 0,4 per cent in 2002 to 1,7 per cent in the first half of 2004. It is expected that this trend will continue for the first year of the MTEF, driven primarily by increases in current expenditure, after which it will begin to improve as capital expenditure begins to accelerate.

- The rate of general government tax to GDP ratio increases slightly due to revenue buoyancy associated with VAT collection and better revenue performance.

Table 3.1 Fiscal trends and projections

	1999	2000	2001	2002	2003	2004 Actual H1[1]	2007 Projected
Gross fixed capital formation (percentage real growth)							
general government	-9,6	-0,2	-7,9	10,1	9,4	2,1	6,8
public corporations	-29,1	-19,9	-4,0	8,1	17,4	21,4	15,4
Government consumption expenditure (per cent of GDP)	18,7	18,7	18,9	18,7	19,1	19,5	19,3
wages	*13,6*	*13,1*	*12,7*	*11,9*	*11,9*	*11,9*	*11,4*
non-wage	*5,1*	*5,7*	*6,2*	*6,7*	*7,1*	*7,6*	*7,9*
General govt savings (per cent of GDP)	-1,9	-2,0	-0,6	-0,4	-1,1	-1,7	-1,1
General govt tax revenue (per cent of GDP)	27,1	26,3	27,3	26,8	26,4	27,7	27,9
Interest on public debt (per cent of GDP)	6,2	5,8	5,4	4,9	4,4	4,5	4,5
	1999/00	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05 Estimate**	**2007/08 Projected**
Public sector borrowing requirement (per cent of GDP)	3,8	1,4	2,0	0,8	3,0	4,1	4,6
National government (per cent of GDP)							
Main budget deficit	-2,2	-2,0	-1,4	-1,1	-2,4	-3,2	-2,7
Total net loan debt	45,7	43,4	42,1	36,3	36,0	37,1	39,6

1. Refers to first half of 2004.

Outcomes of the 2003/04 main budget

Deficit of 2,4 per cent of GDP in 2003/04 as originally budgeted

The preliminary budget outcomes for 2003/04 are summarised in table 3.2. Government collected R299,4 billion of revenue, R5,1 billion short of the original budget estimate. The shortfall was mainly a result of suppressed global economic conditions and a slowdown in domestic growth. Total expenditure came in at R328,7 billion, R5,3 billion lower than budgeted. This was partly the result of lower than estimated debt service costs, which were about R4,7 billion less than budgeted. The deficit came in as budgeted at 2,4 per cent of GDP.

Table 3.2 Main budget outcome, 2000/01 – 2003/04

R billion	2000/01	2001/02	2002/03	2003/04 2003 Budget estimate	2003/04 Preliminary outcome
Total revenue	**215,6**	**248,3**	**278,5**	**304,5**	**299,4**
per cent of GDP	*23,6%*	*24,6%*	*24,2%*	*24,7%*	*24,3%*
per cent increase	*8,8%*	*15,2%*	*12,2%*	*9,3%*	*7,5%*
Total expenditure	**233,9**	**262,9**	**291,5**	**334,0**	**328,7**
per cent increase	*8,9%*	*12,4%*	*10,9%*	*14,6%*	*12,8%*
State debt cost	**46,3**	**47,6**	**46,8**	**51,0**	**46,3**
per cent of GDP	*5,1%*	*4,7%*	*4,1%*	*4,1%*	*3,8%*
Budget deficit (-)	**-18,3**	**-14,6**	**-13,0**	**-29,5**	**-29,3**
per cent of GDP (-)	*-2,0%*	*-1,4%*	*-1,1%*	*-2,4%*	*-2,4%*

The main budget framework

Expansionary fiscal stance continues

The MTBPS publishes projections of government accounts at four levels of aggregation: the main budget, consolidated national budget, consolidated general government accounts and the public sector borrowing requirement. The main budget is the largest part of the consolidated national budget and consists of the revenue and expenditure that is attributed to the National Revenue Fund. Taking into account changes provided for in the 2004 Adjustments Budget, the revised estimates for the 2004/05 fiscal year and the proposed framework for the 2004 MTEF are set out in table 3.3.

Table 3.3 Main budget framework, 2003/04 – 2007/08

R billion	2003/04 Outcome	2004/05 Estimate	2005/06	2006/07	2007/08
			Medium-term estimates		
Total revenue	**299,4**	**328,2**	**363,0**	**399,1**	**440,5**
per cent of GDP	*24,3%*	*24,5%*	*24,7%*	*25,0%*	*25,1%*
Deficit(-)	**-29,3**	**-43,5**	**-50,6**	**-50,6**	**-47,7**
per cent of GDP	*-2,4%*	*-3,2%*	*-3,5%*	*-3,2%*	*-2,7%*
Total expenditure	**328,7**	**371,7**	**413,6**	**449,7**	**488,2**
per cent of GDP	*26,7%*	*27,7%*	*28,2%*	*28,1%*	*27,8%*
Debt service cost	46,3	49,6	53,2	58,2	63,7
per cent of GDP	*3,8%*	*3,7%*	*3,6%*	*3,6%*	*3,6%*
Non-interest expenditure	282,4	322,1	360,5	391,5	424,5
per cent of GDP	*22,9%*	*24,0%*	*24,6%*	*24,5%*	*24,2%*
real growth (non-interest expenditure)	*9,3%*	*9,1%*	*6,5%*	*3,4%*	*3,2%*
Contingency reserve	–	–	*3,0*	*4,0*	*8,0*
Gross domestic product	*1 232,5*	*1 340,7*	*1 466,8*	*1 598,6*	*1 755,7*

Tax revenue projected to be R1,2 billion higher than budget in 2004/05

As the business cycle turns and corporate profits recover, it is expected that revenue will increase moderately, as outlined in Chapter 4. For the current year, buoyant domestic demand will result in VAT and personal income tax receipts more than compensating for the weaker performance of corporate tax income. For the period ahead, revenue growth will be underpinned by further tax base broadening and company taxes are expected to recover as corporate profits rise.

Non-interest expenditure grows robustly at 4,3 per cent a year in real terms. However, while non-interest expenditure grows by over 6,5 per cent in 2005/06, the real rate of spending growth slows to more sustainable levels in the outer years.

Debt service costs stabilise at about 3,6 per cent of GDP

Debt service costs as a share of GDP decline to 3,6 per cent in the first year of the MTEF. The higher deficit and the realisation of the Saambou liability in 2007/08 are offset by the favourable impact of lower interest rates, resulting in debt service costs stabilising over the MTEF period.

A contingency reserve is set aside for all three years of the MTEF. The purpose of this reserve in the first year is to allow government to respond effectively to unforeseen adverse economic conditions and natural occurrences that would otherwise put pressure on the budget framework, or to fund programmes announced in the budget but not yet appropriated. In the outer years, the reserve may be drawn down to fund new priorities.

Corporate tax growth lags corporate profit growth by about 12 to 18 months

Historically, revenue growth outpaces GDP growth during an upswing in the business cycle. Conversely, revenue growth slows down when corporate profits decline. This was evident in the 18 months to June 2004, when the economic slowdown led to lower corporate profits and lower revenue collections. This trend is set to reverse as the economy picks up momentum and corporate profits improve. Although the deficit is likely to widen marginally next year, it is expected to decline thereafter as revenue growth accelerates and expenditure moderates. This pattern in fiscal trends is broadly similar to trends seen in Europe over the past three years.

Public service wage agreement

In September 2004, Government signed a three-year wage agreement with public sector unions covering most national and provincial government employees. The major elements of this agreement are a 6,2 per cent salary increase for 2004 and salary increases of projected CPIX plus 0,4 per cent in 2005 and 2006. In addition, most staff receive an additional 1 per cent a year for pay progression based on performance and seniority. This agreement is the first salary agreement that benchmarks salary increases to projected inflation as opposed to historical inflation. It allows government to align salary increases with the inflation-targeting regime. If the actual inflation rate turns out higher than forecast by the Treasury, employees will get the difference added to the increase in the following year.

For budgeting purposes, departments have been asked to budget for salary increases of 6,2 per cent in 2004, 5,5 per cent in 2005 and 2006 and 5,0 per cent in 2007 plus 1 per cent for pay progression in each year.

The agreement also includes the provision of a housing allowance for people who presently do not benefit from the homeowners allowance which is given to bond holders only. It will be available to people who rent accommodation and will be phased in from R100 a month in 2005 to R400 a month by 2008 after which time it will stabilise. This element of the agreement is expected to cost about R2,5 billion a year by 2008.

The agreement provides for an additional increase for educators to compensate for the lack of pay progression between 1996 and 2002. This will cost about R800 million a year.

Government proposes to fund part of the additional cost of the salary agreement by reducing the employer contribution to the Government Employees Pension Fund. This will yield about R2 billion a year in savings. The Government Employees Pension Fund is a defined benefit pension fund and the decreased contribution does not imply any change to pension benefits. The sound financial health of the pension fund has allowed Government to make this adjustment.

The consolidated national budget

The consolidated national budget consists of the finances of the main budget, the RDP Fund, which mainly covers international development assistance grants and social security funds.

Table 3.4 Consolidated national budget framework, 2003/04 – 2007/08

	2003/04	2004/05		2005/06	2006/07	2007/08
R billion	Outcome	Budget	Revised	Medium-term estimates		
National Revenue Fund (main budget)						
Revenue	**299,4**	**327,0**	**328,2**	**363,0**	**399,1**	**440,5**
Expenditure						
State debt cost	46,3	50,4	49,6	53,2	58,2	63,7
Percentage of GDP	*3,8%*	*3,8%*	*3,7%*	*3,6%*	*3,6%*	*3,6%*
Contingency reserve	–	2,5	–	3,0	4,0	8,0
Allocated expenditure[1]	282,4	316,0	322,1	357,5	387,5	416,5
Total expenditure	**328,7**	**368,9**	**371,7**	**413,6**	**449,7**	**488,2**
Percentage increase	*12,8%*	*12,2%*	*13,1%*	*11,3%*	*8,7%*	*8,6%*
Deficit	**-29,3**	**-41,9**	**-43,5**	**-50,6**	**-50,6**	**-47,7**
Percentage of GDP	*-2,4%*	*-3,1%*	*-3,2%*	*-3,5%*	*-3,2%*	*-2,7%*
RDP Fund and foreign technical co-operation						
Receipts and technical co-operation	1,7	1,5	1,5	1,5	1,5	1,5
Expenditure	1,7	1,3	1,3	1,3	1,3	1,3
Social security funds						
Revenue	12,7	13,9	14,6	15,9	17,2	18,5
Expenditure	8,8	11,1	11,5	12,2	13,5	14,5
Consolidated national budget[2]						
Revenue	**313,7**	**342,4**	**344,2**	**380,4**	**417,8**	**460,5**
Expenditure	**339,2**	**381,3**	**384,4**	**427,2**	**464,5**	**504,0**
Percentage of GDP	*27,5%*	*28,6%*	*28,7%*	*29,1%*	*29,1%*	*28,7%*
Percentage increase	*12,5%*	*11,6%*	*13,3%*	*11,1%*	*8,7%*	*8,5%*
Deficit	**-25,4**	**-38,9**	**-40,2**	**-46,8**	**-46,6**	**-43,5**
Percentage of GDP	*-2,1%*	*-2,9%*	*-3,0%*	*-3,2%*	*-2,9%*	*-2,5%*
Gross domestic product	*1 232,5*	*1 331,8*	*1 340,7*	*1 466,8*	*1 598,6*	*1 755,7*

1. Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.

2. Flows between funds are netted out.

Large surpluses on UIF lowers consolidated national government deficit

As a result of significant surpluses on the Unemployment Insurance Fund (UIF) and the Compensation Funds, the consolidated national budget shows a deficit that is consistently lower than that of the main budget. As a percentage of GDP, the consolidated national budget deficit peaks at 3,2 per cent of GDP next year and declines to 2,5 per cent in the final year.

The turnaround strategy embarked on by the UIF continues to reap dividends with cash surpluses expected to grow over the MTEF. The turnaround in the financial position comes about as a result of stronger revenue performance, while growth in expenditure has been curtailed. As a result of the accumulation of surpluses, funding of the operational liabilities of the fund is at a high level and Government will have to determine the appropriate funding levels for the UIF in future.

Table 3.5 Social security funds[1], 2001/02 – 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Road Accident Fund							
Revenue	2 821	3 264	3 894	4 503	4 907	5 360	5 874
Expenditure	3 164	3 575	4 413	5 455	5 627	5 813	6 198
Surplus(+)/Deficit(-)	-343	-312	-519	-952	-720	-454	-324
Compensation funds							
Revenue	2 122	2 420	2 979	3 341	3 528	3 721	3 751
Expenditure	1 619	2 462	2 143	2 625	2 753	2 915	3 078
Surplus(+)/Deficit(-)	503	-42	836	717	776	806	673
Unemployment Insurance Fund							
Revenue	3 457	4 905	5 802	6 764	7 445	8 157	8 901
Expenditure	2 868	2 416	2 220	3 387	3 847	4 739	5 269
Surplus(+)/Deficit(-)	589	2 489	3 582	3 377	3 597	3 418	3 633
Total social security funds							
Revenue	8 400	10 589	12 676	14 608	15 880	17 238	18 527
Expenditure	7 652	8 454	8 777	11 466	12 227	13 467	14 544
Surplus(+)/Deficit(-)	748	2 135	3 899	3 142	3 653	3 771	3 982

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

Financial situation of road accident fund remains cause for concern

The Road Accident Fund (RAF) pays compensation to victims of road accidents caused by other parties. The RAF's deficit continued to widen during 2004/05, and is anticipated to reach R952 million at the end of the year, up from the R519 million in 2003/04. While the RAF fuel levy was increased by 5 cents per litre in April 2004, this was less than the increase in claims for compensation by victims of road accidents. Anticipated amendments to the RAF Act are expected to contribute to improving its financial position. This should help to reduce the deficit gradually over the medium term.

Social security funds run a combined surplus of 3,1 billion in 2004/05

The four social security funds are expected to run a combined surplus of R3,1 billion in 2004/05. This is down from R3,9 billion in 2003/04, mainly as a result of a higher deficit in the RAF. The combined surplus is projected to approach R4 billon a year by 2007 as the deficit of the RAF narrows.

Public sector borrowing requirement and debt trends

PSBR increases as state enterprises borrow for investment

The public sector borrowing requirement comprises the consolidated general government deficit and the financing requirements of non-financial public sector enterprises, taking into account extraordinary expenditure and proceeds. The borrowing requirement represents the projected net claim of the pubic sector on capital markets and is set out in table 3.6.

Table 3.6 Public sector borrowing requirement, 2003/04 – 2007/08

	2003/04	2004/05		2005/06	2006/07	2007/08
R billion	**Outcome**	**Budget**	**Revised**	**Medium term estimates**		
Main budget deficit	**29,3**	**41,9**	**43,5**	**50,6**	**50,6**	**47,7**
Extraordinary payments	7,4	7,0	7,2	7,0	–	4,5
Extraordinary receipts	-1,6	-2,7	-2,0	-0,3	-0,1	–
Financing requirement	**35,2**	**46,2**	**48,7**	**57,3**	**50,5**	**52,2**
Other government borrowing[1]	4,7	-2,9	6,1	7,2	8,9	10,9
General government borrowing	**39,9**	**43,3**	**54,8**	**64,5**	**59,4**	**63,1**
per cent of GDP	*3,2%*	*3,3%*	*4,1%*	*4,4%*	*3,7%*	*3,6%*
Plus:						
Non-financial public enterprises	-2,5	-1,2	0,5	3,7	9,8	17,7
Public sector borrowing requirement	**37,4**	**42,1**	**55,3**	**68,2**	**69,2**	**80,7**
per cent of GDP	*3,0%*	*3,2%*	*4,1%*	*4,6%*	*4,3%*	*4,6%*

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

PSBR set to increase 4,6 per cent of GDP

Over the MTEF period, capital expenditure by non-financial public enterprises is expected to increase substantially, partly financed through increased borrowing. As a result, the public sector borrowing requirement is expected to rise to 4,6 per cent of GDP by 2007/08. While this does represent a greater claim on capital markets, this is investment in productive capacity, especially transport and electricity infrastructure, and is expected to be strongly supportive of economic growth. While the restructuring of state owned enterprises will continue over the MTEF, it is expected that the proceeds from the sale of assets will mainly be channelled into state owned enterprise capital projects. Growth in other government borrowing is primarily driven by infrastructure spending by local government.

Saambou liability will be realised in 2007/08

Extraordinary payments in 2005/06 include the issuing of R7 billion in bonds to the Reserve Bank in terms of the Gold and Foreign Exchange Contingency Reserve Defrayal Act. In 2006/07 no extraordinary payments are expected, while in 2007/08 the contingent liability relating to Saambou Bank will be realised. The value of this liability is expected to be about R4,5 billion. In financing the main budget deficit, the net borrowing requirement will increase from an expected R48,7 billion in 2004/05 to R57,3 billion in 2005/06, after which it is anticipated to decline to R50,5 billion in 2006/07 and R52,2 billion in 2007/08.

Rating agencies place South Africa on upgrade watch

Moody’s Investors Service has placed South Africa’s sovereign credit rating on review for a possible upgrade. Moody’s emphasises that South Africa’s economic policy has been well managed for many years, with restrained fiscal and monetary policies leading to relatively low government debt ratios and foreign-currency expose. In addition, Fitch Ratings has recently changed South Africa’s sovereign ratings outlook from stable to positive.

Infrastructure expenditure: trends and projections

The table below shows public sector capital expenditure increasing from 5,5 per cent of GDP in 2004/05 to 6,5 per cent of GDP in 2007/08, with increasing investments by the big public enterprises, growth in public private partnerships and the strengthening of national, provincial and municipal investment in infrastructure. Strong growth in projected capital expenditure is driven in part by R6,5 billion in additions for infrastructure above baseline from the fiscus to national departments, provinces and local government for the 2005 MTEF period.

2005 MTEF Capital Expenditure Estimates

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Outcomes	Outcomes	Outcomes	Estimate	Medium-term estimates		
R million							
National departments[1]	7 642	8 315	9 530	10 637	11 511	12 504	15 487
Provincial departments	9 972	12 977	17 413	19 468	22 465	24 062	25 265
Municipalities	11 700	13 000	16 687	17 855	19 016	20 157	21 164
Public private partnerships[2]	1 717	1 637	1 989	803	2 893	4 878	5 345
Extra-Budgetary Public Entities	2 419	2 854	3 053	3 196	3 483	3 762	4 063
Non-financial public enterprises	19 687	26 803	21 332	21 582	28 397	34 462	42 204
Total	**53 137**	**65 586**	**70 004**	**73 541**	**87 765**	**99 825**	**113 528**
percentage GDP	*5.3%*	5.7%	5.7%	5.5%	6.0%	6.2%	6.5%
GDP	*1 010 921*	*1 149 890*	*1 232 483*	*1 340 677*	*1 466 790*	*1 598 613*	*1 755 723*

1. Capital transfers to the provincial and municipal level netted out.

2. Capital expenditure on PPPs overseen by the Treasury PPP Unit, South African National Roads Agency, Department of Public Works, and at municipal level, with MIIU assistance

Increases in transfers for social infrastructure over the next three years include R1 billion more in infrastructure grants to municipalities and provinces, bringing the total Municipal Infrastructure Grant (MIG) allocation to R18,5 billion and the provincial infrastructure grant allocation to R12,7 billion. These grants are stepped up in order to eliminate the backlogs and inequities in social and municipal infrastructure at local and regional level and will also increase employment opportunities through labour intensive construction methods via the Expanded Public Works Programme (EPWP). An additional R1,5 billion is allocated for Housing over the MTEF, bringing the total housing infrastructure budget estimate over MTEF period to R16,5 billion.

To meet the country's growing economic needs, an additional R1,35 billion has been allocated for transport infrastructure focussing on roads and passenger rail infrastructure and R850 million over the MTEF for water resources infrastructure such as pipelines and dams to secure the future availability of water supplies.

Other large government infrastructure expenditure estimates over the MTEF include the hospital revitalisation programme projected to be R3,7 billion, the national electrification programme of about R3,6 billion and national Public Works infrastructure expenditure of R2 billion. Over the next three years, infrastructure used in the fight against crime is expected to include the construction of prison facilities to alleviate overcrowding and facilitate prisoner rehabilitation (R3,2 billion), police stations and other policing infrastructure of R1,2 billion and court facilities for just over R900 million.

Major public enterprises have signalled an expansion in their expenditure on economic infrastructure. Over the medium term, Transnet expects to spend about R28 billion on port and port operations infrastructure, freight rolling stock, rail and fuel pipeline infrastructure. These plans form the basis of a new investment strategy by the utility. Investment in the country's electricity industry is set to exceed R49 billion over the three years and includes major investments in power generation, transmission, and distribution. Total capital expenditure by non-financial enterprises is expected to exceed R105 billion over the MTEF.

Overall, public sector capital expenditure has increased at an average of over 11,4 per cent a year between 2001/02 to 2004/05 and is expected to grow at an average of 15,6 per cent a year over the 2005 MTEF.

Table 3.7 Financing of net borrowing requirement of national government

R million	2004/05 Estimate	2005/06 Medium-term estimates	2006/07	2007/08
Domestic short-term loans (net)	**6 000**	**8 000**	**8 000**	**8 000**
Domestic long-term loans (net)	**30 693**	**39 465**	**39 120**	**39 213**
Loans issued for financing (net)	24 173	32 465	39 120	39 213
New loans	53 880	62 172	74 593	78 173
Discount on issues of new loans	-3 005	-3 674	-8 737	-9 318
Scheduled redemptions	-26 702	-26 033	-26 736	-29 642
Loans issued for switches (net)	-480	–	–	–
New loans	7 691	7 000	10 000	–
Discount on issues of new loans	-171	–	–	–
Loans switched (net of book profit)	-8 000	-7 000	-10 000	–
Loans issued for extraordinary purposes	7 000	7 000	–	–
Foreign loans (net)	**4 354**	**9 842**	**3 348**	**4 996**
Loans issued for financing (net)	4 354	9 842	3 348	4 996
Market loans	6 533	7 100	7 780	8 590
Export credit facilities	3 650	4 837	4 045	3 024
Discount on issues of new loans	-85	–	–	–
Redemptions (including revaluation of loans)	-5 744	-2 095	-8 477	-6 618
Change in cash and other balances[1]	**7 669**	**–**	**–**	**–**
Opening balance:	14 169	6 500	6 500	6 500
Cash balance	12 669	6 500	6 500	6 500
Surrenders/Late requests	1 500	–	–	–
Closing balance	-6 500	-6 500	-6 500	-6 500
Total financing (net)	**48 716**	**57 307**	**50 468**	**52 209**

1. A positive change indicates a reduction in cash balances.

Government net debt to GDP ratio rises marginally to 37,1 per cent in 2004/05

The higher deficit and extraordinary payments to the Reserve Bank leads to net loan debt increasing as a percentage of GDP. The net debt to GDP ratio is projected to be 37,1 per cent of GDP in 2004/05, rising to 39,6 per cent in 2007/08.

Table 3.8 Total government debt, 2001/02 – 2007/08

As at 31 March R billion	2001/02	2002/03	2003/04	2004/05 Estimate	2005/06 Medium-term estimate	2006/07	2007/08
Marketable domestic debt	348,5	350,6	389,3	429,4	480,6	536,6	593,2
Non-marketable domestic debt	2,0	1,9	2,0	1,9	1,8	1,7	1,6
Total domestic debt	350,5	352,5	391,3	431,3	482,4	538,3	594,8
Total foreign debt	82,0	74,3	64,7	72,3	86,8	97,7	107,6
per cent of total debt	*19,0%*	*17,4%*	*14,2%*	*14,4%*	*15,2%*	*15,4%*	*15,3%*
Total gross loan debt	**432,5**	**426,8**	**456,0**	**503,5**	**569,2**	**636,0**	**702,4**
per cent of GDP	*42,8%*	*37,1%*	*37,0%*	*37,6%*	*38,8%*	*39,8%*	*40,0%*
Less: National Revenue Fund balance	-6,5	-9,7	-12,7	-6,5	-6,5	-6,5	-6,5
Total net loan debt[1]	**426,0**	**417,1**	**443,3**	**497,0**	**562,7**	**629,5**	**695,9**
per cent of GDP	*42,1%*	*36,3%*	*36,0%*	*37,1%*	*38,4%*	*39,4%*	*39,6%*

1. The total net government loan debt is calculated after taking account of the cash balances of the National Revenue Fund.