Medium Term
Budget Policy Statement
2013

National Treasury

Republic of South Africa

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Foreword

There are good reasons to be optimistic about higher growth, job creation and effective implementation of the National Development Plan over the three-year period covered by this *Medium Term Budget Policy Statement.*

The global economic crisis that began five years ago has been more severe and persistent than anyone could have foreseen. But world economic growth is forecast to strengthen next year. There are signs of greater economic activity in advanced economies and growth in emerging markets remains robust. We recognise, however, that there are significant risks to the outlook, and we cannot let down our guard.

Our economy has continued to grow at a moderate pace, reflecting global and domestic factors. While expanded global trade and investment will help to boost our exports over time, South Africa cannot rely on global trends to achieve faster, more inclusive growth and job creation. This will require immediate measures to reignite growth and structural reforms over the medium term.

We can only implement transformational reforms with a clear plan and a determination to act with urgency. The National Development Plan provides a platform for building a new national partnership that involves government, the private sector, labour and civil society.

We are working to reignite growth. Over the medium term, new electricity supply will come on line. Government is increasing its investments in rail, roads, ports and water provision. Clear policy frameworks in areas such as gas and oil exploration will boost investment. Business support programmes will support industrialisation and greater competitiveness.

We have begun implementing the National Development Plan, a framework to accelerate economic growth, eliminate poverty and reduce inequality. The budget policy framework for the next three years reflects greater alignment with the plan, as spending programmes begin to address economic constraints and the need for greater state efficiency.

We are enacting reforms to build an efficient state. Initiatives are already under way to strengthen infrastructure planning and implementation, to attack waste and fraud, and to strengthen public procurement.

We are reinforcing the fiscal stance. The National Treasury projects that we will meet our fiscal deficit target for 2013/14. Despite the pressures facing the public finances as a result of external volatility and domestic spending pressures, we are resolute in our commitment to fiscal discipline. Our expenditure ceiling remains in place for the next two years, and we propose to continue spending limits in 2016/17. At the same time, we will continue to support the economy, enhance the social wage, and protect the poorest and most vulnerable among us.

Let us work together, united by a common vision and determination to transform the lives of millions of South Africans and our country's long-term economic potential. If we work together, we can achieve our goal of a more equitable, more dynamic and more just society.

Pravin Gordhan

Pravin J Gordhan
Minister of Finance

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Securing inclusive growth

In brief

- The budget policy framework for the next three years is designed to manage risk in a constrained fiscal environment, while building a foundation for faster and more inclusive long-term growth.
- Gross domestic product (GDP) growth of 2.1 per cent is expected in 2013, rising to 3.5 per cent in 2016.
- The expenditure ceiling set out in the 2013 Budget forward estimates will be maintained for the period ahead, and the budget deficit will narrow from 4.2 per cent in the current year to 3.0 per cent in 2016/17.
- Non-interest expenditure will continue to grow in real terms, averaging 2.2 per cent a year over the medium term.
- Measures to support faster growth include investing in electricity and transport capacity, promoting industrial competitiveness, and broad social cooperation to address challenges in mining and community development.
- Distribution of resources is in line with the National Development Plan (NDP). Health and education continue to receive the largest allocations, while budgets related to infrastructure, jobs, local government and community development grow strongly.

Introduction

The 2013 *Medium Term Budget Policy Statement* (MTBPS) sets out a framework for sustainable public finances, while managing vulnerability to economic and fiscal risks. It outlines key steps in South Africa's transition to faster, more inclusive growth.

South Africa is adapting to changing patterns of global opportunity and pressing development challenges

In adjusting to somewhat lower economic growth, South Africa is also adapting to changing patterns of global opportunity and pressing development challenges. A competitive, diversified and more inclusive economy is essential to improve trade performance, expand and sustain job creation, and strengthen revenue generation. South Africa's strategy for increased employment and growth and lower income inequality is set out in the NDP, and elaborated in a wide range of government programmes and policy documents. The budget gives practical expression to these plans for the three-year period ahead.

Effective cooperation between government, business, labour and civil society will anchor national development

While much has been achieved in transforming South Africa's social and developmental landscape since 1994, there is considerable scope for improving programme implementation and the pace of reform. There is also much to gain from more effective partnerships and cooperation between government, business, labour and civil society. The MTBPS indicates steps to be taken to strengthen government performance, and to promote an enabling environment for investment and enterprise development.

Smoothing volatility during a period of global turbulence

Macroeconomic policy has provided support to the economy and reduced exposure to volatility

It has been five years since the start of the global financial crisis. Over this period, macroeconomic policy has focused on providing support to the economy, minimising South Africa's exposure to volatility, and encouraging domestic and international investment.

Countercyclical fiscal policy resulted in a widening budget deficit and increased borrowing as South Africa was faced by recession and then a period of slow growth. In the period ahead, spending on infrastructure, health, education and social assistance will continue to grow, while the deficit will narrow to protect long-term sustainability.

Monetary policy has provided a low interest rate environment to encourage capital investment and assist households. The inflation-targeting framework continues to protect savings, wages and social benefits from being more rapidly eroded by inflation.

Foreign reserves have risen from US$34.1 billion at the end of 2008 to US$47.9 billion at the end of August 2013. Effective regulatory oversight of the financial system contributes to stability and confidence in South Africa as an investment destination.

Continued growth for three years despite unfavourable global and domestic circumstances

South Africa's economy has expanded over the past three years, but the rate of growth has steadily declined, from 3.5 per cent of GDP in 2011 to a projected 2.1 per cent in 2013. This trend reflects a confluence of unfavourable global and domestic circumstances.

Over the past year, economic growth in emerging economies has slowed, while the outlook has improved somewhat in industrialised economies. The intention to phase out the US Federal Reserve's asset purchase programme, which has flooded global markets with liquidity, has contributed to turbulence in capital flows and currencies. Commodity prices have declined from historically high levels. South Africa's economy has also been affected by the limited availability and rising cost of electricity, labour disputes, rising unemployment and lower household consumption, weak business confidence and lower private sector investment.

South Africa faces a widening current account deficit and rising borrowing costs

In combination, these developments have contributed to a widening current account deficit, rising costs of borrowing in bond markets and a significant weakening of the rand exchange rate.

South Africa's current account deficit will be about 6.5 per cent of GDP this year, which reflects both the low level of domestic savings and considerably higher imports than exports. This means the economy is reliant on foreign savings to fund the gap between government revenue and spending, and the cost of infrastructure expansion.

South Africa's policy choices provide flexibility in the face of uncertain capital inflows

In recent years, the current account deficit has been comfortably financed by capital inflows, signalling the broad confidence of international investors in South Africa's economic prospects. Investor sentiment is volatile, however, and global capital allocation is likely to shift as the US monetary authorities taper their asset purchase programme. Government's supportive macroeconomic, fiscal and monetary policies provide the economy with flexibility to adjust and to weather short-term volatility.

South Africa's clear articulation of a credible growth strategy, and effective implementation of programmes to broaden participation and reduce inequality, are important foundations of both domestic confidence and continued financial stability.

Table 1.1 Macroeconomic projections, 2012 – 2016

	2012	2013	2014	2015	2016
Calendar year	**Actual**	**Estimate**		**Forecast**	
Percentage change unless otherwise indicated					
Final household consumption	3.5	2.5	2.9	3.2	3.4
Gross fixed capital formation	5.7	4.1	5.0	5.5	6.3
Real GDP growth	**2.5**	**2.1**	**3.0**	**3.2**	**3.5**
GDP at current prices (R billion)	**3 155.2**	**3 411.7**	**3 720.2**	**4 061.7**	**4 443.7**
CPI inflation	5.7	5.9	5.6	5.4	5.4
Current account balance (% of GDP)	-6.3	-6.5	-6.4	-6.2	-6.1

Across all tables in the MTBPS, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available it is denoted by "N/A"

Realising our long-term economic potential

Government policy is ultimately focused on increasing South Africa's long-term economic growth and reducing inequality.

Capital investment in transport, electricity and water infrastructure boosts future growth prospects

South Africa has a sound institutional framework underpinned by the authority of the Constitution. The economy is supported by a sophisticated, stable financial system and liquid capital markets. Global firms continue to see the country as a platform to expand throughout the African continent, particularly the fast-growing sub-Saharan region. The public-sector infrastructure programme is broadening the capacity of the economy to grow by reducing bottlenecks in transport, electricity, water and other sectors. Mineral resources will continue to be a source of growth for many years to come. Worker rights are entrenched in law, with a strong voice for labour in social dialogue. An expanding social wage protects low-income and vulnerable households. A substantial technical and industrial base supports research, development and innovation. Our young population is eager to work, gain new skills and make its own productive contributions.

Structural reforms required for a faster-growing economy

To give effect to this potential, government is working to implement the NDP, manage medium-term risks and enact structural reforms to the economy.

Implementing the National Development Plan

Government recognises that South Africa cannot rely on global growth to put the economy on a new footing

While the global economic outlook has improved moderately, South Africa cannot rely on external developments to alleviate domestic growth constraints. Progress will require more collaborative partnerships across our society.

The NDP provides a strong platform for such collaboration and the transition to a faster-growing, more inclusive economy. The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities and accelerated rural development. It prioritises measures to build a capable, effective state that delivers services to citizens while encouraging business investment and growth.

Several interrelated sectoral and developmental programmes give greater content to the outcomes envisaged in the NDP. These include the work of the Presidential Infrastructure Coordinating Commission, the Industrial Policy Action Plan, the National Education Collaboration Trust and the new phase of the expanded public works programme.

Addressing short-term constraints in key economic sectors

Government is working with business, labour and state-owned companies to address both short-term sectoral challenges and longer-term constraints. Key initiatives include:

- An agreement aiming to secure more rapid and peaceful resolution of labour disputes in the mining sector.
- Building consensus on the future development of the mining sector.
- Addressing gaps in the social wage and working conditions that contribute to lengthy labour disputes.
- Investing in freight capacity to help alleviate supply bottlenecks.
- Improving pricing, efficiency and competitiveness at local ports.
- Developing the clothing and textiles competitiveness programme.
- Helping manufacturers to modernise production processes to meet international standards.
- Tariff protection in response to unfair trade practices by importing firms and exporting countries.
- Supporting the motor industry through grant-based incentives and tax offsets.
- Introducing designated products for local production as part of government procurement policy.
- Broadening access to finance and support services for small (particularly black-owned) businesses.

Repositioning the economy in a changing world

The economy has begun to adapt to a sea change in world trade and investment

The world economy has changed dramatically over the past five years. The sea change signalled by the growth of emerging markets in world trade and investment poses challenges and opportunities for South Africa. Our economy has begun to adapt to these changed patterns.

At the same time, global financial and monetary trends, new technologies, urbanisation, climate change and demographic shifts pose complex challenges for both industrialised and emerging economies. Macroeconomic policy, industrial development, the role of state enterprises, economic regulation, tax structure and spending programmes all confront difficult trade-offs and uncertainties in seeking to improve livelihoods, lower the cost of doing business and improve government performance.

Many South African firms have begun to adapt to changes in the world economy. Such companies are adjusting to changing cost structures and patterns of demand, integrating into global and regional value chains, and expanding their African operations. Further implementation of well-targeted sectoral initiatives will promote greater competitiveness and balanced growth.

The NDP points out that rebalancing and transforming the economy will take time. Complementary policies are needed to boost employment and economic participation, basic education, and skills acquisition. Greater competitiveness will enable local firms to access new markets and hire more people.

Over the medium term, several developments will support the transition to more rapid growth:

Over the next three years, South Africa will have more electricity, rail and roads to support growth

- Additional electricity supply, with Eskom's Medupi plant set to come on line in late 2014
- Increased investment in economic infrastructure, including rail, water, roads, ports and broadband communication
- Clear policy frameworks for new gas and oil exploration, improving South Africa's ability to meet its future energy requirements
- Business support programmes and special economic zones that encourage industrialisation and improve local competitiveness
- Improved urban planning and more efficient public transport
- Collaboration between public- and private-sector agencies in agricultural development and support for emerging farmers.

Work under way to boost production and employment

Government's initiatives to relieve energy supply constraints include:

- Publication of draft regulations for shale gas exploration in October 2013, with a view to processing exploration applications in 2014.
- Progressive implementation of the renewable energy independent power producer programme, now in its third round of contract awards.
- Publication of blending regulations for biofuels, with pricing arrangements to be finalised by mid-2014.
- Requests for proposals to procure the next coal-fired power station and for co-generation of electricity to be issued by mid-2014.
- Amendments to the Mineral and Petroleum Resources Development Act are being discussed in Parliament. These should reduce ambiguity, streamline administration, clarify governance concerns and encourage beneficiation.

Initiatives to bolster employment and address scarce skills constraints include:

- Revision of regulations relating to the immigration of skilled workers.
- Drafting of an employment tax incentive, now under consideration by Parliament.

Other steps to promote investment and lower the costs of doing business include:

- Centralising all steps to acquire mining licenses, including environmental approvals and water licences, in the Department of Mineral Resources.
- Strengthening the capacity of the competition authorities.
- A draft Promotion and Protection of Investment Bill to reinforce property rights.
- A bill to establish two new financial sector regulatory authorities will soon be submitted to Cabinet.

Regional integration has provided a new growth opportunity for South African businesses. South Africa is the second-largest developing-country source of foreign direct investment in Africa (ahead of China and India) and the largest recipient of private equity on the continent. South Africa is also well placed to support infrastructure development and strengthen regional economic collaboration within the Southern African Development Community and the Southern African Customs Union.

Reinforcing the fiscal stance

The 2013 MTBPS takes account of South Africa's greater vulnerability to economic shocks by reinforcing the fiscal stance, which balances consolidation with support to the economy.

Table 1.2 Consolidated government fiscal framework, 2012/13 – 2016/17

R billion	2012/13 Outcome	2013/14 Estimate	2014/15	2015/16	2016/17
			Medium-term estimates		
Revenue	**907.9**	**999.1**	**1 086.3**	**1 184.2**	**1 306.0**
Percentage of GDP	*28.3%*	*28.7%*	*28.6%*	*28.5%*	*28.7%*
Expenditure	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**
Percentage of GDP	*32.5%*	*32.8%*	*32.7%*	*32.3%*	*31.7%*
Budget balance	**-135.0**	**-144.6**	**-157.5**	**-156.3**	**-134.2**
Percentage of GDP	*-4.2%*	*-4.2%*	*-4.1%*	*-3.8%*	*-3.0%*

Since 2008, government and state-owned enterprises have issued more than R1 trillion in debt to invest in infrastructure and maintain core social and economic programmes. At the same time, government has adopted a budget framework to ensure that public finances remain sustainable, and that expenditure growth does not outpace revenue growth.

To reinforce this stance, the framework for the 2014 Budget:

- Continues to support programmes that enhance the social wage
- Maintains the spending ceiling announced in the 2013 Budget and reduces the budget deficit over the medium term to stabilise the trajectory of public debt
- Limits the growth of government's wage bill by curtailing growth in personnel spending
- Takes steps to reduce waste and inefficiency in government spending
- Closes the gap between revenue and consumption, so that borrowing can increasingly finance capital and investment spending.

Slower growth in expenditure and debt stabilisation needed to rebuild fiscal space

Expenditure will continue to grow in real terms, averaging 2.2 per cent a year over the medium term (excluding interest on debt). The fiscal stance will contribute to a narrowing of the deficit, from 4.2 per cent in the current year to 3.0 per cent in the outer year. This will enable government to stabilise debt and begin rebuilding fiscal space to fund new priorities.

Government's contribution to improved performance in the economy and in the provision of public services is strongly focused on better use of existing resources, rather than higher expenditure.

Table 1.3 Division of revenue, 2013/14 – 2016/17

R billion	2013/14	2014/15	2015/16	2016/17
National allocations	452.5	487.9	520.4	550.1
Provincial allocations	415.8	444.7	478.2	507.8
Equitable share	*338.9*	*362.5*	*388.0*	*412.0*
Conditional grants	*76.9*	*82.3*	*90.2*	*95.8*
Local government allocations	84.8	91.9	101.4	106.7
Total allocations	**953.1**	**1 024.5**	**1 099.9**	**1 164.6**
Changes to baseline				
National allocations	–	-1.6	-1.4	2.2
Provincial allocations	1.7	3.0	3.8	4.4
Equitable share	*1.4*	*2.5*	*4.3*	*5.1*
Conditional grants	*0.3*	*0.5*	*-0.5*	*-0.7*
Local government allocations	0.1	0.3	-0.1	-0.1
Total	**1.8**	**1.7**	**2.4**	**6.5**

Building an efficient developmental state

Targeted reforms to make the state more efficient by increasing capacity and streamlining administration

The NDP recognises that a more efficient state is needed to increase levels of delivery. Steps to promote greater state efficiency include improvements to policy formulation, procurement and management systems; developing mechanisms for sharing skilled personnel in critical delivery areas; and minimising waste. Many of these improvements do not require additional budget allocations and will enable government to provide services that can be a catalyst for growth.

The Presidential Infrastructure Coordinating Commission has been established to improve planning and decision-making to speed up delivery of infrastructure projects. Levels of coordination have improved across different spheres of government, skills gaps have been assessed and incorporated into project planning cycles, and the long-term economic impact of projects is beginning to be reviewed.

Strengthening procurement to obtain value for money

A large share of the national budget is spent to build infrastructure, and to procure goods and services. This expenditure contributes to production and jobs throughout the economy. Government must ensure that its procurement processes are prudent, deliver value for money and help to improve service delivery.

The Office of the Chief Procurement Officer, created in April 2013, will minimise waste and corruption, and ensure that government derives maximum social and economic benefits from every rand spent.

Over the next six months, the office will pilot reference pricing. The following steps are being taken as part of developing the pilot programme:

- Fair values of targeted products have been determined.
- Guidelines are being developed.
- Discussions with key spending departments and agencies are under way to prepare for implementation.

The Office of the Chief Procurement Officer works in tandem with the South African Revenue Service, the Accountant-General and Auditor General of South Africa to decrease corruption and minimise waste.

Over the medium term, efforts continue to focus on strengthening the capacity of existing state employees and to attract required skills into the public service, as well as streamlining and simplifying administrative procedures. The budget process is a mechanism through which some of the required reforms take place.

Table 1.4 Consolidated government expenditure, 2013/14 – 2016/17

R billion	2013/14 Revised	2014/15	2015/16 Budget estimate	2016/17	Average annual growth 2013/14 – 2016/17
Defence and state security	44.9	47.5	50.4	53.6	6.1%
Economic services	47.3	48.7	51.1	53.4	4.2%
Education and related functions	233.6	250.2	267.8	286.5	7.0%
Employment and social security	50.6	60.0	66.7	74.6	13.8%
General public services	62.1	65.3	69.4	71.0	4.6%
Health and social protection	266.0	289.2	308.6	328.4	7.3%
Local government, housing and community amenities	128.1	141.2	153.8	163.2	8.4%
Public order and safety	109.6	116.0	122.3	130.7	6.1%
Science and technology	16.8	18.1	19.5	19.5	5.2%
Transport, energy and communication	84.3	94.1	102.7	105.8	7.9%
Total expenditure by function	**1 043.2**	**1 130.4**	**1 212.3**	**1 286.8**	**7.2%**
State debt cost	100.5	110.4	122.2	135.4	10.4%
Contingency reserve	–	3.0	6.0	18.0	
Total expenditure	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**	**8.0%**

Conclusion

The MTBPS sets the economic context for the next budget, explains fiscal policy and presents a three-year spending framework

The *Medium Term Budget Policy Statement* is a part of South Africa's institutional framework. It broadly serves four purposes:

- To outline the economic context in which the forthcoming government budget is being formulated.
- To explain fiscal policy in the context of the economic outlook.
- To present the division of nationally collected revenue between national, provincial and local government.
- To propose government's spending framework for the next three years and improve alignment with the outcomes set out in the NDP.

The subsequent chapters of the MTBPS are as follows:

- Chapter 2 discusses the economic outlook.
- Chapter 3 discusses fiscal policy and trends.
- Chapter 4 discusses the MTEF and the division of revenue.

This information is presented to Parliament and for public debate to ensure that the processes by which the government arrives at its budget are transparent, aligned with economic circumstances and address policy priorities within a sustainable financial framework.

2

Economic outlook

In brief

- GDP growth, projected at 2.1 per cent in the current year, is expected to rise to 3.5 per cent in 2016.
- Factors supporting an improved medium-term outlook include stronger growth among key developed-country trading partners, robust trade and investment in sub-Saharan Africa, the availability of new electricity supply by the end of 2014, and major investments in rail and bulk water supply.
- The National Development Plan provides a long-term framework for improved cooperation between the private sector, labour, government and civil society. Determined focus to bring about the reforms envisioned by the plan will increase the capacity of the economy to grow more rapidly, allowing South Africa to substantially reduce poverty and inequality.
- Government has a broad package of measures to promote job creation – from special economic zones to public employment programmes. Draft legislation has been introduced that will create a tax incentive intended to boost employment among young work seekers.

Introduction

The South African economy has continued to grow, despite weak global growth and domestic constraints

In the face of an uneven global economic recovery and continued domestic constraints, the South African economy has continued to grow at a moderate pace. The National Treasury projects gross domestic product (GDP) growth of 2.1 per cent in 2013, down from 2.5 per cent in 2012 and 3.5 per cent in 2011. The slowdown in economic growth reflects global conditions and domestic factors, including labour disputes and maintenance stoppages in major industries, binding constraints in electricity production and other areas, and declining business confidence.

GDP growth is expected to recover over the next three years, reaching 3.5 per cent in 2016. On this growth trajectory, employment is projected to expand by about 1.7 per cent a year – much lower than is necessary to reduce joblessness and bring millions of South Africans into the productive economy. A rapid expansion of employment requires a fast-growing economy capable of absorbing more labour. The National Development Plan (NDP) provides a framework for improved cooperation between government, business, labour and civil society to address pressing concerns and embark on long-term reforms.

A recovery in global growth is not enough – structural reforms to the South African economy are needed

After five years of financial and economic instability, world economic growth prospects remain subdued. While the National Treasury expects a gradual recovery in trade and development prospects, South Africa cannot rely on the global economy to be the main driver of domestic growth and development. Achieving sustainable growth and job creation is largely about structural reforms to:

- Improve education and productivity
- Increase product market competition and competitiveness of local firms
- Raise the level of savings and investment
- Enhance the role of black economic empowerment initiatives to broaden participation
- Strengthen the efficiency of state-owned enterprises.

Government remains committed to macroeconomic stability, supported by prudent fiscal management, inflation targeting and a flexible exchange rate. These policies ensure that the country's finances remain sustainable; that South Africa can attract domestic and international investment; that wages, social security benefits and savings are not eroded by high inflation; and that the economy can absorb external shocks.

Implementing the National Development Plan

Core NDP proposals are intended to lower the cost of doing business and the cost of living

The NDP is a framework to accelerate economic growth, eliminate poverty and reduce inequality. It was widely canvassed and endorsed by the South African public prior to its adoption by Cabinet, and is being implemented by government. The plan aims to reduce the costs of living and of doing business, resulting in improved consumer and business confidence, rising levels of private investment, and higher growth and employment.

The government is acting on key NDP proposals, including:

- Making sustainable investments in competitive economic infrastructure
- Increasing the pace of job creation, particularly for young job seekers
- Encouraging the expansion of businesses and the development of new enterprises, including small and medium-sized companies
- Transforming human settlements and developing a functioning public transport system
- Providing policy certainty to encourage long-term investment in mining and other sectors
- Increasing economic integration within sub-Saharan Africa in areas such as energy production, finance, tourism, communications, infrastructure building and customs administration.

New electricity generating capacity to come on line next year and a new coal-fired power plant is planned

A number of measures are under way to address short- and medium-term concerns in key economic sectors. In mining, there has been progress in resolving labour disputes. Government has taken steps to reduce freight costs, to improve access to finance and support services for small business, to bring private investment into renewable energy development, and to ensure that competition is not undermined by collusive practices. Over the medium term, these steps should increase South Africa's growth prospects. New electricity generating capacity scheduled to come on line next year will remove a key constraint in the economy. In July, Cabinet decided to build a new coal-fired power plant, which will contribute to adequate electricity supply over the longer term.

Global developments

Rebalancing of global growth is taking place

The International Monetary Fund (IMF) projects global GDP growth of 2.9 per cent in 2013, rising to 3.6 per cent in 2014. Economic growth is improving moderately in developed economies, and growth continues in emerging markets, though at a slower rate in 2013. Manufacturing sentiment in advanced economies points towards further recovery in the second half of the year.

Table 2.1 Annual percentage change in GDP and consumer prices in selected regions/countries, 2012 – 2014

Region / country	2012	2013	2014	2012	2013	2014
Percentage	GDP projections[1]			Consumer price index projections[1]		
World	**3.2**	**2.9**	**3.6**	**4.0**	**3.8**	**3.8**
Advanced economies	**1.5**	**1.2**	**2.0**	**2.0**	**1.4**	**1.8**
US	2.8	1.6	2.6	2.1	1.4	1.5
Euro area	-0.6	-0.4	1.0	2.5	1.5	1.5
UK	0.2	1.4	1.9	2.8	2.7	2.3
Japan	2.0	2.0	1.2	0.0	0.0	2.9
Emerging markets and developing countries	**4.9**	**4.5**	**5.1**	**6.1**	**6.2**	**5.7**
Brazil	0.9	2.5	2.5	5.4	6.3	5.8
Russia	3.4	1.5	3.0	5.1	6.7	5.7
India	3.2	3.8	5.1	10.4	10.9	8.9
China	7.7	7.6	7.3	2.6	2.7	3.0
Sub-Saharan Africa	**4.9**	**5.0**	**6.0**	**9.0**	**6.9**	**6.3**
South Africa[2]	2.5	2.1	3.0	5.7	5.9	5.6

1. IMF World Economic Outlook, October 2013
2. National Treasury forecasts

Commodity prices have declined, but should stabilise or increase over medium term

Subdued global economic conditions, particularly the slowdown in emerging markets, have led to a decline in commodity prices. Between January and September of this year the IMF Metals Price Index fell by 12.1 per cent. For the period ahead, gold prices, which have declined by about 19 per cent over the past two years, are expected to stabilise, while the prices of South Africa's other major export commodities are projected to rise moderately.

Advanced economies

During 2014, higher growth is expected in several advanced economies:

- US GDP growth is projected to fall from 2.8 per cent in 2012 to 1.6 per cent in 2013, but a slower pace of fiscal consolidation and low interest rates are expected to boost GDP growth to 2.6 per cent in 2014.
- Economic conditions are improving in the euro area, which recorded output growth in the second quarter of 2013 following six quarters without growth. GDP growth of 1.0 per cent is projected for 2014, up from an estimated contraction of 0.4 per cent for 2013. Despite improved growth trends, broad recessionary conditions persist in Europe.

- Japan's fiscal stimulus and monetary policy easing have led to an improved economic performance, with higher levels of private consumption and net exports. GDP growth in 2013 is expected to remain at 2 per cent, unchanged from 2012 levels, but to decline to 1.2 per cent next year due to a tapering of fiscal and monetary support, higher consumption taxes and lower construction spending.

Emerging markets

Outlook for emerging markets remains positive, despite vulnerability to capital flow volatility

Growth prospects in emerging markets remain generally positive. Recent events, however, have exposed vulnerability to fluctuations in capital inflows. Currency depreciation and market instability have been pronounced in countries with large current account deficits. The IMF has revised the 2013 growth outlook for developing countries from 5 per cent to 4.5 per cent, rising to 5.1 per cent in 2014.

- China's GDP growth slowed to 7.7 per cent in 2012 from 9.3 per cent in 2011, as exports weakened and the property market cooled. Growth of 7.6 per cent and 7.3 per cent is projected in 2013 and 2014, respectively. Policymakers are working to rebalance the economy towards higher household consumption to support long-term growth.
- India is expected to record GDP growth of 3.8 per cent in 2013 from 3.2 per cent in 2012, as a result of strong growth in agriculture. Economic activity is projected to expand by 5.1 per cent in 2014 as transport and energy bottlenecks are addressed and export growth gathers pace.
- After recording growth of 0.9 per cent in 2012, Brazil's economy is projected to expand by 2.5 per cent in both 2013 and 2014 in response to higher investment and export growth. Higher inflation will reduce the spending power of households, while ports, rail and road network bottlenecks constrain growth.
- Economic activity in sub-Saharan Africa remains robust, with growth projected to rise from an estimated 5 per cent this year to 6 per cent in 2014. Improved economic management and political stability support rising investment into the continent, particularly in Angola and Nigeria.

Global economic risks

Risks to outlook include US fiscal and monetary outcomes, European banking weakness

The improving outlook for the world economy is subject to a high degree of risk. There are several major concerns:

- The outcome of US fiscal policy debates and the timing of the Federal Reserve's decision to wind down its asset purchase programme will affect the global economic and financial environment, with the potential to lower US growth, reduce capital inflows into emerging markets and increase global borrowing costs.
- Volatility in global capital flows will expose many emerging markets to balance-of-payment risks.
- Undercapitalisation of major banks in Europe has the potential to destabilise the financial sector, undermining the fragile recovery in the euro area and lowering growth across the world economy.
- Lower commodity prices may pose challenges for many countries in sub-Saharan Africa.

Towards more rapid regional integration in sub-Saharan Africa

Continued economic growth in sub-Saharan Africa is supported by growing investment and rising household incomes. Expanded agricultural production and retail services, rising oil production and increased mining activity will underpin strong growth over the medium term.

South African firms have invested heavily in mining, telecommunications, banking, construction and retail in the region, which absorbs one-quarter of South Africa's manufactured exports and 14 per cent of its total exports. South African assets in the region (including foreign direct investment, equities and bonds) grew from R157 billion in 2009 to R251 billion in 2011. Over the same period, the assets of African countries in South Africa increased from R99 billion to R110 billion.

Several complementary steps could support faster integration, boosting regional growth and development. These include expanded transport links and infrastructure networks, and the reduction of tariff and non-tariff barriers to trade and investment. Enhanced regional cooperation will enable African producers to have increased access to the continent's largest economy, while boosting South Africa's exports.

The 2013 *Budget Review* (Annexure W-3) announced several reforms to help local firms expand into the rest of Africa, and companies have begun to take up opportunities under these provisions.

Sub-Saharan Africa: Real GDP growth

Percentage change	2004-08	2010	2011	2012	2013[1]	2014[1]
Sub-Saharan Africa (total)[2]	**6.4**	**5.4**	**5.3**	**4.9**	**5.0**	**6.0**
of which						
Oil-exporting countries[2]	8.5	6.6	6.1	6.3	5.8	7.0
Middle-income countries[3]	5.0	4.0	4.7	3.8	3.3	3.9
of which: South Africa	4.9	3.1	3.5	2.5	2.1	3.0
Low-income countries[3]	7.3	6.4	5.6	4.9	6.5	8.1
Fragile countries	2.5	4.2	2.4	7.0	6.8	6.5
World	**4.6**	**5.2**	**3.9**	**3.2**	**2.9**	**3.6**

1. IMF forecast for the year except for South Africa which uses National Treasury forecasts
2. 2004 to 2011 excludes South Sudan
3. Excluding fragile states
Source: IMF World Economic Outlook and National Treasury

Domestic economic trends and outlook

The South African economy is projected to grow by 2.1 per cent this year, with GDP growth reaching 3.5 per cent in 2016. Labour disputes, electricity shortages and other supply-side disruptions have weighed down business and consumer confidence, and lowered demand for goods and services. Effective resolution of these problems will boost confidence and economic performance.

South African economic growth is expected to rise to 3.5 per cent by 2016

Table 2.2 Macroeconomic performance and projections, 2010 – 2016

Calendar year	2010	2011	2012	2013	2014	2015	2016
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Final household consumption	4.4	4.8	3.5	2.5	2.9	3.2	3.4
Final government consumption	5.0	4.6	4.2	3.4	3.4	3.0	3.3
Gross fixed capital formation	-2.0	4.5	5.7	4.1	5.0	5.5	6.3
Gross domestic expenditure	4.4	4.6	4.1	2.7	3.2	3.4	3.8
Exports	4.5	5.9	0.1	6.1	5.0	6.7	7.0
Imports	9.6	9.7	6.3	7.3	5.2	6.4	7.0
Real GDP growth	**3.1**	**3.5**	**2.5**	**2.1**	**3.0**	**3.2**	**3.5**
GDP inflation	7.2	6.0	5.5	5.9	5.9	5.7	5.7
GDP at current prices (R billion)	**2 659.4**	**2 917.5**	**3 155.2**	**3 411.7**	**3 720.2**	**4 061.7**	**4 443.7**
Headline CPI inflation (Dec 2012 = 100)	4.3	5.0	5.7	5.9	5.6	5.4	5.4
Current account balance (% of GDP)	-2.8	-3.4	-6.3	-6.5	-6.4	-6.2	-6.1

Source: Reserve Bank and National Treasury

Table 2.3 Macroeconomic performance and projections, 2010/11 – 2016/17

Fiscal year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Real GDP growth	3.4	3.1	2.4	2.3	3.0	3.3	3.5
GDP inflation	7.8	5.4	5.5	6.0	5.9	5.8	5.7
Headline CPI inflation (Dec 2012 = 100)	3.8	5.6	5.6	6.0	5.5	5.4	5.4
GDP at current prices (R billion)	**2 735.3**	**2 973.3**	**3 213.4**	**3 483.6**	**3 799.8**	**4 153.3**	**4 545.7**

Source: National Treasury

Trends in the real economy

All sectors of the economy have shown a slowdown in economic activity in response to still-sluggish global economic growth and supply-side disruptions. Production stoppages have been most pronounced in mining and manufacturing. This has created considerable volatility in GDP, as declines in one quarter are followed by growth in the next – a pattern that prevents the economy from sustaining higher growth momentum.

Structural changes in mining see prominence of iron ore increase

Structural changes are under way in the mining sector, with rising demand for coal and iron ore. The share of iron ore in total mining increased from 3.1 per cent in 2000 to 14.4 in 2010 (the last year for which data is available), supported by expanded rail and port capacity as well as strong demand from China. In contrast, platinum production is under pressure due to escalating costs and labour unrest.

Table 2.4 Commodity prices, 2007 – 2013

	2007	2008	2009	2010	2011	2012	2013[1]
Gold (US$/troy oz)	697	873	973	1 226	1 572	1 669	1 460
Platinum (US$/troy oz)	1 306	1 582	1 206	1 612	1 725	1 553	1 520
Coal (US$/tonne)	63	121	64	92	116	93	79
Iron ore (US$/tonne)	37	62	80	147	168	129	136

1. First nine months of 2013
Source: Bloomberg

The performance of the gold sector reflects the impact of strikes and lower prices, as well as longer-term trends, such as declining ore grades and deeper shafts. Real value added in the sector decreased by an annualised 5.6 per cent in the second quarter of 2013 after increasing by 14.6 per cent in the first.

Support for small-scale farmers through market access will help boost agricultural output

Agricultural output grew by 3.6 per cent in the first half of 2013 in comparison with the same period last year. Over the medium term, agriculture will be supported by continued growth in African markets, improved management of water resources, better integration of small-scale farmers through market access and financial support, and resolution of outstanding land claims.

Fortunes of the manufacturing sector expected to improve

The manufacturing sector contracted by an annualised 7.9 per cent in the first quarter of 2013 following large-scale maintenance stoppages, but rebounded to an annualised 11.5 per cent growth in the second quarter. Investment is rising in the food, paper products, fuel and motor vehicle subsectors. Manufacturing growth should increase as labour disputes are resolved, domestic supply constraints are addressed and improving global conditions boost demand for South African exports.

An unplanned outage at the Koeberg nuclear power plant near Cape Town, and Eskom's increased summer maintenance programme, contributed to a decline of 0.2 per cent in the electricity sector over the first eight months of

2013 compared to the same period a year earlier. A tight electricity demand-supply balance is expected to persist until Medupi's first 800-MW unit comes on line during the second half of 2014.

Growth in services sector remains subdued

Growth in the rest of the economy remains subdued, with the services sector recording growth of 2.2 per cent in the first half of the year relative to the same period last year. Finance, real estate and business services growth slowed from 3.8 per cent in the first half of 2012 to 2.7 per cent over the same period in 2013. Transport, storage and communication, wholesale and retail trade, and personal services recorded growth rates of between 1.8 and 2 per cent.

Factors supporting an improved economic outlook

China's transition towards more balanced growth should open opportunities for South African exports

Over the medium term, improving global conditions and strong regional growth will support moderately higher demand for South African exports. Continued investment in infrastructure will reduce supply constraints, help to crowd-in private investment, and allow for more production and employment. The rand's weaker real effective exchange rate is expected to support the profitability of mining and competitiveness in the manufacturing sector, provided that domestic cost pressures remain moderate. China's transition from investment-led growth, with a larger role for household consumption, should open up new opportunities for competitively priced South African manufactured exports.

New capacity, lower tariffs to increase competitiveness of ports

During the course of 2013, progress has been made in addressing binding constraints to growth in several economic sectors. These steps include:

- Improving the efficiency, pricing and capacity of local ports to reduce transport costs and enhance competitiveness. The Ports Regulator maintained 2013/14 port tariffs at their 2012/13 levels and sharply decreased a range of export and import tariffs. A new tariff structure will be phased in from 2014 to 2018. Handling capacity at the Durban container terminal is being expanded.
- Investing in freight capacity to help alleviate supply bottlenecks. Transnet's R2.3 billion upgrade of the rail network servicing the port of Coega will raise annual manganese export capacity from 5 million to 21 million tons. Coal export capacity will increase by 30 per cent with the introduction of a 200-wagon rail service from the Mpumalanga coalfields to the Richards Bay Coal Terminal.
- Improving access to finance and support services for small businesses. The Small Enterprise Development Agency established 10 business incubators during 2012/13, bringing the total to 42. These facilities offer access to financial and technical advice. In 2012/13, the programme supported 2 282 small and medium-sized firms, and the Small Enterprise Finance Agency approved loans of R560 million.

Domestic expenditure

Real gross domestic expenditure slowed during first half of 2013

Real gross domestic expenditure growth slowed to 2.6 per cent in the first half of 2013 from 3.8 per cent in the second half of 2012, due to softer growth in household consumption expenditure and investment.

Table 2.5 Contribution to gross domestic expenditure growth, 2008 – 2013

Percentage points	2008	2009	2010	2011	2012	2013[1]
Household consumption expenditure	1.4	-1.0	2.7	3.0	2.1	1.6
Government consumption expenditure	0.8	0.9	1.0	0.9	0.8	0.7
Gross fixed capital formation	2.4	-0.9	-0.4	0.8	1.0	0.8
Change in inventories	-1.6	-0.9	1.2	0.3	-0.1	-0.1
Total (per cent)[2]	**3.5**	**-1.6**	**4.4**	**4.6**	**4.1**	**2.6**

1. First half of 2013 compared with first half of 2012
2. Totals may not add up due to residual items that represent unallocated gross domestic expenditure
Source: Reserve Bank

Household consumption expenditure

Household consumption growth is expected to slow to 2.5 per cent in 2013 from 3.5 per cent in 2012 as a result of decelerating disposable income growth, a high debt burden, tightening lending conditions and rising inflation. Growth in this indicator is expected to rise to 3.4 per cent by 2016 in line with improved economic conditions and employment gains.

Growth in private credit extension slows somewhat and growth in unsecured personal loans falls sharply

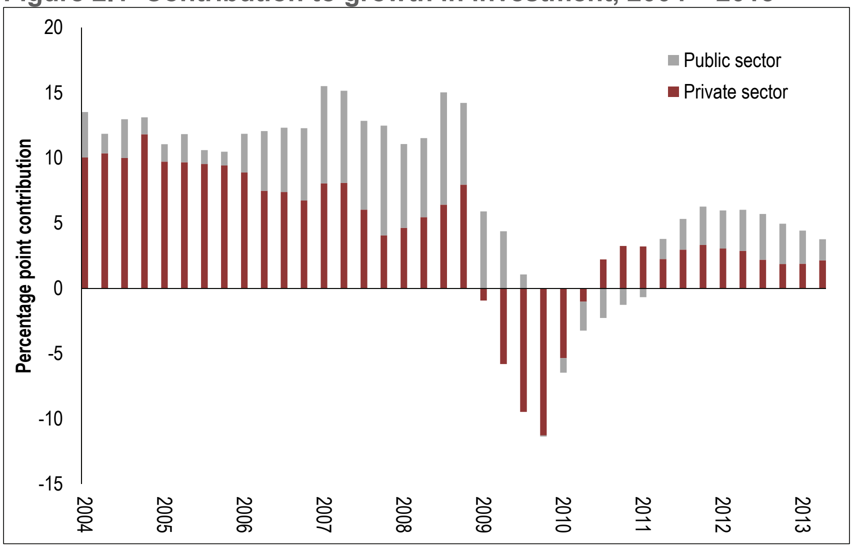
Growth in household credit extension slowed to 8.2 per cent in August from 8.7 per cent a year earlier. Growth in unsecured personal loans fell from 30.1 per cent in December 2012 to a more sustainable level of 17 per cent in August. Household disposable income growth declined to 2.6 per cent in the first half of 2013 from 4 per cent a year earlier.

Public and private investment

Slower growth in fixed capital formation due to unplanned delays

Growth in real gross fixed capital formation slowed to 4.1 per cent in the first half of 2013, compared with 6.0 per cent in the corresponding period of 2012. Unplanned delays and sluggish uptake of new projects slowed investment spending by public corporations.

Figure 2.1 Contribution to growth in investment, 2004 – 2013



Source: Reserve Bank

Public-sector investment growth fell to 5.7 per cent in the first half of the year from 8.5 per cent in the first half of 2012. Industrial action at the Medupi power plant in the first quarter, and delays in capital spending by Transnet and the South African National Roads Agency Limited, caused investment growth in the electricity and transport sectors to slow.

Growth in private investment, which accounts for over two-thirds of total gross fixed capital formation, totalled 3.2 per cent in the first half of 2013. Private investment growth is projected at 3.5 per cent in 2013, rising to 5.3 per cent by 2016, supported by higher levels of domestic and global demand, relatively low borrowing costs, improvements to infrastructure (particularly electricity) and improved business confidence. Total capital investment is projected to increase by 4.1 per cent in 2013 and 6.3 per cent in 2014.

Private-sector investment has fallen, but is expected to improve over period ahead

Inflation

In July 2013, consumer price inflation rose to 6.3 per cent, breaching the 3-6 per cent target band for the first time since April 2012. Higher transport costs, administered and food prices, and miscellaneous goods and services were the main contributors to higher inflation. Price pressures are expected to moderate over the medium term, supported by slower growth in food, petrol and electricity prices. Inflation is projected at 5.9 per cent in 2013 and should remain within the target band over the medium term. The weaker rand, however, poses a risk to the inflation forecast.

Inflation expected to remain within target band over medium term, but weaker rand is a risk

Employment

Employment increased by 274 229 jobs in the year to July, according to the *Quarterly Labour Force Survey*, which includes estimates of hiring in agriculture and the informal sector. Growth in the formal non-agricultural sector, however, remained muted as gains in the public and financial sectors were offset by employment losses in mining, manufacturing and construction.

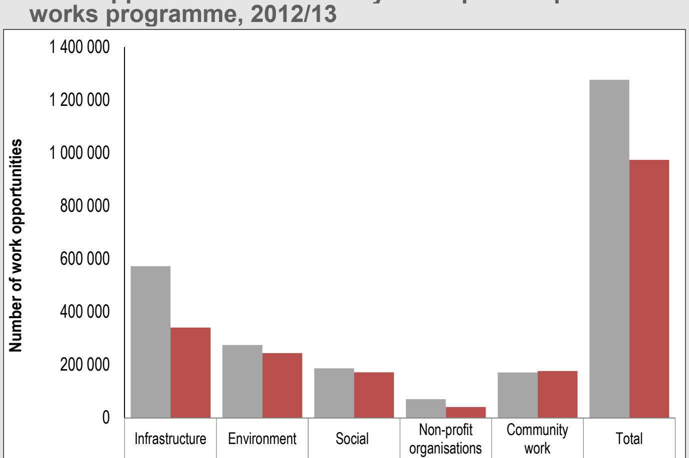
Statistics show low levels of formal-sector hiring, but higher levels in informal sector and agriculture

Promoting economic participation and job creation

Initiatives are under way to strengthen further education colleges, expand access to student finance, and refocus the activities of sector education authorities and the National Skills Fund. Tax allowances for learnerships aim to increase skills levels. The Industrial Policy Action Plan, the proposed framework for special economic zones and tourism promotion efforts aim to boost employment and income generation.

The expanded public works programme continues to prioritise young people and women – and more than 60 per cent of jobs created last year were filled by youths, well above the 40 per cent target. The Jobs Fund has approved allocations of R3.4 billion to some 64 projects, expected to create over 90 000 permanent jobs and about 100 000 training opportunities over the period ahead. An employment incentive proposal has been tabled to encourage youth employment and share the costs of job creation in special economic zones and targeted industries. This measure is expected to support about 200 000 jobs over the next three years.

Work opportunities* created by the expanded public works programme, 2012/13



	Infrastructure	Environment	Social	Non-profit organisations	Community work	Total
Annual target	572 000	275 000	187 000	70 400	171 500	1 275 900
Reported	340 676	244 112	171 668	40 599	176 690	973 745

* *The Department of Public Works defines a work opportunity as paid work created for an individual for any period of time. Each period of employment counts as a work opportunity. The average duration of a work opportunity across the expanded public works programme in 2012/13 was 70 days, against a target of 100 days.(Source: Department of Public Works)*

The growth in private-sector employment is far below the rate required to absorb new entrants into the labour market and reduce the unemployment rate. Settlements in the first half of 2013 raised wages by 7.9 per cent on average, up from 7.6 per cent in 2012. Real wage growth exceeded productivity growth, leading to a 6.7 per cent increase in unit labour costs in the first quarter of 2013 relative to the same period in 2012.

Measures have been tabled to reduce costs of hiring younger workers

Unemployment remains stubbornly high, in particular for those between the ages of 19 and 29. Government has a multi-pronged approach to promoting economic participation and job creation. Improving education and skills development is the central challenge.

Balance of payments

Trade balance

South Africa's terms of trade declined during the first half of 2013

Growth in export volumes in the first half of the year was outpaced by continued import growth. Along with a decline in the terms of trade (the price of exports relative to imports), this led to a trade deficit of 2.6 per cent of GDP in the first half of 2013. The value of exports increased by 14.2 per cent over the first half of 2013, led by manufactured goods. Over the same period, the value of imports increased by 15.8 per cent due to strong growth in capital goods procurement.

Table 2.6 Composition of South Africa's trade and trade performance, 2012 – 2013

	Share of total trade		Percentage change		Contribution to growth			
	Exports	Imports	Exports	Imports	Exports		Imports	
	2013[1]		2013[2]		2012	2013[2]	2012	2013[2]
Precious metals and stones	21.9	0.7	8.3	-19.8	-2.9	1.9	0.0	-0.2
Mineral products	25.7	22.2	5.1	12.1	1.9	1.4	4.6	2.8
Base metals and steel	12.4	5.2	6.9	26.4	-0.7	0.9	0.6	1.3
Raw and processed food products	9.7	5.9	29.9	10.4	0.6	2.5	1.4	0.7
Transport equipment (incl. vehicles)	9.9	10.3	28.4	14.4	1.0	2.4	0.9	1.5
Machinery and appliances	8.0	24.9	10.8	21.9	0.6	0.9	3.0	5.2
Chemicals, plastics, rubber	7.5	12.9	5.3	19.0	0.7	0.4	1.8	2.4
Pulp and paper products	1.7	1.4	19.1	25.5	0.0	0.3	0.2	0.3
Other[3]	1.8	4.3	19.3	17.9	0.2	0.3	0.4	0.8
Miscellaneous manufactures	0.5	1.5	5.6	17.3	0.0	0.0	0.4	0.3
Textiles, clothing and footwear	0.9	4.0	20.7	21.0	0.1	0.2	0.5	0.8
Vehicle components	0.0	6.7	241.7	21.0	0.0	0.0	1.0	1.4
Total	**100.0**	**100.0**	**11.2**	**17.3**	**1.4**	**11.2**	**14.7**	**17.3**

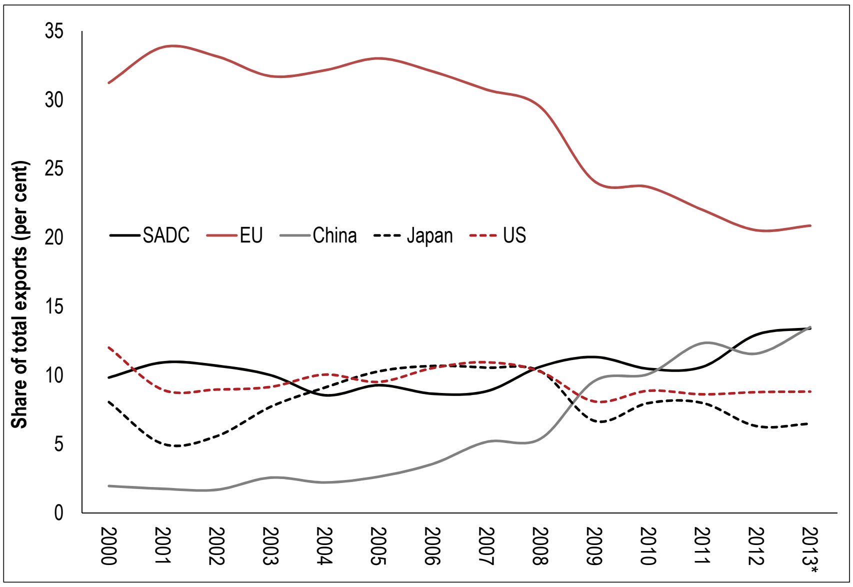
1. First eight months of 2013
2. First eight months compared to the same period in 2012
3. Other includes optical and photographic equipment, stone, plaster, wood, hides, leather and skin and articles thereof, works of art and unclassified products
Source: Quantec

Table 2.6 shows that the main contributors to import growth have been mineral products (mainly petroleum), chemicals, plastic, rubber, machinery and appliances (capital equipment) and transport equipment.

Exports to China, SADC remain strong

Moderately higher economic growth in advanced economies over the first six months of the year has increased demand for South African products. Exports to China increased by 19.7 per cent in the first half of the year, supported by mineral product exports and a five-fold increase in vehicle exports. The Southern African Development Community (SADC) region is South Africa's second-largest market after the European Union, accounting for 22.3 per cent of manufactured exports.

Figure 2.2 South Africa's major trading partners by share of exports



Source: Quantec

** First half of 2013*

Import growth is expected to remain resilient as investment in infrastructure and capital equipment accelerates. Alongside efforts to raise their levels of innovation and competitiveness, exporters can benefit from a favourable exchange rate, stronger global growth and improved domestic supply conditions. Export prospects to the US could be enhanced by extension of South Africa's trade access under the African Growth and Opportunity Act beyond 2015.

Import growth expected to be resilient over the next several years

Current and financial accounts

The current account deficit remains elevated at 6.5 per cent of GDP. The trade deficit remains high, while the net income and service receipts are unchanged from 2012. The current account deficit is projected to remain at about 6 per cent over the medium term as investment growth continues to outpace increases in domestic savings.

Transfers to Botswana, Lesotho, Namibia and Swaziland based on the Southern African Customs Union revenue-sharing agreement are projected to account for just over 1 per cent of GDP per year over the medium term.

Total net foreign capital inflows into South Africa declined by 4.0 per cent in the first half of 2013 relative to the same period in 2012. Net purchases of bonds by international investors declined from R76 billion over the first nine months of 2012 to R37 billion over the same period in 2013. Net purchases of equities reversed, from an outflow of R5 billion to an inflow of R26 billion. Weaker inflows reflect a pullback from emerging markets and concerns about the domestic economy.

Weaker capital inflows reflect pullback from emerging markets

Table 2.7 Balance of payments, 2007 – 2013

Percentage of GDP	2007	2008	2009	2010	2011	2012	2013[1]
Total current account	**-7.0**	**-7.2**	**-4.0**	**-2.8**	**-3.4**	**-6.3**	**-6.1**
Trade balance	-1.8	-1.6	0.1	1.0	0.6	-2.4	-2.6
Net services, income and transfer receipts	-5.2	-5.6	-4.1	-3.8	-3.9	-3.9	-3.5
Net service receipts	-0.9	-1.5	-1.0	-1.2	-1.2	-0.7	-0.7
Net income receipts	-3.4	-3.3	-2.2	-2.0	-2.3	-2.2	-1.8
Net dividend receipts	*-3.1*	*-2.6*	*-1.6*	*-1.5*	*-1.9*	*-1.7*	*-1.2*
Net transfer payments (mainly SACU)	-0.8	-0.8	-0.9	-0.6	-0.5	-1.0	-1.0
Current account excluding SACU transfers	-6.1	-6.3	-3.1	-2.2	-2.9	-5.3	-5.2
Financial account balance[2]	**9.3**	**8.3**	**4.7**	**4.0**	**4.5**	**6.5**	**5.8**
Net portfolio investment	3.6	-6.0	3.9	2.8	-0.6	1.7	-1.0
Net foreign direct investment	1.2	4.5	2.2	1.0	1.1	0.1	1.0
Net other investment	3.0	5.8	-0.7	-0.5	1.0	3.4	1.0
Unrecorded transactions	1.4	4.0	-0.7	0.7	2.9	1.4	4.7
Change in net reserves due to balance of payments	**2.4**	**1.2**	**0.7**	**1.2**	**1.1**	**0.3**	**-0.8**

1. Includes data for the first two quarters of 2013, seasonally adjusted and annualised

2. Including unrecorded transactions first half 2013

Source: Reserve Bank

Global Competitiveness Report ranks South Africa the second-most competitive African country

South Africa recorded R16.9 billion worth of net foreign direct investment in the first half of 2013, consisting largely of long-term loan financing extended by international firms to their domestic subsidiaries. The most recent *Global Competitiveness Report*, which evaluates the business operating environment and competitiveness of 148 countries, ranks South Africa 53rd, making it the second-most competitive country in sub-Saharan Africa (after Mauritius, ranked 45th).

Rand exchange rate

Real effective exchange rate depreciated by 11.7 per cent over year to July

The rand's exchange value declined from R8.79 to the US dollar in January 2013 to R9.98 in September 2013. During the third quarter of 2013, uncertainty surrounding the timing and pace of the reduction in the US monetary stimulus took a toll on the rand and other emerging-market currencies. The real effective exchange rate has depreciated by 11.7 per cent over the year up to July. The weaker real value is expected to support mining and manufacturing exports, provided that the depreciation is sustained. This requires low and stable levels of inflation.

Conclusion

Government is working to implement the NDP, reduce the costs of living and doing business, and build a more capable state

Government is implementing the NDP, working to reduce the cost of living and the cost of doing business, taking steps to build a more capable state, and investing in the capacity and welfare of households. This broad approach is complemented by recent initiatives to reduce freight costs, to improve access to finance for small businesses, to increase competition and to build new electricity generating capacity.

The NDP provides a platform for increased collaboration between government, business, labour and civil society. Such cooperation on South Africa's common goals will boost consumer and business confidence, and translate into higher levels of investment, employment and growth.

3

Fiscal policy and trends

In brief

- Government will meet its budget deficit target for 2013/14.
- As a result of a weaker-than-expected economic outlook, the fiscal stance is being reinforced.
- During 2014/15 and 2015/16, spending will remain within the non-interest expenditure ceiling established in the 2013 *Budget Review*. A spending limit has also been set for 2016/17, holding real non-interest expenditure growth to an annual average of 2.2 per cent over the three-year spending period.
- Spending on key social and economic programmes will be maintained.
- Net national debt is projected to stabilise at 44 per cent of GDP in 2017/18.
- State-owned companies continue to borrow to finance capital investment. Government works with these companies to ensure they can borrow at reasonable cost while increasing their efficiency. Over the period ahead, state corporations are not expected to be funded from the fiscus.

Introduction

Fiscal framework balances consolidation with service delivery needs

South Africa's fiscal policy continues to be rooted in the principles of countercyclicality and long-term sustainability. The framework for the three-year spending period ahead strikes a balance between consolidation and support for the economy.

Over the medium term government will:

- Meet the 2013/14 fiscal deficit target of 4.2 per cent, as defined in the new format presented in the *2013 Budget Review*.
- Continue financing real increases in spending that enhance the social wage, within a clear and explicit expenditure ceiling.
- Reduce the deficit substantially to level off the public debt trajectory.
- Ensure that government's wage bill remains sustainable.

Implementing the NDP, investing in infrastructure, and combating waste and corruption

The budget framework also seeks to transform the quality of public expenditure by shifting resources to implement National Development Plan priorities, improving infrastructure allocations, and stepping up efforts to combat waste, inefficiency and corruption. Government is preparing cost-containment instructions to limit wasteful expenditure.

Reinforcing the fiscal stance

Strengths limit South Africa's fiscal vulnerability

A year ago, government underlined the need to secure the country's fiscal footing, striking a balance between fiscal consolidation and a premature withdrawal of support for the economy. The 2012 *Medium Term Budget Policy Statement* (MTBPS) pointed out that if the economic and fiscal outlook were to deteriorate, a reconsideration of expenditure and revenue plans would be warranted. It stated that "in a lower-growth scenario, an appropriate balance between spending restraint and new revenue initiatives would be necessary, taking into account the need to limit the potential impact on growth, employment and equity".

South Africa has several strengths that limit the vulnerability of its fiscal position.

- The macroeconomic policy framework remains well-grounded. The principles of countercyclicality, debt sustainability and intergenerational equity anchor fiscal policy. Credible monetary policy institutions and a flexible exchange rate enable the economy to adjust to external shocks.
- Financial markets are deep and liquid, and private-sector financial institutions are generally well managed. The agencies responsible for oversight of the financial system are well developed.
- Corporate and public balance sheets are robust, and household debt levels, though high, are declining. Levels of foreign-currency denominated debt are low, reducing exposure to exchange-rate shocks.

Policy takes account of weaker growth, lower commodity prices and rising bond yields

Nevertheless, the economic and fiscal outlook has weakened in recent months:

- Economic growth has been revised down since the 2013 Budget, leading to lower revenue projections.
- Commodity export prices, which supported buoyant revenue growth over the past decade, have retreated from their high levels, with lower prices during the first nine months of 2013.
- Historically low bond yields, in part the outcome of monetary policy interventions by the US Federal Reserve, have started to rise, putting additional pressure on interest costs.
- Reliance on foreign investors to finance the budget deficit has increased.

Current account deficit and debt-to-GDP ratio underline need to consolidate fiscal position

These vulnerabilities have emerged just as space for countercyclical policy interventions has narrowed. The deteriorating current account deficit and an increasing debt-to-GDP ratio underscore the need to continue fiscal consolidation. Yet at the same time, slower domestic demand and high unemployment require government to maintain fiscal support to the economy.

Revenue considerations

Economic growth has been weaker than expected in 2013, but tax revenue collection has shown resilience. Expected gross tax revenue for 2013/14 has been revised down by R3 billion to R895 billion. Personal income tax collection remains strong as a result of high wage settlements, and corporate income tax has been robust. Taxes on imported goods have been buoyant. The revised estimate for corporate income tax revenue is virtually unchanged, but there is a degree of uncertainty about the second half of the fiscal year. In aggregate, nominal gross tax revenues for the first six months of the fiscal year increased by 9.5 per cent year-on-year.

Table 3.1 Total tax and budget revenue, 2012/13 – 2014/15

R million	2012/13 Outcome	Budget	2013/14 Revised estimate	Difference	2014/15 Estimate
Persons and individuals	275 791	306 188	307 700	1 512	340 574
Companies	158 917	169 830	170 200	370	190 490
Value-added tax	215 840	242 990	242 500	-490	266 930
Secondary tax on companies/ dividend withholding tax	19 739	22 930	17 000	-5 930	18 750
Specific excise duties	28 459	31 265	29 200	-2 065	30 080
Fuel levy	40 320	44 970	43 500	-1 470	44 810
Custom duties	38 152	41 340	45 100	3 760	50 830
Other	36 616	38 491	39 804	1 313	42 714
Gross tax revenue	**813 834**	**898 004**	**895 004**	**-3 000**	**985 178**
Non-tax revenue[1]	27 700	23 328	29 351	6 022	20 588
of which mineral royalties	*5 015*	*5 900*	*6 189*	*289*	*6 826*
Estimate of SACU payments[2]	-42 152	-43 374	-43 270	104	-51 574
Provinces, social security funds and selected public entities	108 514	114 273	119 522	5 249	133 521
Repayment of Gautrain loan[3]	–	-1 521	-1 521	–	-1 430
Total budget revenue	**907 895**	**990 710**	**999 086**	**8 375**	**1 086 283**

1. Includes extraordinary receipts

2. Estimates are based on National Treasury projections. Actual payments will be determined by outcomes of customs and excise revenue collections in line with the SACU agreement

3. Netting of repayment of Gautrain loan included in non-tax revenue

In contrast, however, lower domestic VAT and excise duties point to reduced consumer demand and weaker income tax collection over the medium term. The factors driving current buoyancy in other taxes also suggest a weaker outlook. This year's sharp depreciation of the rand is unlikely to result in a sustained surge in company profits, as cost pressures increase and trade contracts are adjusted. Robust customs duties in the current year imply greater payments to South Africa's partners in the Southern African Customs Union (SACU) in the years ahead.

Tax Review Committee's recommendations will inform any policy changes

The Tax Review Committee established earlier this year is mandated to inquire into the role of the tax system in promoting inclusive economic growth, employment creation, development and fiscal sustainability. Its recommendations will inform any changes to tax policy.

Containing expenditure and curtailing waste

Government is reinforcing its commitment to contain spending

The 2013 Budget was the first since 1999 that did not add resources to previously announced spending plans. During the mid-2000s, actual expenditure in the third year of medium-term expenditure framework (MTEF) periods was typically 15 per cent higher than initial estimates, as buoyant economic growth and revenue allowed for additions. Given the outlook for economic growth and revenue, government is reinforcing its commitment to maintain spending within previously announced limits.

Expenditure limits are extended into 2016/17

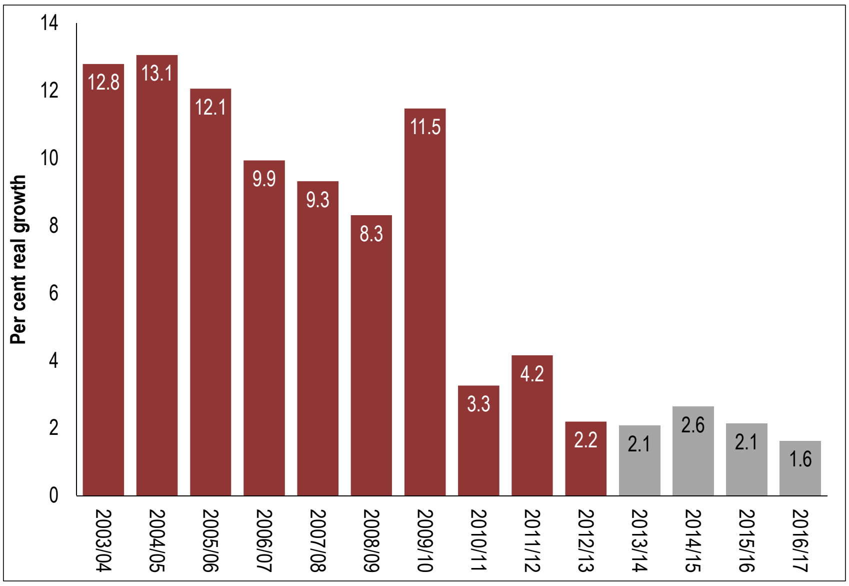
Table 3.2 contrasts the projected medium-term expenditure path with those of budget documents published since 2010 and illustrates government's disciplined approach to spending. Since the introduction of the expenditure ceiling, forecasts and outcomes have been more closely aligned. The limit on main budget non-interest expenditure is also extended in the revised MTEF to include 2016/17.

Table 3.2 Main budget non-interest expenditure, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
2010 Budget Review	746 785	799 875	860 292				
2011 Budget Review	743 353	812 345	877 324	948 992			
2012 Budget Review	738 914	814 554	879 977	953 024	1 030 539		
2012 MTBPS		811 586	878 669	953 024	1 030 539	1 118 991	
2013 Budget Review			878 642	955 333	1 029 262	1 107 564	
2013 MTBPS				949 109	1 027 762	1 106 064	1 185 110

Figure 3.1 shows the real (above-inflation) increase in government spending over the past decade. Main budget non-interest spending grew at an annual average of 8 per cent in real terms over the period 2003/04-2011/12, but is budgeted to grow at 2.1 per cent over the next three years.

Figure 3.1 Real growth in non-interest spending, 2003/04 – 2016/17



Source: National Treasury

Cost-containment instructions will restrict public-sector air travel, car hire and catering

Government is committed to eliminating wasteful expenditure. To this end, the Cabinet will decide on the details of cost-containment instructions that will be issued with the 2014 Budget. These instructions will apply to the public sector at national and provincial level, and will include restrictions on air travel, car hire, accommodation, catering, entertainment and conference budgets. Parliament and the public will be invited to help monitor compliance. Similar regulations will be applied at local government level.

Over the longer term, government is committed to rebuilding fiscal space by stabilising and then reducing the ratio of public debt to GDP. Re-establishing fiscal space will allow government to respond to future economic shocks by reducing spending on debt-service costs and creating countercyclical borrowing opportunities. This will require continued expenditure restraint beyond the MTEF period, and may also require revenue adjustments.

Fiscal framework

Table 3.3 sets out the consolidated fiscal framework.

Table 3.3 Consolidated fiscal framework, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		Outcome		Estimate		Medium-term estimates	
Operating account							
Revenue	**764.7**	**843.5**	**907.6**	**998.9**	**1 086.1**	**1 184.0**	**1 305.8**
Current payments	**756.3**	**837.7**	**919.1**	**1 008.6**	**1 086.3**	**1 165.7**	**1 247.6**
Compensation	309.9	345.5	375.4	409.0	437.2	466.9	498.9
Goods and services	137.2	153.7	165.1	178.6	188.2	198.1	211.8
Interest and rent on land	75.3	81.8	93.2	106.6	116.6	128.8	141.0
Transfers and subsidies	233.9	256.7	285.4	314.3	344.3	371.9	395.8
Current balance	**8.4**	**5.9**	**-11.5**	**-9.6**	**-0.1**	**18.3**	**58.3**
Percentage of GDP	*0.3%*	*0.2%*	*-0.4%*	*-0.3%*	*0.0%*	*0.4%*	*1.3%*
Capital account							
Capital receipts	0.4	0.2	0.3	0.2	0.2	0.2	0.2
Capital payments	55.7	61.2	68.0	75.7	87.9	95.6	101.7
Capital transfers	45.4	49.7	52.5	55.8	63.3	70.1	72.9
Capital financing requirement[1]	**-100.8**	**-110.6**	**-120.1**	**-131.4**	**-151.1**	**-165.6**	**-174.4**
Percentage of GDP	*-3.7%*	*-3.7%*	*-3.7%*	*-3.8%*	*-4.0%*	*-4.0%*	*-3.8%*
Financial transactions[2]	22.3	2.8	3.3	3.6	3.3	3.0	0.0
Contingency reserve	–	–	–	–	3.0	6.0	18.0
Budget balance	**-114.7**	**-107.5**	**-135.0**	**-144.6**	**-157.5**	**-156.3**	**-134.2**
Percentage of GDP	*-4.2%*	*-3.6%*	*-4.2%*	*-4.2%*	*-4.1%*	*-3.8%*	*-3.0%*
Revenue	**765.0**	**843.8**	**907.9**	**999.1**	**1 086.3**	**1 184.2**	**1 306.0**
Expenditure	**879.7**	**951.3**	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**
Non-interest expenditure[3]	*804.4*	*869.5*	*949.6*	*1 037.0*	*1 127.2*	*1 211.7*	*1 299.2*
Interest payments	*75.3*	*81.8*	*93.2*	*106.6*	*116.6*	*128.8*	*141.0*
Primary balance[4]	**-39.4**	**-25.8**	**-41.7**	**-37.9**	**-40.9**	**-27.5**	**6.8**
Percentage of GDP	*-1.4%*	*-0.9%*	*-1.3%*	*-1.1%*	*-1.1%*	*-0.7%*	*0.1%*

1. Includes payments for capital assets, receipts from the sale of capital assets and capital transfers
2. Transactions in financial assets and liabilities
3. All spending except for consolidated interest payments
4. Revenue less non-interest expenditure

Consolidated budget deficit of 4.2 per cent of GDP in 2013/14 narrows to 3.0 per cent in 2016/17

The budget deficit is expected to be 4.2 per cent of GDP in 2013/14, in line with projections made at the time of the 2013 Budget.[1] The consolidated deficit is projected to decline to 4.1 per cent of GDP in 2014/15 and 3.0 per cent in 2016/17.

[1] This figure includes extraordinary transactions, which are explained in the technical note on the following page.

Technical note: New format for the consolidated fiscal framework

Table 3.3 shows the new format for the consolidated fiscal framework. This more transparent format, announced in the 2012 MTBPS, presents core budget information in line with the International Monetary Fund's *Government Finance Statistics Manual 2001*. The format distinguishes clearly between operating activities and capital investment plans. The current balance shows how much government must borrow to run its operations. The capital financing requirement shows the difference between capital revenue and expenditure.

Extraordinary receipts and payments are brought into the budget framework in line with global standards. This category includes receipts related to transactions on loans and similar items with a direct effect on the borrowing requirement. Their inclusion "above-the-line" results in a narrower budget deficit in 2013/14, and means that there is no longer a distinction between the main budget deficit and the borrowing requirement.

Extraordinary transactions and the budget deficit, 2010/11 – 2016/17

R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Budget deficit excluding extraordinary transactions	**-116.9**	**-111.3**	**-143.9**	**-155.8**	**-158.6**	**-157.1**	**-134.3**
Percentage of GDP	*-4.3%*	*-3.7%*	*-4.5%*	*-4.5%*	*-4.2%*	*-3.8%*	*-3.0%*
Extraordinary receipts	3.0	5.2	11.5	11.4	1.2	0.8	0.1
Extraordinary payments	-0.8	-1.4	-2.6	-0.2	–	–	–
Budget deficit including extraordinary transactions	**-114.7**	**-107.5**	**-135.0**	**-144.6**	**-157.5**	**-156.3**	**-134.2**
Percentage of GDP	*-4.2%*	*-3.6%*	*-4.2%*	*-4.2%*	*-4.1%*	*-3.8%*	*-3.0%*

A second change with consequences for reported budget numbers is the redefinition of non-interest expenditure in the consolidated account. Previously, non-interest expenditure was defined as total spending less debt-service costs. This meant that interest transactions of public entities were included as part of non-interest spending. From now on budget documents will report all interest-related payments as interest expenditure.

More information on these changes can be found in the 2013 *Budget Review* (page 33).

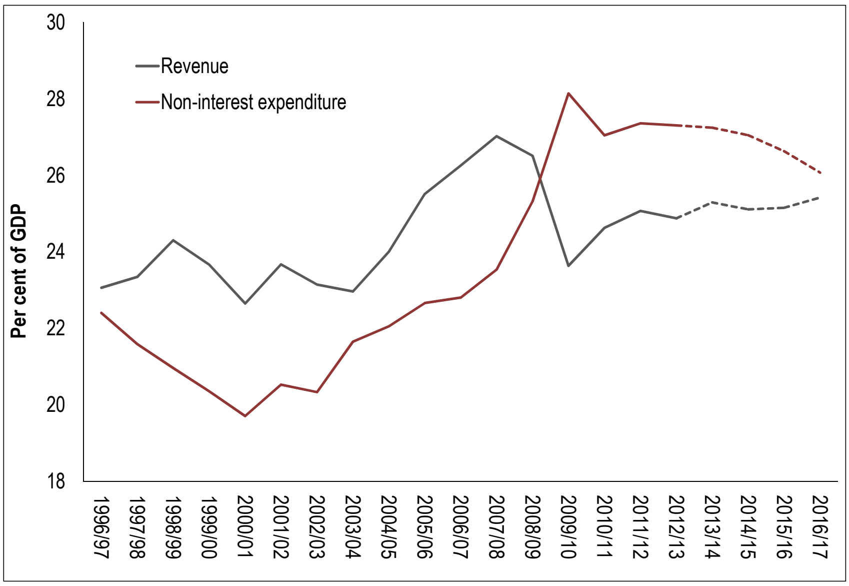
The fastest-growing expenditure item in the consolidated framework is interest payments, reflecting the substantial increase in government's debt stock in recent years. By 2016/17, more than R140 billion will be required to service public liabilities, an amount that exceeds current spending on health care.

Payments for capital assets are fastest-growing component of non-interest spending

Capital spending is the fastest-growing component of non-interest spending, exceeding inflation by 4.1 per cent in the next three years. Compensation budgets, which now account for 39.4 per cent of consolidated non-interest spending, continue to outpace inflation, but grow at a slower rate than over the past three years. Goods and services budgets are set to decline in real terms.

The consolidated budget comprises the main budget plus spending by provinces, social security funds, and expenditure by public entities financed from their own revenue. The largest component of the consolidated fiscal framework is the main budget, which covers expenditure financed from the National Revenue Fund (i.e. national departments, and transfers to provincial and local government). After stabilising in 2010/11, main budget expenditure has remained constant, at 30 per cent of GDP. As the economic growth rate picks up over the medium term, spending as a percentage of GDP will begin to decline, while the revenue-to-GDP ratio will continue to grow moderately in the outer years. By keeping spending growth below the rate of GDP growth, fiscal policy will help to stabilise debt as a share of GDP.

Figure 3.2 Main budget revenue and non-interest expenditure



Source: National Treasury

The main budget deficit is offset by surpluses expected on the accounts of provincial governments, public entities and social security funds, which are also included in the consolidated framework. Provincial surpluses are expected to be higher than anticipated in 2013/14, owing to underspending. Over the medium term, public entities will be increasing their borrowing for capital investment projects such as the Passenger Rail Agency of South Africa's rolling stock.

Payments by social security funds set to increase under proposed unemployment insurance legislation

Partly as a result of improved operations at the Road Accident Fund and compensation funds, spending by the social security funds will increase more rapidly than expected. Parliament is also considering the Unemployment Insurance Amendment Bill, which provides for more generous unemployment and risk payments for Unemployment Insurance Fund beneficiaries. These increases have been taken into account, though spending projections are provisional.

Managing risks

Government manages risks to safeguard fiscal sustainability. The risks to South Africa's fiscal path include pressures emanating from public-sector wages, the debt trajectory and the balance sheets of state-owned companies.

Wage bill

Government will ensure that compensation budget does not place expenditure ceiling at risk

Over the medium term government will ensure that growth in employment and earnings does not threaten the expenditure ceiling. Specific attention will be paid to restraining growth in administrative posts. Since 2005, more than 250 000 personnel have been added to national and provincial government payrolls, with the largest increases in education, health care and criminal justice. While most of the new positions were created for teachers, nurses and police officers, there is concern about the growth of managerial and administrative staffing across government.

Table 3.4 National and provincial government employment, 2005 – 2013

	Employees[1]			Share of total
	2005	2008	2013	2013
Education	433 370	470 438	485 370	38.8%
Health	225 900	263 113	318 756	25.5%
Criminal justice	201 109	236 071	275 154	22.0%
Economic services[2]	92 125	100 126	99 387	7.9%
General public administration[3]	26 312	34 699	39 761	3.2%
Welfare, arts, sports and other	21 178	21 074	32 897	2.6%
Total	**999 994**	**1 125 521**	**1 251 325**	**100.0%**

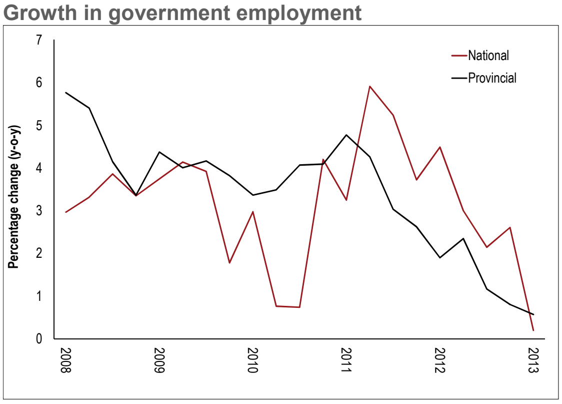
1. *Numbers reflect the average number of employees registered on the Persal system over the course of the year. Persal numbers exclude employees of the departments of Defence and Military Veterans, Parliament and the legislatures of Gauteng, Mpumalanga and North West*
2. *Economic services includes economic, environment, infrastructure and agriculture*
3. *General public administration includes finance, foreign affairs, home affairs and general administration*

Growth in the public-sector wage bill has exceeded the rate of inflation over the past several years. This relates partly to the implementation of occupation-specific dispensations designed to raise public-sector salaries for skilled and experienced staff to those of similarly skilled professionals in the private sector. It also reflects above-inflation annual wage settlements.

Evidence that public-sector employment growth has begun to slow

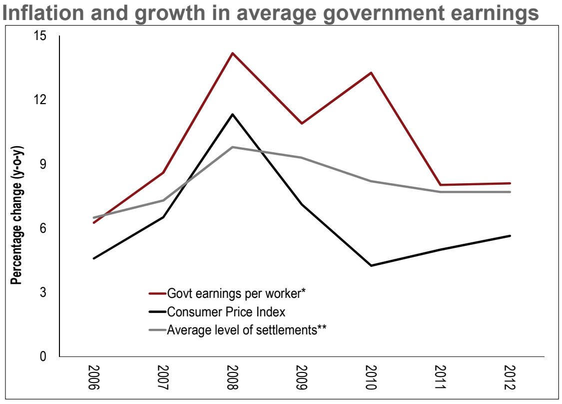
Following the conclusion of the largest occupation-specific dispensations and the three-year wage settlement reached in 2011, earnings increases have begun to align more closely with inflation. The wage agreement provided for an inflation-plus-1 per cent increase in cost-of-living adjustments. In the past two years public-sector employment growth has begun to slow.

Growth in government employment



Source: StatsSA

Inflation and growth in average government earnings



** Growth in earnings per worker employed by national and provincial government Source: StatsSA*

*** Average settlements in public and private sector. Source: Andrew Levy and Associates*

The National Treasury and the Department of Public Service and Administration are working to improve the monitoring of wage-bill trends and to enforce discipline in hiring of new personnel. Government aims to maintain staff numbers at a constant level over the next three years; exceptions will require a compelling explanation. Government is also committed to reaching a sustainable public-sector wage agreement.

Managing government's debt portfolio

IMF assessment shows that South Africa's debt-to-GDP ratio is sustainable

South Africa's debt-to-GDP ratio remains sustainable. In a recent assessment, the International Monetary Fund reached the same conclusion.

Government's debt management strategy works to ensure debt sustainability, keep the cost of debt as low as possible, maintain access to global capital markets and diversify funding instruments. The strategy also ensures continued bond market development, drawing on the strength of South Africa's deep and liquid capital markets. To limit external vulnerability, debt is largely denominated in domestic currency. Maturities are increasingly long term.

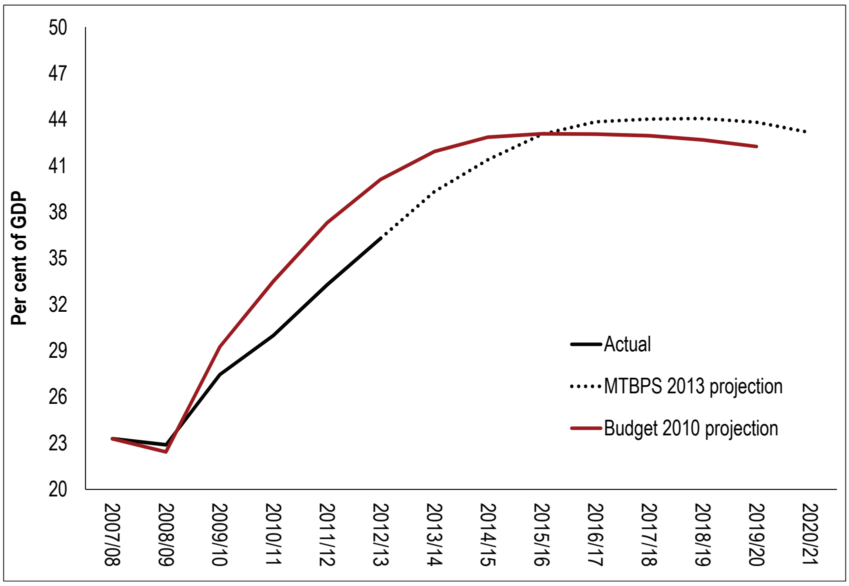
Denomination of debt mainly in domestic currency limits external volatility

The main budget net borrowing requirement is projected to increase from R168.5 billion in 2013/14 to R183.9 billion in 2014/15, before declining to R164.9 billion in 2016/17. National government net debt is projected to reach 39.3 per cent of GDP in 2013/14 and 43.9 per cent in 2016/17.

The weaker rand exchange rate has pushed up the value of foreign-denominated debt, and inflation has had the same effect on inflation-linked debt. Deterioration in the economic growth outlook has increased the debt-to-GDP ratio. Rising bond yields, which are adjusting to anticipated changes in US monetary policy, also contribute to a less benign debt-to-GDP trajectory. Over the longer term, debt is expected to stabilise, but later than previously anticipated and at a higher level relative to GDP. Figure 3.3 shows the long-term projection of net debt published by the National Treasury in 2010, alongside a revised long-term projection. The current forecast shows net debt stabilising at 44 per cent of GDP in 2017/18.

Net debt is projected to stabilise at about 44 per cent of GDP in 2017/18

Figure 3.3 Long-term projections of net debt, 2007/08 – 2020/21



Source: National Treasury

Over the medium term, government's debt management strategy will focus on minimising refinancing risk to accommodate redemptions. To mitigate this risk beyond the medium-term, government will continue to build cash reserves, and continue to switch short-term for longer-term debt if market conditions allow.

To mitigate refinancing risk, government continues to build cash reserves and switch debt

Table 3.5 Main budget borrowing requirement and financing, 2012/13 – 2016/17

R million	2012/13 Outcome	2013/14 Budget	2013/14 Revised	2014/15	2015/16	2016/17
				Medium-term estimates		
Main budget balance	-166 182	-178 047	-168 509	-183 949	-183 588	-164 908
of which:						
Extraordinary receipts	*11 534*	*4 992*	*11 401*	*1 150*	*800*	*120*
Extraordinary payments	*-2 587*	*-930*	*-200*	*–*	*–*	*–*
Borrowing requirement (-)	**-166 182**	**-178 047**	**-168 509**	**-183 949**	**-183 588**	**-164 908**
Domestic short-term loans (net)	22 555	23 000	23 000	24 000	25 000	26 000
Domestic long-term loans (net)	125 771	143 610	149 516	138 262	148 095	131 851
Foreign loans (net)	-11 622	-4 335	531	1 187	10 993	2 557
Change in cash and other balances[1]	29 478	15 772	-4 538	20 500	-500	4 500
Financing	**166 182**	**178 047**	**168 509**	**183 949**	**183 588**	**164 908**

1. A positive change indicates a decrease in cash balances

See National Treasury website for further detail on net borrowing and financing

Table 3.6 Total national government debt, 2010/11 – 2016/17

As at 31 March R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Outcome		Estimate		Medium-term estimates	
Total gross loan debt	**990.6**	**1 187.8**	**1 365.6**	**1 562.3**	**1 748.8**	**1 966.5**	**2 170.5**
Total net loan debt	**820.4**	**989.7**	**1 181.5**	**1 370.4**	**1 573.7**	**1 788.2**	**1 994.0**
As percentage of GDP:							
Total gross loan debt	*36.2%*	*39.9%*	*42.5%*	*44.8%*	*46.0%*	*47.3%*	*47.7%*
Total net loan debt	*30.0%*	*33.3%*	*36.8%*	*39.3%*	*41.4%*	*43.1%*	*43.9%*
Foreign debt as percentage of:							
Gross loan debt	*9.9%*	*9.8%*	*9.1%*	*8.5%*	*7.5%*	*7.1%*	*6.4%*
Net loan debt	*4.8%*	*5.0%*	*3.7%*	*4.3%*	*3.7%*	*3.8%*	*3.5%*

See National Treasury website for further detail on net borrowing and financing

Balance sheets of public entities and state-owned companies

State-owned companies are at the centre of South Africa's infrastructure expansion. State corporations are expected to borrow on the strength of their balance sheets, rather than being funded from the fiscus.

State-owned companies facing persistent difficulties will require operational restructuring

Where capitalisation of core public assets may be required, other measures, such as upfront disposal of non-core assets, will be considered. State-owned companies facing persistent difficulties will require operational restructuring to become financially sustainable and to fulfil their mandates.

Net loan debt, provisions and contingent liabilities are expected to remain well within the Southern African Development Community's macroeconomic convergence target of 60 per cent of GDP.

Conclusion

Expenditure remains well contained, and fiscal stance avoids premature consolidation that could jeopardise higher growth

Government remains committed to sustainable, countercyclical fiscal policy. The level of expenditure remains well contained, while the fiscal stance avoids a premature consolidation that could jeopardise higher economic growth, which is required to create jobs, widen the tax base and generate sufficient revenue to support government's priorities.

4

Medium-term expenditure framework and division of revenue

In brief

- The *Medium Term Budget Policy Statement* proposes an average annual real increase of 2.2 per cent in non-interest public spending over the next three years.
- The expenditure ceiling established by the 2013 Budget remains in place, reflecting government's commitment to consolidate spending and reduce the fiscal deficit over time.
- Distribution of resources is in line with the National Development Plan. Health and education continue to receive the largest allocations, while budgets related to infrastructure, jobs, local government and community development grow strongly.
- The consolidated framework proposed for the 2014 Budget provides for total spending of R1.24 trillion in 2014/15, R1.34 trillion in 2015/16 and R1.44 trillion in 2016/17.
- Debt-service costs rise from R100.5 billion in 2013/14 to R135.4 billion in 2016/17.
- Medium-term spending pressures have been accommodated by reprioritising allocations and drawing down the contingency reserve.
- Provinces receive additional funding for their salary requirements, while the share of nationally generated revenue that goes to local government continues to grow strongly.

Introduction

The medium-term expenditure framework (MTEF) proposed for 2014/15-2016/17 balances continued support for the economy with the need for fiscal consolidation. The budget framework sets explicit limits for public expenditure. This ceiling allows for sustained but moderate real growth in spending and a gradually declining deficit. Government will finance future priorities and respond to spending pressures by reprioritising existing allocations and eliminating wasteful expenditure.

Spending on social and economic priorities will grow moderately in real terms

Proposed resource allocations are informed by the approach of the NDP

The proposed allocation of resources over the next three years is informed by government's strategic priorities, in particular the National Development Plan (NDP). It sets a broad framework for inclusive growth based on a more competitive economy, a capable developmental state, and improved livelihoods of South Africans. Implementing the plan will require government to strengthen its role as an enabler of economic development and improve the ways in which policies are translated into service delivery. Government has begun the process of drafting a medium-term strategic framework for the next administration, which will fully incorporate the NDP into South Africa's developmental agenda.

Support for social spending, infrastructure and public employment

Reflecting South Africa's high levels of inequality and underdevelopment, spending on health, education and social assistance will claim the largest share of government spending over the medium term. In line with government's goal of supporting community development, a significant and growing share of resources is proposed to harness the economic potential of cities, strengthen the capacity of local government and upgrade informal settlements. Government will continue to make large investments in infrastructure and support the strategic investment programmes of the Presidential Infrastructure Coordinating Commission. Public employment programmes also receive rising allocations.

2012/13 outcomes and 2013/14 mid-year estimates

Table 4.1 sets out the national and provincial expenditure outcomes for 2012/13 and the estimates for the first half of 2013/14. A detailed breakdown by national department and province is contained in Annexure A.

Expenditure from the National Revenue Fund in 2012/13, including transfers to provinces and municipalities, amounted to R963 billion, which was R6.4 billion lower than the original budget estimate of R969.4 billion and R4 billion lower than the February 2013 revised estimate of R967 billion. Growth in expenditure has moderated since 2011/12: the 8.4 per cent increase in 2012/13 compares with an average growth rate of 13 per cent over the preceding decade.

Revised 2013/14 spending estimate is R1.05 trillion

The revised estimate of total expenditure in 2013/14 is R1.05 trillion, R5.7 billion less than the estimate tabled in the 2013 Budget. This represents a nominal increase in expenditure of 9 per cent compared with the outcome for 2012/13.

Table 4.1 National and provincial expenditure: 2012/13 outcomes and 2013/14 mid-year estimates

	2012/13				2013/14		
R billion	Original budget	Adjusted estimate	Preliminary outcome	Over(-)/ under(+)	Original budget	Adjusted estimate[1]	Actual spending April to September
Total expenditure	**969.4**	**970.0**	**965.6**	**4.5**	**1 056.0**	**1 049.6**	**507.0**
less: Extraordinary payments	–	-2.6	-2.6	–	-0.9	-0.2	–
National Revenue Fund	**969.4**	**967.5**	**963.0**	**4.5**	**1 055.1**	**1 049.4**	**507.0**
State debt cost	89.4	88.8	88.1	*0.7*	99.7	100.5	49.2
Provincial equitable share	309.1	313.0	313.0	–	337.6	338.9	168.8
Other direct charges	21.5	23.3	23.2	0.1	25.0	24.9	10.2
National votes	**549.4**	**542.4**	**538.7**	**3.7**	**592.7**	**585.0**	**278.8**
of which:							
Compensation of employees	*101.0*	*103.4*	*102.4*	*1.0*	*111.9*	*113.4*	*55.3*
Transfers and subsidies	*370.9*	*371.7*	*368.6*	*3.1*	*402.6*	*398.2*	*192.9*
Payments for capital assets	*15.2*	*14.3*	*14.1*	*0.1*	*14.3*	*14.3*	*4.0*
Unallocated and contingency reserve	*5.8*	–	–	–	*4.0*	–	–
Projected underspending	–	*-3.5*	–	*-3.5*	–	*-3.5*	–
Local government repayment to the National Revenue Fund	–	*-0.5*	–	*-0.5*	–	*-0.5*	–
Provincial expenditure	**388.5**	**402.7**	**395.2**	**7.5**	**418.5**	**n/a**	**202.8**
of which:							
Compensation of employees	*232.0*	*236.1*	*234.1*	*2.0*	*251.5*	*n/a*	*126.7*
Transfers and subsidies	*55.6*	*58.3*	*57.2*	*1.1*	*57.7*	*n/a*	*26.8*
Payments for capital assets	*27.4*	*30.8*	*28.9*	*1.9*	*29.2*	*n/a*	*11.2*

1. Provinces will table adjusted estimates during November 2013

Excluding state debt costs, the provincial equitable share and other direct charges, spending by national departments amounted to R538.7 billion in 2012/13, or 99.3 per cent of the adjusted estimate of R542.4 billion. In the first six months of 2013/14, R278.8 billion was spent, or 47.7 per cent of a revised estimate of R585 billion for the year. In the first six months of 2012/13, 47.4 per cent of the revised estimate of R542.4 billion was spent.

National government makes large transfers for social grants and housing subsidies

Transfers and subsidies form the largest economic category of national government expenditure. This item includes transfers to provincial and local government through conditional grants, as well as payments for social grants, housing subsidies and transfers to higher education institutions, science councils and public entities.

Provincial expenditure in 2012/13 amounted to R395.2 billion, 98.1 per cent of the total adjusted budget of R402.7 billion. Expenditure by provinces was R202.8 billion in the first six months of 2013/14, representing 48.5 per cent of the main appropriation for the year. In the first six months of 2012/13, expenditure by provinces represented 48.7 per cent of the main appropriation of R388.5 billion. Compensation of employees accounted for 59.2 per cent of provincial expenditure in 2012/13.

Revised national expenditure estimates, 2013/14

The Adjustments Appropriation Bill and the Division of Revenue Amendment Bill set out amendments in the current financial year. These reflect in-year changes to allocations made possible by reprioritisation within the existing expenditure envelope. The bills propose the following changes:

- R1 billion to cover the costs of inflation-related and other salary adjustments.
- R754 million rolled over from unspent balances in 2012/13.
- R374 million to provide broadband connectivity to public schools.
- R170 million to cover the effect of rand depreciation on expenditure in foreign currencies in 2013.
- R150 million to deploy troops in the Democratic Republic of the Congo.
- R57 million for contractual penalties incurred by Denel Aerostructures related to the A400M aircraft contract.
- R20 million for substance-abuse prevention.
- R18 million to repair infrastructure damaged by floods.
- R508 million refunded to departments for expenditure financed by departmental revenue paid into the National Revenue Fund.
- R3 billion that will not be spent in 2013/14 and declared as unspent funds by departments.

Revised provincial allocations, 2013/14

- R1.3 billion for the provincial equitable share to cover inflation-related salary adjustments and to upgrade clerical posts.
- R12 million to the *further education and training colleges grant* to cover the cost of inflation-related salary adjustments.
- R125 million rolled over from unspent balances in 2012/13.
- R103 million to repair infrastructure damaged by floods.

Revised local government allocations, 2013/14

- R118 million to repair infrastructure damaged by floods.
- R16 million rolled over from unspent balances in 2012/13.

Details of the revised national spending allocations are set out in the Adjusted Estimates of National Expenditure, including approved allocations for unforeseen and unavoidable expenditure, the appropriation of expenditure earmarked in the 2013 Budget Speech for future allocation, other shifts and adjustments, and declared unspent funds. Revised provincial appropriations will be tabled in provincial legislatures before the end of the financial year.

Division of revenue, 2014/15 – 2016/17

Proposed budget framework provides for total spending of R1.24 trillion in 2014/15

The consolidated budget comprises the main budget plus spending by provinces, social security funds, and expenditure by public entities financed from their own revenue. The proposed consolidated framework for the 2014 Budget provides for total spending of R1.24 trillion in 2014/15, R1.34 trillion in 2015/16 and R1.44 trillion in 2016/17.

The largest share of the consolidated budget is the main budget, made up of all spending from the National Revenue Fund. The main budget is shared between national, provincial and local government.

National government is responsible for activities such as security, justice and international relations. It also supports provincial and local government with policy-making and infrastructure provision. Provinces are largely responsible for delivering social services such as basic education and health, while municipalities provide roads, water and electricity, and contribute to local economic development.

The main budget framework is shown in Table 4.2. National departments receive 47.6 per cent of revenue, provinces receive 43.4 per cent, and local governments receive 9 per cent in the 2014 Budget. Medium-term allocations to national departments increase by an average annual rate of 6.7 per cent, provincial allocations grow by 6.9 per cent a year and local government allocations by 8 per cent a year. The slightly faster growth in provincial spending, compared with national, reflects the personnel-intensive nature of provincial service delivery. Local government's share of nationally raised revenue continues to grow, reflecting the role of municipalities in building infrastructure and providing services.

Growth in provincial allocations reflects personnel-intensive nature of service delivery

After providing for debt-service costs, the 2013 main budget allowed for spending of R1.03 trillion in 2014/15 and R1.11 trillion in 2015/16. The 2013 MTBPS proposes that these main budget non-interest expenditure ceilings remain in place and that a spending limit of R1.16 trillion be set for 2016/17, in keeping with the fiscal policy stance outlined in Chapter 3.

Table 4.2 Main budget framework, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
State debt cost	66.2	76.5	88.1	100.5	110.4	122.2	135.4
Non-interest expenditure	739.8	813.5	877.4	949.1	1 027.8	1 106.1	1 185.1
Percentage increase	*7.1%*	*10.0%*	*7.9%*	*8.2%*	*8.3%*	*7.6%*	*7.1%*
Total expenditure	**806.0**	**889.9**	**965.6**	**1 049.6**	**1 138.1**	**1 228.3**	**1 320.5**
Percentage increase	*7.8%*	*10.4%*	*8.5%*	*8.7%*	*8.4%*	*7.9%*	*7.5%*
Contingency reserve	–	–	–	–	3.0	6.0	18.0
Division of available funds							
National departments	**355.2**	**381.3**	**410.2**	**452.5**	**487.9**	**520.4**	**550.1**
Provinces	**322.8**	**362.5**	**388.2**	**415.8**	**444.7**	**478.2**	**507.8**
Equitable share	265.1	291.7	313.0	338.9	362.5	388.0	412.0
Conditional grants	57.7	70.8	75.2	76.9	82.3	90.2	95.8
Local government	**60.9**	**68.3**	**76.4**	**84.8**	**91.9**	**101.4**	**106.7**
Equitable share	30.5	33.2	37.1	40.6	44.5	50.2	52.9
General fuel levy sharing with metropolitan municipalities	7.5	8.6	9.0	9.6	10.2	10.7	11.2
Conditional grants	22.8	26.5	30.3	34.6	37.2	40.5	42.6
Total	**738.9**	**812.1**	**874.9**	**953.1**	**1 024.5**	**1 099.9**	**1 164.6**
Percentage shares							
National departments	48.1%	47.0%	46.9%	47.5%	47.6%	47.3%	47.2%
Provinces	43.7%	44.6%	44.4%	43.6%	43.4%	43.5%	43.6%
Local government	8.2%	8.4%	8.7%	8.9%	9.0%	9.2%	9.2%

The proposed budget framework allows for average nominal growth in main budget spending of 8.0 per cent per year over the next three years. It includes a contingency reserve of R3 billion, R6 billion and R18 billion for 2014/15, 2015/16 and 2016/17, respectively for unforeseen and unavoidable requirements. The contingency reserve has been reduced by R7.5 billion over the next two years to respond to spending pressures. Debt-service costs rise at an average annual rate of 10.4 per cent, from R100.5 billion in 2013/14 to R135.4 billion in 2016/17.

Nominal growth in main budget spending projected to average 8.0 per cent annually over medium term

Spending pressures amounting to R21.6 billion over the next three years are accommodated through reprioritisation of R8.1 billion within departmental allocations and a drawdown of R13.5 billion on the contingency reserve.

Employee compensation claims lion's share of funds made available through reprioritisation

National and provincial public-sector salaries are linked to inflation, which is forecast to be higher than previously projected this year and over the next two years. Over the next three years, the cost of inflation adjustments is R12.2 billion, and R5.2 billion is also required to upgrade the salary levels of clerks in the public service.

The proposed division of revenue is outlined in Table 4.3.

Table 4.3 Division of revenue, 2013/14 – 2016/17

R billion	2013/14 Revised	2014/15	2015/16 Medium-term estimates	2016/17	Average annual growth 2013/14 – 2016/17
National allocations	**452.5**	**487.9**	**520.4**	**550.1**	**6.7%**
of which:					
Indirect grants to provinces [1]	*2.7*	*4.8*	*4.3*	*4.6*	*19.5%*
Indirect grants to local government [1]	*5.7*	*7.3*	*9.1*	*9.7*	*19.5%*
Provincial allocations	**415.8**	**444.7**	**478.2**	**507.8**	**6.9%**
Equitable share	338.9	362.5	388.0	412.0	6.7%
Conditional grants	76.9	82.3	90.2	95.8	7.6%
Local government allocations	**84.8**	**91.9**	**101.4**	**106.7**	**8.0%**
Total allocations	**953.1**	**1 024.5**	**1 099.9**	**1 164.6**	**6.9%**
Changes to baseline					
National allocations	**–**	**-1.6**	**-1.4**	**2.2**	
of which:					
Indirect grants to provinces [1]	*-0.4*	*-0.4*	*-0.7*	*-0.7*	
Indirect grants to local government [1]	*0.2*	*0.1*	*0.4*	*0.5*	
Provincial allocations	**1.7**	**3.0**	**3.8**	**4.4**	
Equitable share	1.4	2.5	4.3	5.1	
Conditional grants	0.3	0.5	-0.5	-0.7	
Local government allocations	**0.1**	**0.3**	**-0.1**	**-0.1**	
Total	**1.8**	**1.7**	**2.4**	**6.5**	

1. Amounts may be shifted between direct and indirect grants to provinces and local government before the 2014 Budget is tabled

In addition to direct transfers in the form of the equitable share and conditional grants, provinces and municipalities also benefit from indirect grants. These are allocations that national departments spend on behalf of provinces and municipalities. Funds for indirect grants are not transferred to provinces or municipalities (and therefore are not included in the shares for the division of revenue shown in Table 4.2).

Significant growth in value of indirect grants supports provision of schools and bulk water pipelines

They do, however, contribute to core spending areas for which sub-national government is responsible, including infrastructure such as schools and bulk water pipelines. Government proposes significant growth in the value of indirect grants to provinces and municipalities, from R8.4 billion in 2013/14 to R14.3 billion in 2016/17. Changes to the way these grants are managed will be considered over the period ahead, and amounts may be shifted between direct and indirect grants before the 2014 Budget is tabled.

The Financial and Fiscal Commission tabled its submission on the national budget in Parliament in May 2013. Government will formally respond to matters raised in the submission when it tables the 2014 Budget.

Funding provincial government

Higher-than-expected inflation pushes up medium-term wage bill

Over the next three years, provincial budgets grow from R415.8 billion to R507.8 billion. Over the medium term, provincial baseline allocations increase by a net R11.2 billion. This increase is funded through drawdowns in the contingency reserve and a reallocation of national resources.

Proposed changes to provincial allocations are driven by higher wage costs for the 900 000 public servants employed primarily in health and education, as well as by priorities in infrastructure and social services.

An occupation-specific dispensation for several categories of therapists in the education sector will be funded through a new conditional grant for two years, after which these funds will be incorporated into the provincial equitable share. Additions to the provincial equitable share of R2.5 billion in 2014/15, R4.3 billion in 2015/16 and R5.1 billion in 2016/17 will help to fund shelters for victims of abuse, as well as the rollout of a new vaccine for human papillomavirus. Small reductions to underperforming grants are also proposed.

Funds to fast-track upgrading of informal settlements in mining communities

Government proposes several changes to provincial conditional grants:

- Small reductions to a number of grants, which will release funds for reprioritisation, though their allocations still grow in nominal terms over the spending period. These include the *comprehensive agricultural support programme grant*, the *landcare grant*, the *education infrastructure grant*, the *school infrastructure backlogs grant* (an indirect grant), the *national health grant* (an indirect grant) and the *expanded public works programme grants* to provinces.
- New allocations to the *human settlements development grant* to fast-track the upgrading of informal settlements in mining towns that are experiencing rapid growth.
- Additional resources for the *further education and training colleges grant* to cover higher-than-anticipated salaries.
- Funds will be made available through the *public transport operations grant* to offset the rising costs of fuel and labour in provincial bus services.

Funding for infrastructure damaged by floods

In late 2012 and early 2013, widespread flooding in Limpopo, Mpumalanga, KwaZulu-Natal, the Eastern Cape and the Western Cape damaged infrastructure including schools, clinics, roads, bridges and farms. Funding to repair or replace public infrastructure and Reconstruction and Development Programme houses damaged in the floods is made available through several provincial sector grants and a new *municipal disaster recovery grant*. A total of R1 billion is added to provincial sector grants over the MTEF period – the *provincial roads maintenance grant*, the *human settlements development grant*, the *comprehensive agricultural support programme grant*, the *education infrastructure grant* and the *health facility revitalisation grant* – and a further R59 million is allocated to affected municipalities via a new *municipal disaster recovery grant*. This is in addition to R103 million for provinces and R118 million for municipalities added in 2013/14.

Funding local government

Support for eight metros to improve spatial development

In 2013/14, local government receives R84.8 billion. This is expected to increase to R106.7 billion by 2016/17. Changes to local government allocations shift funds towards areas that can support economic growth. The *integrated city development grant* provides the eight metropolitan municipalities with incentives to improve spatial development considerations in their planning. It is intended to help low-income households on the urban periphery access jobs and other opportunities. An amount of R356 million is added to this grant to encourage the evolution of more compact and efficient cities.

R934 million for regional bulk water projects

The availability of water is a prerequisite for the construction of human settlements and for economic activity. The *regional bulk infrastructure grant* (an indirect grant) receives an additional R934 million over the spending period to accelerate bulk water projects that will support broader development. To fund these priorities and stay within the spending ceiling, government proposes moderate reductions to a number of grants, including the *municipal infrastructure grant*, the *urban settlements development grant*, the *expanded public works programme integrated grant for municipalities,* the *infrastructure skills development grant* and the *energy-efficiency demand-side management grant*.

Housing function being devolved to local government in six metros

By 2014, government intends to devolve responsibility for the housing function from provincial to local government in six metropolitan areas: Cape Town, Ekurhuleni, eThekwini, Johannesburg, Nelson Mandela Bay and Tshwane. These municipalities will receive a total of R900 million over the medium term to manage this function.

Government has begun a review of local government infrastructure grants, which may result in changes to the number and structure of these grants. The review is a collaborative effort involving national departments, the Financial and Fiscal Commission and the South African Local Government Association, and it will involve extensive consultation with municipalities, provinces, professional associations and public entities. Proposals for changes to the grant system may be included in the 2014 *Medium Term Budget Policy Statement*.

New local government equitable share formula to fund basic services for low-income households

A new local government equitable share formula is being phased in from 2013/14. It provides funding for a package of free basic services for the 59 per cent of households with monthly incomes below the value of two state old age grants. The local government equitable share will grow at an average annual rate of 9.2 per cent over the spending period ahead.

Medium-term expenditure framework

The distribution of resources over the next three years is shown according to function group, reflecting how responsibility is shared across government. Table 4.4 sets out estimates for consolidated expenditure of national government, provinces, social security funds and public entities, and provides a breakdown of this spending by economic classification.

Figure 4.1 compares expenditure growth over the 2014 MTEF with spending over the three years to date. The strongest growth over the future spending period will be in employment and social security, economic infrastructure, and local government, housing and community amenities.

Table 4.4 Consolidated government expenditure, 2012/13 – 2016/17

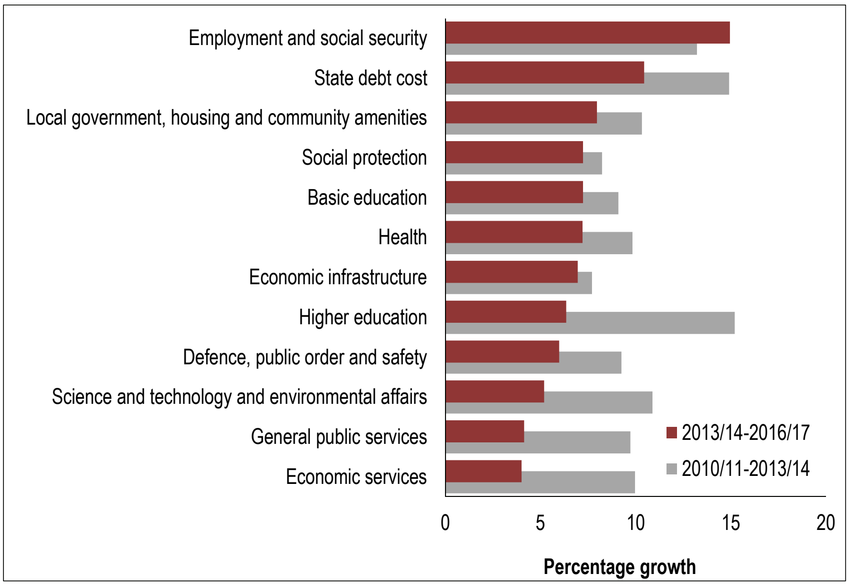
R billion	2012/13 Outcome	2013/14 Revised	2014/15 Medium-term estimates	2015/16	2016/17	Average annual growth 2013/14 – 2016/17
Defence, public order and safety	**141.7**	**154.5**	**163.6**	**172.7**	**184.4**	**6.1%**
Defence and state security	41.3	44.9	47.5	50.4	53.6	6.1%
Law courts	15.1	16.9	18.1	19.1	20.6	6.8%
Police services	68.0	74.1	78.2	82.4	88.0	5.9%
Prisons	17.3	18.5	19.7	20.8	22.1	6.1%
Economic infrastructure	**78.6**	**84.3**	**94.1**	**102.7**	**105.8**	**7.9%**
Communication	2.6	3.3	2.9	3.2	3.5	1.3%
Fuel and energy	7.9	7.9	8.9	9.6	10.3	8.9%
Transport	68.2	73.0	82.3	89.9	92.0	8.0%
Economic services	**43.7**	**47.3**	**48.7**	**51.1**	**53.4**	**4.2%**
Education and related functions	**216.1**	**233.6**	**250.2**	**267.8**	**286.5**	**7.0%**
Employment and social security	**39.0**	**50.6**	**60.0**	**66.7**	**74.6**	**13.8%**
General public services	**57.9**	**62.1**	**65.3**	**69.4**	**71.0**	**4.6%**
Health	**126.0**	**133.3**	**144.2**	**153.9**	**164.2**	**7.2%**
Social protection	**122.9**	**132.7**	**145.0**	**154.6**	**164.2**	**7.3%**
Local government, housing and community amenities	**115.2**	**128.1**	**141.2**	**153.8**	**163.2**	**8.4%**
Housing development	28.1	31.4	34.5	37.1	39.1	7.6%
Local government and community development	66.7	71.9	77.8	84.7	89.2	7.4%
Water supply	20.4	24.8	28.8	32.0	34.9	12.1%
Science and technology and environmental affairs	**13.7**	**16.8**	**18.1**	**19.5**	**19.5**	**5.2%**
Allocated by function	**954.7**	**1 043.2**	**1 130.4**	**1 212.3**	**1 286.8**	**7.2%**
State debt cost	88.1	100.5	110.4	122.2	135.4	10.4%
Contingency reserve	–	–	3.0	6.0	18.0	
Consolidated expenditure[1]	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**	**8.0%**
Economic classification						
Current payments	**633.7**	**694.2**	**742.0**	**793.8**	**851.8**	**7.1%**
Compensation of employees	375.4	409.0	437.2	466.9	498.9	6.8%
Goods and services	165.1	178.6	188.2	198.1	211.8	5.9%
Interest and rent on land	93.2	106.6	116.6	128.8	141.0	9.8%
of which: state debt cost	*88.1*	*100.5*	*110.4*	*122.2*	*135.4*	*10.4%*
Transfers and subsidies	**337.9**	**370.1**	**407.6**	**442.0**	**468.7**	**8.2%**
Provinces and municipalities	82.6	92.2	99.5	110.1	116.4	8.0%
Departmental agencies and accounts	25.0	22.4	25.3	27.5	28.0	7.7%
Higher education institutions	22.1	23.6	25.3	27.0	29.0	7.2%
Foreign governments and international	1.7	2.0	2.0	2.1	2.2	3.0%
Public corporations and private enterprises	22.3	24.9	26.2	28.3	29.4	5.6%
Non-profit institutions	24.1	28.5	30.0	31.7	33.2	5.3%
Households	160.0	176.6	199.3	215.3	230.6	9.3%
Payments for capital assets	**68.0**	**75.7**	**87.9**	**95.6**	**101.7**	**10.3%**
Buildings and other capital assets	54.0	59.8	70.8	76.9	81.7	11.0%
Machinery and equipment	13.9	16.0	17.1	18.7	20.0	7.8%
Payments for financial assets	**3.3**	**3.6**	**3.3**	**3.0**	**0.0**	
Total	**1 042.9**	**1 143.7**	**1 240.8**	**1 334.4**	**1 422.2**	**7.5%**
Contingency reserve	–	–	3.0	6.0	18.0	
Consolidated expenditure[1]	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**	**8.0%**

1. Consisting of national, provincial, social security funds and selected public entities

Increased allocations to personnel-intensive departments result in more moderate growth in other functions

Real growth in spending by the education, health and social protection, and defence functions is mainly the result of additional salary requirements. To accommodate increased allocations to priority areas and personnel-intensive departments, growth in funding for other function groups has moderated.

Figure 4.1 Expenditure growth by function*



** The education and health and social protection function groups have been disaggregated to show the main components of expenditure*
Source: National Treasury

Maintaining the main budget expenditure ceiling means that higher spending in some areas requires lower spending in others. Accordingly, government proposes reductions in goods and services expenditure in some departments, focusing on items such as travel and subsistence, consulting services, communication, and operating payments. Average growth in spending on goods and services will decline from 9.2 per cent over the past three years to 5.9 per cent over the medium term. Allocations to some slow-spending programmes continue to grow, but are reduced in line with their capacity to spend. Reassignment of funds through this process and drawdowns on the contingency reserve form the basis for allocations made to the different functional areas discussed below.

Defence, public order and safety

Compensation of staff absorbs 63 per cent of defence, public order and safety baseline

The defence, public order and safety function grows at an average annual rate of 6.1 per cent to R184.4 billion in 2016/17. This function is highly labour-intensive, with compensation of employees constituting 63 per cent of expenditure. To finance the higher wage bill, the indicative baseline has been increased.

The Department of Correctional Services has reprioritised funds to the electronic monitoring system to ease prison overcrowding, and it will upgrade skills development programmes for offenders. Funds are also reprioritised from the case backlog project to provide for the permanent appointment of prosecutors, public defenders and court support personnel.

The Department of Defence has reprioritised funds away from computer services and the special defence account for weapons procurement to the operational budget of the South African Air Force, and essential medical equipment and supplies. The Independent Police Investigative Directorate has reprioritised funds to enhance its investigative capacity.

Economic infrastructure: Transport, energy, communications

Support for infrastructure modernisation through the fiscus

The NDP calls for maintenance of the road network, renewal of the commuter rail fleet and unblocking constraints to spectrum allocation in the information technology sector. It stresses the importance of an energy sector that is competitively priced, reliable, efficient, equitable and environmentally friendly.

Over the MTEF period, state-owned companies will account for the largest investments in economic infrastructure by the public sector. In addition, R2.5 billion has been reprioritised through the fiscus to support infrastructure modernisation projects. The baseline of the transport, energy and communications function grows by an average annual rate of 7.9 per cent to R105.8 billion in 2016/17.

More than 300 six-car passenger rail trains to be purchased over next decade

Additional funding will support the Passenger Rail Agency of South Africa's procurement of rolling stock. The agency plans to purchase more than 300 six-car trains over the next decade, with initial deliveries in 2015/16. Money will also be made available to provide set-top boxes to more than 5 million low-income households in preparation for the switch to digital television in 2015.

The Nuclear Energy Corporation of South Africa will receive additional funding for research and development, and to refurbish existing research facilities. The Department of Transport is currently reviewing the impact of the taxi recapitalisation programme; a portion of the programme's funding will be delayed until the end of the spending period.

Economic services

The economic services function includes a broad range of incentives to support economic competitiveness to enhance South Africa's industrial capacity, boost exports and encourage inward investment. It also includes funding for small enterprise development, promotion of special economic zones and support for broad-based black economic empowerment. The baseline of this function grows by an average annual rate of 4.2 per cent to R53.4 billion in 2016/17.

Funds are reprioritised to invest in rural development and agricultural research

The 2014 MTEF provides significant budgetary support for research and development in the industrial sector, and for development finance institutions. Substantial funding is also made available for rural development, including land reform and restitution. Funds are also reprioritised from land acquisition to invest in emerging commercial farms and those acquired through the land reform programme. Agricultural research will continue to be prioritised, and the Department of Agriculture, Forestry and Fisheries will receive funding over the next two years to repair infrastructure damaged by floods.

Education

The NDP recognises the importance of education in addressing poverty and building a more capable workforce. Better basic education means better schools, better teachers and better student results. South Africa also needs many more people to attend and complete tertiary education.

Education – the largest category of public spending – is central to building a capable workforce

Education is the largest category of government expenditure. The function's baseline increases by an annual average rate of 7 per cent over the MTEF period to R286.5 billion in 2016/17. Spending on employee compensation accounts for, on average, 61 per cent of the function. To finance additional wage pressures (including an occupation-specific dispensation for therapists), the indicative baseline has been increased, and the *school infrastructure backlogs grant* and *education infrastructure grant* have been trimmed. These two grants continue to grow strongly over the spending period, by 10.2 per cent and 14.8 per cent respectively.

Employment and social security

By 2016/17, the community work programme will be operating in every municipality

This function group includes public employment programmes, the Department of Labour and its agencies, and the social security funds. Its baseline grows at an annual average rate of 13.8 per cent over the medium term to R74.6 billion, due largely to increased expenditure by the Unemployment Insurance Fund, the compensation funds and the Road Accident Fund. Additional money is also made available for employment programmes and labour services in 2016/17.

Over the MTEF period, employment programmes will improve the quality of their reporting and stabilise their administrative arrangements. These improvements will support a planned scaling up to meet the NDP target of providing work to 2 million people per year, up from 1 million in 2012/13. Supported by a significant funding increase in 2016/17, the community work programme will be present in every municipality by the end of the spending period.

Funding for additional labour inspectors over the medium term

The budget of the expanded public works management team in the Department of Public Works will be reduced over the MTEF period to encourage streamlining of operations. Funding allocated to the Department of Labour for unfilled posts over the next two years has been cut, but the department receives additional funds in the final year to recruit labour inspectors and information technology staff.

General public services

Public Works, National Youth Development Agency allocations are reduced

The baseline for general public services grows by an average annual rate of 4.6 per cent to R71 billion in 2016/17. Several departments will significantly cut their goods and services budgets over the next three years. Transfers to the South African Revenue Service, the African Renaissance Fund and the National Youth Development Agency will also be reduced. The allocation to the Department of Public Works is lowered to reflect slow spending on infrastructure projects.

The Department of International Relations and Cooperation will receive additional funding for staff to support the Chair of the African Union and for the South African Development Partnership Agency to finance development initiatives in Africa. In addition to funding made available for next year's elections in the previous budget, funding is provided in 2014/15 for the presidential inauguration. The Department of Home Affairs allocation is increased in 2016/17 to support the rollout of a new "smart" identity card that will in time replace identity books.

Health and social protection

The health and social protection function group's baseline grows at an average annual rate of 7.3 per cent to R328.4 billion in 2016/17. Health is a labour-intensive function and receives additional funding to accommodate wage pressures. A further R2.2 billion has been added to the function's indicative baseline in 2016/17 for antiretroviral treatment and social grants.

New vaccine to be introduced to curb incidence of cervical cancer

The Department of Health will introduce a new vaccine to reduce incidence of cervical cancer. The department has reduced the allocation to the *national health grant* in response to slow spending. Additional funds will allow for the purchase of new equipment for forensic chemistry laboratories. Funds have been reprioritised to the Department of Social Development to establish shelters for victims of gender-based violence and substance-abuse centres.

Errors and fraud being weeded out of social grant expenditure

Spending on social grants will increase over the medium term to accommodate an increase in beneficiaries and inflation adjustments to the value of grants. Growth in grant expenditure will be offset by savings from the reregistration of beneficiaries. This process, which began in March 2012, is designed to eliminate erroneous or fraudulent claims. A clearer picture of the number of legitimate grant recipients should emerge by the time of the 2014 Budget.

Local government, housing and community amenities

The local government, housing and community amenities function receives additional resources over the spending period for capital infrastructure projects. The function's baseline grows by an annual average rate of 8.4 per cent to R163.2 billion in 2016/17.

New support for bulk water provision, and to build project management and regulatory capacity

Government will make substantial investments in water services over the next three years. Additional resources will be made available through the *regional bulk infrastructure grant* to enable the Department of Water Affairs to fast-track projects in this area. Funds will also be provided to strengthen the department's project management and regulatory capacity. Funding is in place to commence work on the Umzimvubu Dam in the two outer years.

Additional funding is made available to strengthen city-support programmes over the medium term, and for provinces to upgrade informal settlements in mining towns. The *urban settlement development grant* is reduced by R130 million to reflect slow spending and the *municipal infrastructure grant* is reduced by R850 million to support reprioritisation towards bulk water projects. The Municipal Infrastructure Support Agency receives additional funds to assist with infrastructure delivery.

Science and technology and environmental affairs

Substantial support for Square Kilometre Array and biotechnology

The science and technology and environmental affairs function grows by an average annual rate of 5.2 per cent to R19.5 billion in 2016/17. Budgetary support is provided to finance research, upgrade facilities and improve regulatory oversight. The Square Kilometre Array receives substantial funding, and money has also been made available for vaccine production, biotechnology and disease management. Transfers to several science councils have been trimmed to encourage greater private-sector collaboration and investment.

Conclusion

While maintaining an expenditure ceiling, government continues to fund its core priorities

The medium-term budget framework shows how government has adapted its plans in a challenging economic and fiscal environment. While maintaining an expenditure ceiling, government continues to fund core economic and social priorities. Economic infrastructure, local community development and job creation will receive additional support over the spending period ahead. To fund other priorities in future, government will have to divert funds from non-performing or non-essential programmes, and eliminate wasteful expenditure.

Annexure A

2012/13 outcome and half-year spending estimates for 2013/14

Table A.1 Expenditure by vote, 2012/13 and 2013/14

	2012/13[1]				2013/14		
R million	Main budget	Adjusted budget	Preliminary outcome	Over(-)/ Under(+)	Main budget	Adjusted budget	Actual spending April to September
1 The Presidency	1 018	1 062	982	80	1 093	1 093	494
2 Parliament[2]	1 333	1 338	1 374	-36	1 419	1 419	694
3 Cooperative Governance and Traditional Affairs	54 716	54 855	53 434	1 421	58 253	58 459	22 218
4 Home Affairs	5 405	5 353	5 513	-160	6 568	6 995	3 096
5 International Relations and Cooperation	5 117	5 272	5 185	86	5 548	5 755	2 741
6 Performance Monitoring and Evaluation	174	174	160	14	193	193	85
7 Public Works	7 994	7 891	7 204	687	6 170	6 175	2 662
8 Women, Children and People with Disabilities	172	193	180	13	198	198	91
9 Government Communication and Information System	429	461	397	64	397	437	230
10 National Treasury	21 551	21 178	21 019	159	25 556	25 232	12 849
11 Public Enterprises	1 249	1 377	1 367	10	237	294	85
12 Public Service and Administration	731	727	704	23	816	830	382
13 Statistics South Africa	1 722	1 762	1 762	–	1 738	1 742	834
14 Arts and Culture	2 686	2 672	2 656	16	2 915	2 915	1 352
15 Basic Education	16 344	16 204	14 886	1 318	17 592	17 619	8 549
16 Health	27 557	28 057	27 899	158	30 707	30 528	14 867
17 Higher Education and Training	31 500	31 586	31 582	4	34 322	34 334	24 236
18 Labour	2 120	2 140	2 035	105	2 415	2 445	1 095
19 Social Development	112 217	112 144	111 116	1 028	120 492	118 512	60 260
20 Sport and Recreation South Africa	848	1 063	1 054	9	1 073	1 073	468
21 Correctional Services	17 732	17 700	17 314	387	18 748	18 748	8 830
22 Defence and Military Veterans	37 493	37 889	37 702	186	40 243	40 658	18 431
23 Independent Complaints Directorate	197	198	171	26	217	217	84
24 Justice and Constitutional Development	12 970	12 912	12 911	1	14 134	14 206	6 358
25 Police	62 485	63 389	63 157	232	67 917	68 791	32 058
26 Agriculture, Forestry and Fisheries	5 799	5 869	5 813	56	6 178	6 182	2 902
27 Communications	1 712	1 655	1 651	4	2 044	2 372	1 008
28 Economic Development	673	697	673	23	771	771	376
29 Energy	6 806	6 734	6 659	75	6 598	6 503	2 838
30 Environmental Affairs	4 512	5 175	4 943	233	5 431	5 207	2 249
31 Human Settlements	25 263	25 138	24 463	675	28 110	28 255	9 053
32 Mineral Resources	1 169	1 176	1 174	2	1 394	1 394	745
33 Rural Development and Land Reform	8 878	8 974	8 920	55	9 460	9 460	5 092
34 Science and Technology	4 956	5 000	4 973	26	6 198	6 198	4 037
35 Tourism	1 367	1 374	1 372	2	1 501	1 521	689
36 Trade and Industry	9 092	8 351	8 286	65	9 573	9 516	4 271
37 Transport	38 829	39 647	39 328	319	42 275	42 402	18 697
38 Water Affairs	8 813	8 993	8 642	352	10 187	10 376	3 824
Total appropriation by vote	**543 630**	**546 379**	**538 662**	**7 716**	**588 682**	**589 026**	**278 831**
State debt cost	89 388	88 794	88 121	673	99 741	100 485	49 186
Provincial equitable share	309 057	313 016	313 016	–	337 572	338 937	168 786
General fuel levy sharing with metropolitan municipalities	9 040	9 040	9 040	–	9 613	9 613	3 204
Other direct charges against the National Revenue Fund	12 441	14 235	14 138	97	15 435	15 332	6 952
Total direct charges against the National Revenue Fund	**419 926**	**425 085**	**424 315**	**770**	**462 363**	**464 367**	**228 128**
Unallocated and contingency reserve	5 810	–	–	–	4 030	–	–
Projected underspending	–	-3 500	–	-3 500	–	-3 500	–
Local government repayment to National Revenue Fund	–	-500	–	-500	–	-500	–
Subtotal	**969 365**	**967 463**	**962 977**	**4 486**	**1 055 075**	**1 049 393**	**506 959**
Extraordinary payments[3]	24	2 584	2 587	-3	930	200	–
Total	**969 389**	**970 047**	**965 564**	**4 483**	**1 056 005**	**1 049 593**	**506 959**

1. The 2012/13 financial year numbers were adjusted to include function shifts

2. The audited outcome for Parliament is converted from accrual to cash

3. Includes amounts for losses on conversion of foreign loans, debt portfolio restructuring and losses on the Gold and Foreign Exchange Contingency Reserve Account

Table A.2 Expenditure by province, 2012/13 and 2013/14

R million	2012/13 Main budget	Adjusted budget	Preliminary outcome	Over(-)/ Under(+)	Deviation from adjusted budget	2013/14 Main budget	Actual spending April to September[1]
Eastern Cape	**56 205**	**57 397**	**56 203**	**1 194**	**2.1%**	**59 258**	**28 295**
Education	26 288	26 755	26 267	488	1.8%	26 972	13 744
Health	15 166	15 735	15 601	134	0.8%	16 584	7 688
Social Development	1 782	1 778	1 751	27	1.5%	2 015	884
Other functions	12 968	13 129	12 584	545	4.2%	13 687	5 979
Free State	**24 870**	**25 906**	**25 652**	**254**	**1.0%**	**26 872**	**13 268**
Education	10 045	10 495	10 503	-8	-0.1%	10 456	5 665
Health	7 383	7 759	7 621	138	1.8%	7 895	3 874
Social Development	865	871	867	4	0.5%	951	484
Other functions	6 577	6 781	6 661	119	1.8%	7 569	3 245
Gauteng	**69 371**	**74 747**	**73 808**	**939**	**1.3%**	**75 965**	**37 494**
Education	27 151	28 501	28 317	184	0.6%	29 276	15 035
Health	24 519	27 192	26 834	357	1.3%	27 993	14 021
Social Development	2 490	2 544	2 525	19	0.8%	2 896	1 350
Other functions	15 210	16 511	16 132	379	2.3%	15 800	7 088
KwaZulu-Natal	**83 571**	**86 183**	**85 643**	**539**	**0.6%**	**89 792**	**44 913**
Education	34 765	35 673	35 588	85	0.2%	37 009	19 137
Health	26 555	27 291	27 391	-100	-0.4%	28 648	14 800
Social Development	2 048	2 062	1 985	77	3.7%	2 325	995
Other functions	20 204	21 157	20 679	477	2.3%	21 811	9 981
Limpopo	**45 937**	**47 955**	**45 649**	**2 306**	**4.8%**	**48 435**	**22 077**
Education	22 126	22 884	21 924	960	4.2%	23 475	11 232
Health	11 948	12 809	12 765	44	0.3%	13 077	6 451
Social Development	1 166	1 193	1 192	2	0.1%	1 378	620
Other functions	10 698	11 069	9 769	1 300	11.7%	10 505	3 774
Mpumalanga	**30 968**	**31 553**	**31 353**	**200**	**0.6%**	**33 659**	**16 251**
Education	13 984	14 285	14 356	-71	-0.5%	14 897	7 512
Health	7 544	7 649	7 501	148	1.9%	8 085	4 031
Social Development	920	924	916	8	0.9%	1 154	534
Other functions	8 520	8 695	8 579	115	1.3%	9 524	4 173
Northern Cape	**11 355**	**11 795**	**11 237**	**559**	**4.7%**	**12 248**	**6 126**
Education	4 197	4 293	4 234	59	1.4%	4 448	2 305
Health	3 122	3 247	3 166	81	2.5%	3 342	1 676
Social Development	526	532	532	0	0.1%	604	270
Other functions	3 511	3 723	3 305	418	11.2%	3 854	1 875
North West	**26 272**	**26 910**	**25 657**	**1 253**	**4.7%**	**28 566**	**14 058**
Education	10 872	10 970	10 882	88	0.8%	11 321	5 656
Health	6 959	7 084	7 021	63	0.9%	7 667	4 233
Social Development	950	963	922	41	4.3%	1 082	479
Other functions	7 490	7 893	6 832	1 061	13.4%	8 495	3 690
Western Cape	**39 917**	**40 256**	**39 980**	**276**	**0.7%**	**43 704**	**20 348**
Education	14 229	14 360	14 288	72	0.5%	15 602	7 354
Health	14 632	14 744	14 601	143	1.0%	15 872	7 671
Social Development	1 412	1 410	1 402	7	0.5%	1 578	735
Other functions	9 644	9 742	9 689	54	0.6%	10 653	4 587
Total	**388 466**	**402 701**	**395 182**	**7 520**	**1.9%**	**418 499**	**202 830**
Education	163 657	168 215	166 358	1 857	1.1%	173 456	87 640
Health	117 829	123 509	122 501	1 008	0.8%	129 162	64 446
Social Development	12 160	12 278	12 092	186	1.5%	13 984	6 352
Other functions	94 821	98 699	94 230	4 469	4.5%	101 897	44 393

1. September expenditure numbers obtained from Vulindlela

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Glossary

Above-the-line	Expenses or revenue that are regular and expected, having a direct effect on an income statement.
Adjustments estimate	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from the Provincial Revenue Fund.
Balance of payments	A summary statement of all the transactions of the residents of a country with the rest of the world over a particular time period.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Budget balance	The difference between expenditure and revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, it is in surplus.
Capital flow	A flow of investments in and out of a country.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers to municipalities, businesses or other entities. See also *main budget*.
Consumer price index (CPI)	The main measure of inflation, charting the price movements of a basket of consumer goods and services.
Consumption expenditure	Expenditure on goods and services, including salaries, which are consumed within a short period of time – usually a year.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and to meet unforeseen spending pressures.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Crowding-in	Increase of private investment through the income-raising effect of government spending.
Crowding-out	A fall in private investment or consumption as a result of increased government expenditure.
Current account (of the balance of payments)	The difference between total exports and imports, including service payments and receipts, interest, dividends and transfers. This account can be in deficit or surplus. See also *trade balance.*

Debt-service cost	The cost of interest on government debt.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Division of revenue	The allocation of funds between the spheres of government as required by the Constitution.
Economic cost	The cost of an alternative forgone to pursue a certain action.
Equitable share	The allocation of revenue to the national, provincial and local spheres of government as required by the Constitution.
Financial account (of the balance of payments)	A statement of all financial transactions between a country and the rest of the world, including portfolio and fixed investment flows and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established in terms of the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial year	The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Fiscal space	The ability of a government's budget to provide additional resources without jeopardising fiscal sustainability.
Foreign direct investment	The acquisition of long-term business interests in another country, usually involving management, technology and financial participation.
GDP inflation	A measure of the total increase in prices in the whole economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods.
Gross domestic product (GDP)	A measure of total national output, income and expenditure in the economy.
Gross fixed-capital formation	The addition to a country's fixed-capital stock over a specific period, before provision for depreciation.
Inflation	An increase in the general level of prices.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time. The Reserve Bank and government agree on a target rate or range of inflation to be maintained.
Main budget expenditure	National government expenditure and transfers to provincial and local government financed from the National Revenue Fund, excluding revenues and spending related to social security funds, extra-budgetary institutions and provincial own revenue. See also *consolidated government expenditure*.
Medium-term Expenditure Committee	The committee responsible for evaluating the budget submissions of national departments and recommending allocations.

Medium-term expenditure framework (MTEF)	The three-year spending plans of national and provincial governments published at the time of the Budget.
Monetary policy	The actions taken by a country's monetary authority (e.g. the Reserve Bank), normally focused around money supply and interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditure flowing through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
National Development Plan	A national strategy to eliminate poverty and reduce inequality.
National Revenue Fund	The consolidated account of national government into which all taxes, fees and charges collected by the South African Revenue Service and departmental revenue must be paid.
Nominal exchange rate	The current rate of exchange between the rand and foreign currencies.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Presidential Infrastructure Coordinating Commission	A body overseeing selection, planning, monitoring and coordination of large infrastructure projects, composed of representatives selected from national, provincial and local government.
Primary expenditure	Non-interest expenditure by government.
Primary sector	The agricultural and mining sectors of the economy.
Private-sector credit extension	Credit provided to the private sector by banks. This includes all loans, credit card balances and leases.
Productivity	A measure of the amount of output generated from every unit of input over a period of time. Typically used to measure changes in labour efficiency.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law.
Public-private partnership (PPP)	A contractual arrangement in which a private party performs part of a government function and assumes the associated risks. In return, the private party receives a fee based on predefined performance criteria.
Public sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index (PMI)	A composite index measuring the change in manufacturing activity compared with the previous month.
Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for price trends.
Real expenditure	Expenditure measured in constant prices, i.e. after taking account of inflation.
Real interest rate	The level of interest after taking account of inflation.
Repurchase (repo) rate	The rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only, or by the Reserve Bank and domestic banking institutions.

Rollover	Funds not spent during a given financial year that flow into the following year's budget.
Seasonally adjusted and annualised	The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data. Annualised: to express a rate as if it were applied over one year.
Social wage	Social benefits available to all individuals, funded wholly or partly by the state.
Southern African Customs Union (SACU) agreement	An agreement that allows for the unrestricted flow of goods and services, and a sharing of customs and excise revenue, between South Africa, Botswana, Namibia, Lesotho and Swaziland.
Southern African Development Community (SADC)	A regional governmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
Sovereign debt	Debt issued by a government.
Special economic zone	A designated area where infrastructure and incentives are provided to clusters of businesses to encourage private investment and employment growth.
Switch (auction)	Auctions to exchange bonds to manage refinancing risk or improve tradability.
Terms of trade	An index measuring the ratio of export prices to import prices.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise. See also *current account.*
Undercapitalisation	Lack of sufficient funds (capital) to conduct day-to-day operations.
Unit labour costs	The cost of labour per unit of output. Calculated by dividing average wages by productivity (output per worker per hour).
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
Yield	A financial return or interest paid to buyers of government bonds.