

Budget Review

2019

National Treasury
Republic of South Africa

20 February 2019



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To obtain additional copies of this document, please contact:

Communications Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa
Tel: +27 12 315 5944
Fax: +27 12 407 9055

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#RSABUDGET2019 HIGHLIGHTS

ECONOMIC OUTLOOK

- Real GDP growth in 2019 is expected to reach 1.5 per cent, improving moderately to 2.1 per cent in 2021.
- Over the period, improvements in business and consumer confidence, and more effective public infrastructure spending, will be partially offset by slower global growth.
- Government's efforts to reform state-owned companies and the launch of the infrastructure fund are expected to increase growth and investment in the years ahead.
- Reforms to relieve policy uncertainty and blockages have begun to yield results that will support investment in mining, telecommunications and tourism.
- Improved state capacity and comprehensive structural reforms are needed for higher and more inclusive growth.

BUDGET FRAMEWORK

- Over the medium term, spending reductions amount to R50.3 billion, 54 per cent of which comes from compensation budget adjustments.
- Provisional allocations of R75.3 billion are budgeted over the 2019 medium-term expenditure framework (MTEF) period, mainly for Eskom's reconfiguration plan.
- Since the 2018 *Medium Term Budget Policy Statement* the contingency reserve has been increased by R6 billion in 2019/20 to respond to requests for fiscal support from smaller state-owned companies. Additional support will be financed by selling non-core assets.
- The consolidated budget deficit is projected to narrow from 4.5 per cent of GDP in 2019/20 to 4 per cent in 2021/22.
- Gross debt is expected to stabilise at 60.2 per cent of GDP in 2023/24.
- Real growth in consolidated non-interest expenditure will average 2 per cent over the next three years.

SPENDING PROGRAMMES

- Total public spending over the MTEF period is expected to be R5.9 trillion.
- The bulk of spending is allocated to learning and culture, social development, health and community development.
- The expenditure ceiling is increased by R16 billion over the next three years, mainly due to provisional allocations for reconfiguring Eskom, which amount to R69 billion.
- Compensation of employees remains the largest category of spending, accounting for an average of 34.4 per cent of consolidated expenditure over the MTEF period. Measures are introduced to realise a R27 billion reduction in compensation.
- Funds amounting to R33.4 billion have been reprioritised over the MTEF period, mainly for service delivery and infrastructure.

TAX PROPOSALS

- No changes will be made to personal income tax brackets, while the tax-free threshold increases from R78 150 to R79 000. By not adjusting the income tax brackets for inflation, government will raise R12.8 billion.
- The carbon tax will be implemented on 1 June 2019.
- Below-inflation increases in fuel taxes together with the carbon tax on fuel will raise R1.3 billion.
- Increases in alcohol and tobacco excise duties will raise revenue of R1 billion.
- White bread flour, cake flour and sanitary pads will be zero-rated for VAT purposes from 1 April 2019.
- The eligible income bands for the employment tax incentive will be increased from 1 March 2019.

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KEY BUDGET STATISTICS

A full set of 2019 Budget data can be found in the statistical tables at the back of the *Budget Review*. The data on this page may differ from the statistical annexure due to classification, definition and rounding.

BUDGET REVENUE 2019/20

R billion	
TAX REVENUE	1 422.2
of which:	
Personal income tax	552.9
Corporate income tax	229.6
Value-added tax	360.5
Taxes on international trade and transactions	61.3
Non-tax revenue	31.5
Less: SACU payments	-50.3
Main budget revenue	1 403.5
Provinces, social security funds and public entities	180.3
Consolidated budget revenue	1 583.8
As percentage of GDP	
Tax revenue	26.3%
Main budget revenue	25.9%

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2015	2016	2017	2018	2019	2020	2021
	Actual			Estimate	Forecast		
Household consumption	1.8	0.7	2.2	1.5	1.5	2.0	2.3
Gross fixed-capital formation	3.4	-4.1	0.4	-0.2	1.5	2.1	3.0
Exports	2.8	1.0	-0.1	2.0	2.3	2.7	2.8
Imports	5.4	-3.8	1.6	3.8	1.7	3.2	3.3
Real GDP growth	1.3	0.6	1.3	0.7	1.5	1.7	2.1
CPI inflation	4.6	6.3	5.3	4.7	5.2	5.4	5.4
Current account balance (% of GDP)	-4.6	-2.8	-2.4	-3.5	-3.4	-3.8	-4.0

CONSOLIDATED FISCAL FRAMEWORK

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Outcome			Estimate	Medium-term estimates		
Revenue	1 215.3	1 285.9	1 353.5	1 455.2	1 583.8	1 696.4	1 836.6
	29.4%	29.1%	28.7%	28.8%	29.3%	29.2%	29.4%
Expenditure	1 366.3	1 443.0	1 543.8	1 665.4	1 826.6	1 948.9	2 089.0
	33.1%	32.7%	32.7%	32.9%	33.7%	33.5%	33.4%
Budget balance	-151.0	-157.0	-190.3	-210.2	-242.7	-252.6	-252.4
	-3.7%	-3.6%	-4.0%	-4.2%	-4.5%	-4.3%	-4.0%
Gross domestic product				5 059.1	5 413.8	5 812.4	6 249.1

DIVISION OF NATIONALLY RAISED REVENUE

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Outcome			Estimate	Medium-term estimates		
DIVISION OF AVAILABLE FUNDS							
National departments	546.1	555.7	592.7	638.2	684.7	733.1	777.7
Provinces	471.4	500.4	538.6	572.2	612.3	657.1	701.0
Local government	98.3	102.9	111.1	117.3	127.3	137.9	149.5
Non-interest allocation	1 115.8	1 159.0	1 242.3	1 327.6	1 443.5	1 539.5	1 647.1
PERCENTAGE SHARES							
National departments	48.9%	48.0%	47.7%	48.1%	48.1%	48.0%	47.8%
Provinces	42.2%	43.2%	43.3%	43.1%	43.0%	43.0%	43.1%
Local government	8.8%	8.9%	8.9%	8.8%	8.9%	9.0%	9.2%



CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION 2019/20

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	204.4	26.2	12.0	19.7	0.0	262.4
Post-school education and training	11.5	2.2	6.5	92.4	0.0	112.7
Arts, culture, sport and recreation	4.1	3.5	1.5	2.3	0.0	11.3
Health	140.8	64.7	11.1	6.1	0.0	222.6
Social protection	14.7	8.3	0.8	183.2	0.0	207.1
Social security funds	4.6	4.1	1.2	61.2	0.3	71.3
Community development	17.3	12.3	78.9	100.1	0.0	208.5
Industrialisation and exports	10.3	3.6	8.8	14.8	0.0	37.5
Agriculture and rural development	13.0	8.8	6.4	2.5	0.0	30.7
Job creation and labour affairs	3.5	10.5	0.8	8.4	0.0	23.2
Economic regulation and infrastructure	21.9	35.6	33.6	3.5	6.6	101.3
Innovation, science and technology	4.8	3.7	1.5	6.6	0.0	16.5
Defence and state security	26.4	12.0	1.3	10.3	0.0	50.0
Police services	79.8	19.4	3.6	1.3	0.0	104.2
Law courts and prisons	33.9	12.0	2.0	0.4	0.0	48.4
Home affairs	4.7	2.9	0.7	0.2	0.0	8.4
Executive and legislative organs	7.9	5.3	0.3	2.6	0.0	16.2
Public administration and fiscal affairs	20.8	13.6	1.8	5.4	0.0	41.6
External affairs	2.9	2.3	0.5	1.8	0.1	7.6
Payments for financial assets						29.8
Debt-service costs					202.2	202.2
Contingency reserve						13.0
Total	627.1	251.0	173.4	522.7	209.4	1 826.6

Note: Payments for financial assets are not shown in the table, but are included in the row totals.

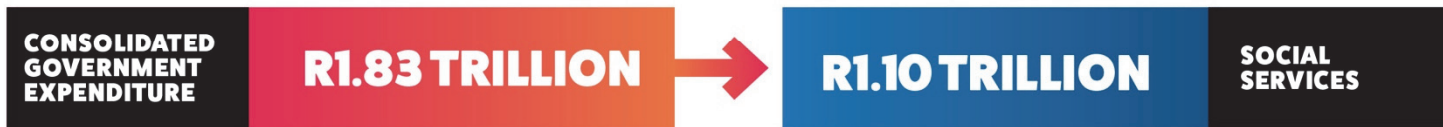
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BUDGET EXPENDITURE

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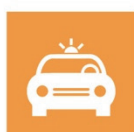
R209.2 bn
ECONOMIC DEVELOPMENT

Economic regulation and infrastructure	R101.3 bn
Industrialisation and exports	R37.5 bn
Agriculture and rural development	R30.7 bn
Job creation and labour affairs	R23.2 bn
Innovation, science and technology	R16.5 bn

Basic education	R250.4 bn
University transfers	R37.0 bn
National Student Financial Aid Scheme	R33.3 bn
Skills development levy institutions	R21.7 bn
Education administration	R17.6 bn
Technical & vocational education and training	R12.7 bn



R386.4 bn
LEARNING AND CULTURE



R211.0 bn
PEACE AND SECURITY

Police services	R104.2 bn
Defence and state security	R50.0 bn
Law courts and prisons	R48.4 bn
Home affairs	R8.4 bn

District health services	R98.2 bn
Central hospital services	R43.1 bn
Provincial hospital services	R36.7 bn
Other health services	R35.6 bn
Facilities management and maintenance	R8.8 bn



R222.6 bn
HEALTH



R65.3 bn
GENERAL PUBLIC SERVICES

Public administration and fiscal affairs	R41.6 bn
Executive and legislative organs	R16.2 bn
External affairs	R7.6 bn

Municipal equitable share	R69.0 bn
Human settlements, water and electrification programmes	R56.4 bn
Public transport	R43.6 bn
Other human settlements and municipal infrastructure	R39.6 bn



R208.5 bn
COMMUNITY DEVELOPMENT



R202.2 bn
DEBT-SERVICE COSTS

Old-age grant	R77.0 bn
Social security funds	R71.3 bn
Child-support grant	R65.0 bn
Other grants	R33.2 bn
Provincial social development	R22.3 bn
Policy oversight and grant administration	R9.6 bn



R278.4 bn
SOCIAL DEVELOPMENT

Foreword

The 2019 Budget addresses immediate risks to the economy and the public finances, and outlines measures to build the capacity of the state and renew economic growth.

South Africa continues to confront a challenging economic environment in which global growth is slowing and trade tensions are mounting. The medium-term economic outlook has been revised down and tax revenues have significantly underperformed. In recent months it has become clear that Eskom requires urgent financial support and operational reforms.

To tackle the Eskom risk, government is restructuring the electricity sector. Relative to the 2018 *Medium Term Budget Policy Statement* (MTBPS), departments' budget baselines have been reduced by R50.3 billion, with roughly half of this amount relating to compensation. These reductions are offset by provisional allocations of R75.3 billion over the next three years, mainly for Eskom's reconfiguration. As a result, the expenditure ceiling is increased by R16 billion over the next three years.

Government remains committed to managing the budget deficit and containing public debt at sustainable levels. Changes to the medium-term expenditure framework result in the main budget deficit widening to 4.7 per cent of GDP in 2019/20 and then narrowing to 4.3 per cent of GDP by 2021/22. As a percentage of GDP, gross loan debt increases over the next three years and stabilises at 60.2 per cent in 2023/24, which is marginally above the 2018 MTBPS estimates.

Economic growth is projected to improve moderately from 1.5 per cent in 2019 to 2.1 per cent in 2021. In the longer term, the country requires higher and more inclusive growth to address unemployment and poverty. Government has begun implementing growth-enhancing reforms in line with the President's economic stimulus and recovery plan. Additional steps to strengthen policy certainty, improve the effectiveness of infrastructure spending and rebuild public institutions will encourage private-sector investment and bolster confidence.

Despite new spending pressures and reductions, the Budget remains strongly redistributive. About 68 per cent of consolidated expenditure goes towards social commitments, including education, health, social grants and basic services. These services and transfers, provided by all spheres of government, enable South Africans to access opportunities and live with dignity.

Addressing the challenges we face, and accelerating reforms to encourage economic growth, will require difficult adjustments. In the past year, signs of a durable social compact between government, business and labour have emerged. This compact will be essential to addressing our challenges in a fair and fiscally responsible manner.

I would like to thank Cabinet, the Minister and Deputy Minister of Finance, Parliament's Portfolio Committee on Finance, the Standing Committee on Appropriations, the Technical Committee on Finance, the Ministers' Committee on the Budget, the Budget Council and my colleagues across government for their contributions to the Budget. I appreciate the hard work of the National Treasury team in preparing this Budget in line with our constitutional responsibilities.



Dondo Mogajane
Director-General: National Treasury

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W2	Structure of the government accounts
W3	Fiscal support for electricity market reform

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