3

Fiscal policy and the budget framework

The Medium Term Budget Policy Statement affirms Government's commitment to a consistent, growth-oriented fiscal framework, with strong emphasis on long-term sustainability. Against the backdrop of a global economic slowdown and suppressed domestic economic conditions, the fiscal framework aims to promote growth and to continue to develop a conducive environment for the creation of jobs, while also extending social services to the most vulnerable members of our society.

Key indicators underpinning the sustainability of the fiscal framework include declining debt service costs, a low level of government indebtedness and a moderate public sector borrowing requirement.

The budget framework presented here provides for a stable tax burden over the next three years, and strong real growth in non-interest spending averaging 4,4 per cent per year, with significant increases going towards infrastructure investment.

Overview

A sustainable, growth oriented fiscal framework over the medium term

Fiscal consolidation and stabilisation of the public finances over the past seven years provide room for fiscal policy to contribute to growth and investment more strongly in the present uncertain economic environment. The framework set out in this chapter responds to the current economic slowdown in a way that supports development without compromising fiscal sustainability.

There are a number of elements of the fiscal framework that support growth and stability. Robust growth in spending is proposed with a rising share going towards infrastructure, together with a stable tax burden. Key features of the 2004 MTEF include:

Robust spending growth, together with a moderate increase in the budget deficit

- Real growth in non-interest spending of 5,7 per cent in 2004/05 and an average of 4,4 per cent a year over the MTEF period.
- An increase in the budget deficit to 3,2 per cent of GDP next year, declining to 2,8 per cent in the outer year of the framework, with the consolidated national government deficit remaining below 3 per cent of GDP throughout the period due to large surpluses in two of the social security funds.
- A division of revenue that favours local and provincial government in recognition of their obligations to provide free basic services, social security grants, health, education and infrastructure.
- Rising real investment expenditure by general government, supported by investment initiatives being undertaken by public corporations.
- Provision for additional spending over the 2003 Budget baseline of R37 billion over the next three years, including an allocation to fund black economic empowerment initiatives.

Fiscal policy: goals, trends and targets

Steady growth in gross fixed capital formation by government projected

Table 3.1 provides an outline of the key fiscal indicators, detailing South Africa's fiscal path since 1998, and projections for the three-year period ahead. These indicators are for general government, based on the system of national accounts, and are therefore not strictly comparable with the cash-basis budget figures. The key features are summarized below.

Investment growth by government

- Following several years of decline, gross fixed capital formation by general government has turned around and increased by 2,4 per cent in the first half of 2003. Real growth in investment by general government is forecast to rise to 6 per cent a year by 2006.

Major parastatal infrastructure projects ahead

- Investment by public corporations increased by 30,1 per cent in the first half of 2003, reflecting both an upward trend in investment spending and once-off spending on airplanes by South African Airways. In the years ahead, infrastructure spending by the large parastatals is set to rise further with the completion of the Ngqura Harbour, roll out of road and rail infrastructure, refurbishment of power plants and investment in industrial development zones.

Moderate government dissaving

- Government savings, defined as current revenue less current expenditure after adjustments for depreciation, weakens from dissaving of 0,2 per cent of GDP in 2002 to 0,9 per cent of GDP in the first half of 2003. This reflects the slowdown in government revenue growth this year and a return to a declining level of dissaving is expected over the MTEF period. Government remains committed to eliminating dissaving in the years ahead.

Overall tax-GDP ratio between 27 and 28 per cent

- The general government tax to GDP ratio declined from 27,9 per cent of GDP in 2002 to 27,3 per cent of GDP in the first half of 2003, reflecting weaker revenue performance. Over the medium term, this ratio is projected to remain between 27 and 28 per cent of GDP.

Declining interest on public debt as per cent of GDP

- Interest on total public sector debt has steadily declined as a percentage of GDP from a peak of 6,4 per cent in 1998 to 4,6 per cent the first half of 2003. It is expected to fall to 4,1 per cent of GDP by 2006.

These trends indicate the consolidation and strengthening of the public finances that has been achieved in recent years, creating a platform from which fiscal policy can contribute more strongly to sustainable growth.

Table 3.1 Fiscal trends and projections

	1998	1999	2000	2001	2002	2003 Actual H1[1]	2006 Projected
Gross fixed capital formation (percentage real growth)							
general government	-4,4	-3,8	-6,2	-0,7	2,0	2,4	6,0
public corporations	52,8	-29,1	-19,7	-3,9	8,8	30,1	6,6
Government consumption expenditure (per cent of GDP)	19,0	18,6	18,7	18,9	19,2	19,3	19,5
wages	14,0	13,6	13,0	12,7	12,5	12,5	12,4
non-wage	5,0	5,0	5,7	6,2	6,7	6,8	7,1
General govt savings (per cent of GDP)	-2,8	-1,8	-1,9	-0,2	-0,2	-0,9	-0,2
General govt tax revenue (per cent of GDP)	26,9	27,1	26,3	27,6	27,9	27,3	27,7
Interest on public debt (per cent of GDP)	6,4	6,2	5,8	5,4	5,0	4,6	4,1
	1998/99	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04 Estimate**	**2006/07 Projected**
Public sector borrowing requirement (per cent of GDP)	3,5	0,9	0,8	0,8	0,6	3,3	2,9
National government (per cent of GDP)							
Main budget deficit	2,3	2,0	2,0	1,5	1,2	2,6	2,8
Total net loan debt	47,6	45,7	43,5	42,3	37,1	37,3	38,6

1. Refers to first half of 2003.

Outcome of the 2002/03 main budget

The main budget deficit in 2002/03 was 1,2 per cent of GDP due to robust revenue collection

Table 3.2 summarises the preliminary budget outcome for 2002/03. Government collected R278,4 billion of revenue, an overrun of R13,2 billion due to higher VAT and income tax receipts arising from both higher inflation and corporate taxes. Total expenditure amounted to R291,8 billion, resulting in a deficit of R13,4 billion or 1,2 per cent of GDP, compared with 2,1 per cent of GDP projected in the 2002 Budget. Non-interest spending was R3,1 billion higher than budgeted.

Table 3.2 Main budget outcome, 1999/00 – 2002/03

R billion	1999/00	2000/01	2001/02	2002/03 2002 Budget estimate	2002/03 Preliminary outcome
Total revenue	**198,2**	**215,6**	**248,3**	**265,2**	**278,4**
per cent of GDP	*24,2%*	*23,6%*	*24,6%*	*23,6%*	*24,8%*
per cent increase	*7,7%*	*8,8%*	*15,2%*	*6,8%*	*12,1%*
Total expenditure	**214,7**	**233,9**	**262,9**	**287,9**	**291,8**
per cent increase	*6,6%*	*8,9%*	*12,4%*	*9,5%*	*11,0%*
Budget deficit (-)	**-16,6**	**-18,3**	**-14,6**	**-22,7**	**-13,4**
per cent of GDP (-)	*-2,0%*	*-2,0%*	*-1,5%*	*-2,1%*	*-1,2%*

Fiscal sustainability and deficit

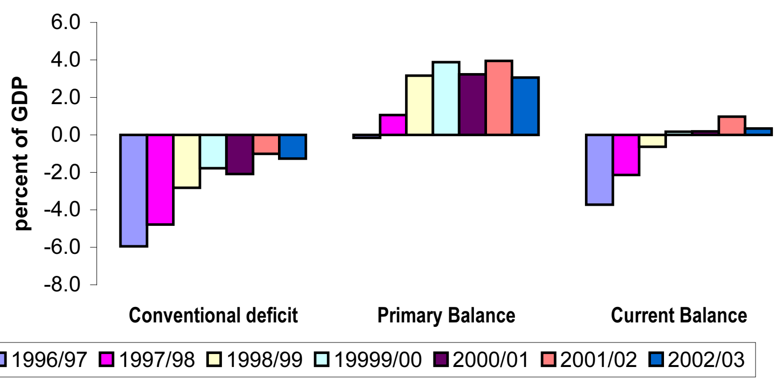
A wider fiscal deficit in the short-term, which is in line with Government's counter-cyclical fiscal policy approach, is nonetheless consistent with medium term fiscal sustainability. A sustainable fiscal policy regime has been achieved through the enabling environment facilitated by the effectiveness of the recent fiscal reforms. The economic policies pursued over the past seven years proved successful in correcting the unsustainable debt burden of government. This assisted in improving overall macroeconomic stability.

After a period of fiscal consolidation, the trend in debt to GDP declined significantly, signaling limited accumulation of new debt. This reflects the benefits of sustained primary budget surpluses (the difference between revenue and non-interest expenditure) achieved over the past seven years, which reinforced the role played by fiscal policy in laying a solid foundation for future growth.

Fiscal sustainability is the combined outcome of three broad aggregates - the level of tax revenue, expenditure and the budget balance. The record shows that South Africa has achieved a robust tax performance, a broadly stable overall ratio of expenditure to GDP and moderate counter-cyclical variation in the budget balance.

The figure below is a snapshot of key indicators since 1996/97. Primary budget surpluses averaged 2,6 per cent of GDP, while the current balances improved to a surplus from 1999/00. This resulted in an improvement in the conventional deficit (total revenue less total expenditure), which recorded 1,2 per cent of GDP in 2002/03 compared with 5,9 per cent of GDP in 1996/97.

Indicators of fiscal sustainability



The main budget framework

The MTBPS publishes projections of government accounts at four levels of aggregation: the main budget, the consolidated national budget, the consolidated general government accounts, and the public sector borrowing requirement. The main budget is the largest part of the consolidated national budget and consists of the revenue and expenditure that is attributed to the National Revenue Fund. Taking into account changes provided for in the 2003 Adjustments Estimate, the revised estimates for the 2003/04 fiscal year and the proposed framework for the 2004 MTEF period are set out in table 3.3.

Table 3.3 Main budget framework, 2002/03 – 2006/07

R billion	2002/03 Outcome	2003/04 Estimate	2004/05	2005/06 Medium-term estimates	2006/07
Total revenue	**278,4**	**299,9**	**325,7**	**357,8**	**391,0**
per cent of GDP	*24,8%*	*24,8%*	*24,8%*	*24,8%*	*24,8%*
Deficit(-)	**-13,4**	**-31,6**	**-41,8**	**-45,4**	**-44,3**
per cent of GDP	*-1,2%*	*-2,6%*	*-3,2%*	*-3,1%*	*-2,8%*
Total expenditure	**291,8**	**331,5**	**367,5**	**403,1**	**435,3**
per cent of GDP	*26,0%*	*27,5%*	*28,0%*	*28,0%*	*27,7%*
Debt service cost	47,3	47,2	51,3	54,6	57,8
per cent of GDP	*4,2%*	*3,9%*	*3,9%*	*3,8%*	*3,7%*
Non-interest expenditure	244,6	284,3	316,2	348,5	377,5
per cent of GDP	*21,8%*	*23,5%*	*24,1%*	*24,2%*	*24,0%*
real growth (non-interest expenditure)	*3,4%*	*10,1%*	*5,7%*	*4,6%*	*3,1%*
Contingency reserve	–	–	*2,0*	*4,0*	*8,0*
Gross domestic product	*1 124,0*	*1 207,3*	*1 313,3*	*1 440,9*	*1 573,5*

Given the present economic slowdown, the revised revenue estimate for 2003/04 is R4,6 billion lower than the 2003 Budget projection. Interest expenditure is likely to be R3,8 billion less than budgeted and non-interest expenditure has been adjusted upwards by R1,3 billion. The resulting budget deficit is slightly higher than initially budgeted.

Tax burden remains stable over the MTEF period

The 2004 MTEF continues to provide for non-interest expenditure growth over the next three years, averaging 4,4 per cent a year in real terms. Government is revising downwards its revenue projections for 2004 MTEF in line with weakness in collection rates this year. This results in an increase in the deficit to 3,2 per cent of GDP next year, declining to 2,8 per cent of GDP in 2006/07. Debt service costs continue to decline as a share of GDP.

Real non-interest spending grows by 5,7 per cent next year

Non-interest expenditure grows by 5,7 per cent in real terms to R316,2 billion in 2004/05, increasing to R377,5 billion in 2006/07. This growth in non-interest expenditure is supported by savings on debt service costs.

Infrastructure expenditure: trends and projections

The table below reflects public sector capital expenditure increasing from 5,4 per cent of GDP in 2001/02 to 6,4 per cent of GDP in 2004/05, with large investments by the big public enterprises, growth in public private partnerships (PPP) capital expenditure, and the strengthening of national, provincial and municipal investment in infrastructure.

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Outcome	Outcome	Estimate	Medium-term estimates		
R million						
National departments[1]	7 951	8 618	11 407	13 713	15 651	16 590
Provincial departments	11 194	12 965	18 606	19 949	22 621	23 978
Municipalities	11 700	13 000	14 040	15 022	15 924	16 879
Public private partnerships[2]	863	849	2 901	2 585	3 769	3 638
Extra-Budgetary institutions	2 419	2 588	2 683	2 803	2 938	3 114
Non-financial public enterprises	20 246	27 184	24 973	29 401	30 457	27 867
Total	54 373	65 204	74 610	83 473	91 360	92 067
per cent of GDP	*5,4%*	*5,8%*	*6,2%*	*6,4%*	*6,3%*	*5,9%*
GDP	*1 007 810*	*1 123 991*	*1 207 303*	*1 313 282*	*1 440 391*	*1 573 453*

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

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

Strong growth in capital spending is driven in part by additional transfers above baseline from national government. Proposed increases to transfers and infrastructure allocations over the next three years include infrastructure grants to municipalities (R1,7 billion) and provinces (R1,5 billion), strategic roads (R750 million) and water infrastructure (R220 million).

The 2004 MTEF places increased emphasis on infrastructure provision at provincial and local level. The implementation of the Municipal Infrastructure Grant (MIG) will be accelerated in order to eliminate the backlogs and inequities in social and economic infrastructure at local level. In addition, these grants will be used to increase employment opportunities using labour intensive construction methods.

To meet the country's growing economic needs, about 2000 kilometres of strategic provincial roads will be upgraded and incorporated into the national road network over the MTEF. Major public enterprises have also signalled an expansion in their expenditure on economic infrastructure. Over the medium term expenditure period, Transnet expects to spend about R24 billion on port infrastructure such as Ngqura and the Durban container terminal, the purchase of aircraft, freight rolling stock and rail infrastructure. These plans form the basis of a 15-year investment strategy by the utility. Investment in the country's electricity industry is set to exceed R40 billion in the next few years, and includes major investments in power generation, transmission, distribution, demand management, and reticulation.

The trend towards infrastructure investment through public private partnerships continues in the 2004 MTEF, with the multi-billion rand Gautrain project having reached bidding stage, and a number of projects such as the Department of Trade and Industry's new building under construction. The IDZ's too have shown considerable progress, with construction of the Coega IDZ well under way, gearing up for the supply of electrical infrastructure required to complement a planned investment in a US$1,7 billion aluminium smelter.

Included among the many public sector infrastructure projects for the MTEF period ahead are: construction of four major 3 000 bed prisons; the Berg River dam, and dam upgrades in Limpopo; hospital revitalisation projects; new government buildings for the Departments of Education, Foreign Affairs and Environmental Affairs and Tourism; road projects such as the N4, and provincial road upgrades; transfrontier conservation park infrastructure; urban renewal projects such as the Durban Point Precinct development and Gauteng's Blue IQ projects; the re-commissioning of mothballed power-stations; and airport upgrades.

The current framework provides for an additional R37 billion over the 2003 Budget estimates. This is broken down into R8 billion in 2004/05, R12 billion in 2005/06 and R17 billion in 2006/07. These allocations will continue to be used to address social and economic needs, in particular through social grant transfers, infrastructure development, and human capital development.

The framework provides an additional R37 billion over baseline over the next three years

In line with previous years, a contingency reserve is set aside for all the three years of the MTEF. The purpose of this reserve in the first year is to allow Government to respond effectively to unforeseen adverse economic and natural occurrences that would otherwise alter the budget framework. In the outer years, the reserve will be drawn down to fund new priorities.

The deficit is expected to widen to 3,2 per cent of GDP in 2004/05, declining to 2,8 per cent of GDP in 2006/07. These main budget deficits will be offset by significant surpluses in the social security funds, thereby reducing the consolidated national government deficit to 2,9 per cent in 2004/05, declining to 2,6 percent in 2006/07. Savings on interest payments mean that debt service costs will continue to moderate over the 2004 MTEF period, reaching 3,7 per cent of GDP in 2006/07 from 4,2 per cent in 2002/03.

Deficit will rise slightly before falling to below 3 per cent of GDP

The consolidated national budget

The consolidated national budget consists of the finances of the National Revenue Fund, the RDP Fund covering receipts and disbursements from foreign technical cooperation agreements and the social security funds that deal with the Unemployment Insurance Fund (UIF), Workmen's Compensation Fund, Mines and Works Compensation Fund and the Road Accident Fund.

Consolidated national budget deficit stays below 3 per cent

The consolidated national budget shows a deficit of 2,3 per cent of GDP this year rising to 2,9 per cent of GDP in 2004/05. Due to significant surpluses on the Unemployment Insurance Fund (UIF) and the Compensation Funds, this deficit is lower than the main budget deficit.

The UIF embarked on a turnaround strategy in 2001/02, including improved administration and changes in benefits provided for in the new Unemployment Insurance Act, and the shift of responsibility for collecting contributions to the SA Revenue Service. Improved revenue performance and moderation of the expenditure trend contribute to anticipated accumulation of reserves in the UIF in excess of R3 billion in each year of the medium term period.

Turnaround in the UIF leads to R3 billion annual surpluses

Table 3.4 Consolidated national budget framework, 2002/03 – 2006/07

	2002/03	2003/04		2004/05	2005/06	2006/07
R billion	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
National Revenue Fund (main budget)						
Gross tax revenue	282,2	310,0	303,7	332,5	362,5	396,1
RDP & other receipts and repayments	4,5	4,2	5,9	6,0	6,6	7,2
Less: SACU transfers	8,3	9,7	9,7	12,8	11,3	12,3
Total revenue	**278,4**	**304,5**	**299,9**	**325,7**	**357,8**	**391,0**
Expenditure						
Debt service cost	47,3	51,0	47,2	51,3	54,6	57,8
per cent of GDP	*4,2%*	*4,1%*	*3,9%*	*3,9%*	*3,8%*	*3,7%*
Contingency reserve	–	3,0	–	2,0	4,0	8,0
Allocated expenditure[1]	244,6	280,0	284,3	314,2	344,5	369,5
Total expenditure	**291,8**	**334,0**	**331,5**	**367,5**	**403,1**	**435,3**
Deficit (-)	**-13,4**	**-29,5**	**-31,6**	**-41,8**	**-45,4**	**-44,3**
per cent of GDP	*-1,2%*	*-2,4%*	*-2,6%*	*-3,2%*	*-3,1%*	*-2,8%*
RDP Fund & foreign technical cooperation						
Receipts & technical cooperation	1,7	1,5	1,5	1,5	1,5	1,5
Disbursements	1,9	1,3	1,3	1,3	1,3	1,3
Social security funds						
Revenue	10,4	11,7	12,1	12,6	14,0	15,1
Expenditure	8,1	10,4	8,7	9,7	10,9	11,7
Consolidated national budget[2]						
Revenue	**290,5**	**317,4**	**313,5**	**339,8**	**373,3**	**407,6**
Expenditure	**301,8**	**345,4**	**341,5**	**378,5**	**415,3**	**448,4**
per cent of GDP	*26,9%*	*28,0%*	*28,3%*	*28,8%*	*28,8%*	*28,5%*
per cent increase	*11,3%*	*14,6%*	*13,1%*	*10,8%*	*9,7%*	*8,0%*
Deficit (-)	**-11,3**	**-28,0**	**-28,0**	**-38,7**	**-42,0**	**-40,8**
per cent of GDP	*-1,0%*	*-2,3%*	*-2,3%*	*-2,9%*	*-2,9%*	*-2,6%*
Gross domestic product	*1 124,0*	*1 234,6*	*1 207,3*	*1 313,3*	*1 440,9*	*1 573,5*

1. Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.
2. Flows between funds are netted out.

The Compensation Funds accumulated an estimated R717 million in 2003/04

The Workmen's Compensation Fund and the Mines and Works Compensation Fund pay compensation for injuries, disease or death in the course of employment. Funds are raised through assessed levies on companies. In 2003/04, the two funds are projected to run a surplus of R717 million, up from a deficit of R43 million in 2002/03.

The RAF deficit will widen to R713 million in 2003/04

The Road Accident Fund (RAF) pays compensation to victims of road accidents caused by other parties. Although the RAF fuel levy was increased by 3 cents a litre from 1 April 2003, raising it to 21,5 cents a litre, the RAF's deficit widened to a projected R713 million this year from R51 million in 2002/03. Widening deficits are projected over the next few years, highlighting the pressing need for action to reform the Fund's operation and reduce its claims liability. The Satchwell Commission of Inquiry into the

RAF has made far-reaching recommendations, and interim measures are currently under consideration by Parliament.

The four social security funds are expected to run a combined surplus of R3,4 billion in 2003/04, driven primarily by the large surpluses in the UIF.

Table 3.5 Social security funds, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Road Accident Fund							
Revenue	2 358	2 819	3 524	3 403	3 607	4 664	5 363
Expenditure	2 704	3 162	3 575	4 116	4 357	5 326	5 945
Surplus(+)/Deficit(-)	-346	-343	-51	-713	-750	-662	-582
Compensation funds							
Revenue	1 920	2 122	2 481	3 156	3 299	3 455	3 621
Expenditure	1 385	1 619	2 524	2 439	2 681	2 945	3 236
Surplus(+)/Deficit(-)	535	503	-43	717	619	510	384
Unemployment Insurance Fund							
Revenue	2 852	3 457	4 410	5 545	5 684	5 924	6 096
Expenditure	3 071	2 868	1 990	2 139	2 673	2 624	2 554
Surplus(+)/Deficit(-)	-219	589	2 420	3 406	3 011	3 300	3 542
Total social security funds							
Revenue	7 131	8 398	10 415	12 104	12 590	14 043	15 080
Expenditure	7 160	7 649	8 089	8 694	9 711	10 895	11 735
Surplus(+)/Deficit(-)	-29	749	2 326	3 410	2 880	3 147	3 345

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

Unemployment Insurance Fund Restructuring

The Unemployment Insurance Fund's mission is to contribute to the alleviation of poverty in South Africa by providing effective short-term unemployment insurance to all workers who qualify for unemployment and related benefits.

In order to fulfil its mission, the Fund has extended unemployment insurance coverage to all workers, including domestic and seasonal workers who were previously excluded. Secondly, the Fund provides an equitable and affordable benefit structure that provides proportionately higher benefit payments to lower income earners. The UIF is part of the broader social security system in South Africa.

The Unemployment Insurance Fund ran large deficits for several years prior to 2000/01, reducing the capacity of the Fund to deliver an effective service and act as an effective income safety net. In 2001, Cabinet agreed to allocate funds amounting to over R1 billion, to aid the Fund. This allocation was conditional on a turnaround strategy being implemented. In 2001/02, R605 million was earmarked for the Fund, followed by R320 million in 2002/03. For the first time in many years, the Fund showed a surplus of R1,4 billion for the 15-month period ending March 2003. Short-term investments and cash balances for the year ended March 2003 amounted to R2,9 billion. The Fund's financial position has improved markedly, creating a healthy foundation for further administrative reform and reconsideration of outstanding issues in the Fund's benefit structure.

To promote financial sustainability and promote extensive coverage of workers, the Fund implemented the following measures:

- Implementation of the new Unemployment Insurance Fund Act (63 of 2001) as from the 1 April 2002, broadening the revenue base of the Fund and providing benefits on a progressive scale.
- Inclusion of domestic and seasonal workers effective on the 1 April 2003.
- Removal of benefit payments to employees who resign, as this had been an identified source of abuse under the former Act.
- Implementation of the Unemployment Insurance Contributions Act (4 of 2002), which consolidates collection of UIF mainly under the SA Revenue Service.

The Fund does not only provide income to individuals who become unemployed but also provides short-term assistance in respect of maternity leave, adoption, illness or injury and to the dependants of a deceased contributor.

Consolidated general government accounts and the PSBR

The public sector borrowing requirement, set out in Table 3.6, is comprised of the consolidated general government deficit and the financing requirements of the non-financial public enterprises, taking into account extraordinary expenditure and proceeds from the restructuring of state owned enterprises.

Restructuring proceeds revised downwards

The net borrowing requirement for 2003/04 and the 2004 MTEF period increases relative to the 2003 Budget projections mainly due to higher budget deficits and downward adjustments to extraordinary receipts from the restructuring of state assets. The 2003 Budget anticipated proceeds of R13 billion from restructuring initiatives over the three-year period. The revised estimate for the period stands at R5 billion. This revision is mainly due to slower progress in restructuring the electricity and energy industries.

Table 3.6 Public sector borrowing requirement, 2002/03 – 2006/07

	2002/03	2003/04		2004/05	2005/06	2006/07
R billion	Outcome	Budget	Revised	Medium term estimates		
Main budget deficit	**13,4**	**29,5**	**31,6**	**41,8**	**45,4**	**44,3**
Extraordinary payments	7,9	7,0	7,0	7,0	7,0	–
Extraordinary receipts	-8,2	-6,3	-1,8	-4,7	-4,1	-3,1
Main budget borrowing	**13,1**	**30,2**	**36,8**	**44,1**	**48,3**	**41,2**
Other government borrowing[1]	-1,4	3,1	3,1	1,5	2,0	2,5
General government borrowing	**11,9**	**30,3**	**39,9**	**45,6**	**50,2**	**43,7**
per cent of GDP	*1,1%*	*2,5%*	*3,3%*	*3,5%*	*3,5%*	*2,8%*
Plus:						
Non-financial public enterprises	-5,3	7,8	-0,5	0,3	1,1	1,2
Public sector borrowing requirement	**6,6**	**38,1**	**39,4**	**45,9**	**51,3**	**44,9**
per cent of GDP	*0,6%*	*3,1%*	*3,3%*	*3,5%*	*3,6%*	*2,9%*

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

PSBR rises to 3,5 per cent of GDP next year mainly due to increased investment by the parastatals

After posting large surpluses in previous years, public enterprises are set to increase their borrowing requirements to fund higher investment spending, particularly in the transport and electricity sectors. Taking into account lower main budget revenue, the net public sector borrowing requirement is expected to increase to 3,5 per cent of GDP in 2004/05, before receding to a projected 2,9 per cent of GDP by 2006/07.

Financing and debt trends

The National Treasury is responsible for financing the main budget borrowing requirement, which is made up of the deficit and adjustments for extraordinary receipts and payments. Table 3.7 outlines how the net borrowing requirement will be financed over the next three years.

Restructuring proceeds of R2,5 billion in 2004/05

Extraordinary receipts comprise proceeds from the restructuring of state-owned entities and premiums on the issuance of bonds. Provision is made for proceeds of R2,5 billion in 2004/05 and 2005/06 from restructuring. The remaining amounts are in respect of premiums on bond issues. Government's net borrowing requirements are estimated to increase above the 2003 Budget estimates by R6,7 billion in 2003/04, R10,9 billion in 2004/05, and R11,5 billion in 2005/06.

Table 3.7 Financing of net borrowing requirement, 2003/04 – 2006/07

R million	2003/04 Estimate	2004/05 Medium-term estimates	2005/06	2006/07
Domestic short-term loans (net)	**6 000**	**6 000**	**8 000**	**8 000**
Domestic long-term loans (net)	**24 772**	**31 358**	**28 196**	**28 931**
Loans issued for financing (net)	17 772	24 358	21 196	28 931
New loans	44 209	50 890	47 966	62 082
Scheduled redemptions	-26 437	-26 532	-26 770	-33 151
Loans issued for switches (net)	–	–	–	–
New loans	7 000	7 000	7 000	–
Loans switched (net of book profit)	-7 000	-7 000	-7 000	–
Loans issued for extraordinary purposes	7 000	7 000	7 000	–
Foreign loans (net)	**1 848**	**6 696**	**12 068**	**4 302**
Loans issued for financing (net)	1 848	6 696	12 068	4 302
Market loans	10 653	8 490	8 990	9 800
Export credit facilities	4 703	4 572	5 282	4 159
Discount on issues of new loans	-81	–	–	–
Redemptions (including revaluation of loans)	-13 427	-6 366	-2 204	-9 657
Change in cash and other balances[1]	**4 230**	**–**	**–**	**–**
Opening balance:	10 730	6 500	6 500	6 500
Cash balance	9 730	6 500	6 500	6 500
Surrenders/Late requests	1 000	–	–	–
Closing balance	-6 500	-6 500	-6 500	-6 500
Total financing (net)	**36 850**	**44 054**	**48 264**	**41 233**

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

Premature repayment of $750 million in foreign debt in 2003/04

This year the National Treasury has made an early repayment of $750 million of a $1,5 billion syndicated loan liability. This resulted in higher total foreign redemptions than planned in the current financial year, partially offset by larger than budgeted proceeds from a Euro1,25 billion loan issue in May 2003 and the lower rand value of maturing foreign loans. Government has the option of redeeming the remaining portion of the syndicated loan in January 2004 or rolling it over to July 2004.

National Treasury will issue nil coupon bonds to the SARB

In terms of the Gold and Foreign Exchange Contingency Reserve Defrayal Act, the Treasury is issuing nil coupon bonds (non-interest bearing) amounting to R7 billion each year over a four-year period from 2002/03 to the South African Reserve Bank (SARB). The Treasury will allow the SARB to convert its current bond portfolio and future nil coupon bonds into cash and short-term interest bearing bonds, thus enabling the Bank to improve management of liquidity in the market.

Table 3.8 Total government debt, 2000/01 – 2006/07

As at 31 March R billion	2000/01	2001/02	2002/03	2003/04 Estimate	2004/05	2005/06 Medium-term estimate	2006/07
Marketable domestic debt	365,1	348,5	350,0	382,0	419,5	455,8	492,8
Non-marketable domestic debt	2,4	2,0	1,9	0,7	0,6	0,5	0,4
Total domestic debt	367,5	350,5	351,9	382,7	420,1	456,3	493,2
Total foreign debt	31,9	82,0	74,3	73,9	89,7	106,6	120,2
per cent of total debt	*8,0%*	*19,0%*	*17,4%*	*16,2%*	*17,6%*	*18,9%*	*19,6%*
Total gross loan debt	**399,4**	**432,5**	**426,2**	**456,6**	**509,8**	**562,9**	**613,4**
per cent of GDP	*43,7%*	*42,9%*	*37,9%*	*37,8%*	*38,8%*	*39,1%*	*39,0%*
Less: National Revenue Fund balance	-2,7	-6,5	-9,7	-6,5	-6,5	-6,5	-6,5
Total net loan debt[1]	**396,7**	**426,0**	**416,5**	**450,1**	**503,3**	**556,4**	**606,9**
per cent of GDP	*43,5%*	*42,3%*	*37,2%*	*37,3%*	*38,3%*	*38,6%*	*38,6%*

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

Total gross loan debt to rise marginally as percent of GDP over the MTEF

Total gross loan debt is projected to rise marginally to 39 per cent of GDP in 2006/07 from 37,8 per cent of GDP in 2003/04. Foreign debt as a percentage of total debt will increase from 17,4 per cent in 2002/03 to 19,6 per cent in 2006/07. This ratio remains low by international standards, helping to insulate the fiscal framework from external shocks, and limiting the risk of higher debt service costs if the currency weakens.

Conclusion

Progressive realisation of social development objectives

The fiscal framework presented here aims to support growth in both the medium and long term. Increased Government spending on social services and infrastructure aims to reduce poverty and progressively address social development needs in the medium term, while also contributing towards human and physical capital formation required for long-term sustainable growth.

Fiscal stimulus, within a sound policy framework

Taking advantage of previous years' fiscal consolidation and the spending room created by declining public debt and its related costs (as a percentage of GDP), non-interest spending continues to grow strongly, cushioning the economy against the worst effects of the recent economic slowdown. This objective is met within a sound and responsible fiscal framework and without raising the tax burden on the economy or the long-term indebtedness of the country.