# 3

# Fiscal policy and trends

## Growth, sustainability and the fiscus

*Government will consolidate the fiscal position in line with economic growth*

Countercyclical fiscal policy supports economic growth and sustainable public finances, enabling South Africa to adjust to the ups and downs of the business cycle and to manage external volatility. Sound fiscal policy has supported the expansion of social and capital infrastructure programmes. In per capita terms, real non-interest expenditure has doubled over the past eight years, leading to a reduction in poverty levels and an expansion of public services.

Over the next three years, government will balance the short-term need for fiscal stimulus with the medium-term need to consolidate the fiscal position as economic growth recovers.

*As the economy moves into a new growth cycle, borrowing will stabilise*

Government increased spending on social programmes and infrastructure during the economic downturn of 2008-2009. Doing this at a time when revenue was falling required a significant increase in borrowing and led to a higher budget deficit. As the economy moves into a new growth cycle, government will stabilise its borrowing in line with countercyclical policy.

Over the longer term, higher economic growth will support debt reduction, enabling government to rebuild fiscal space. Creating fiscal space during the upward phase of the economic cycle is necessary to ensure that the public finances are well positioned to respond when the cycle turns negative. Aligning government borrowing to economic growth in this way supports the economy by contributing to lower interest rates, limiting inflationary pressures arising from government consumption expenditure and reducing South Africa's reliance on overseas savings to finance borrowing.

The budget deficit is projected to narrow from 5.3 per cent of GDP in the current year to 3.2 per cent by 2013/14, reflecting a strong recovery in revenue and moderate growth in spending.

**Table 3.1 Consolidated government fiscal framework, 2007/08 – 2013/14**

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|---|---|
| R billion | | Outcome | | Estimate | | Medium-term estimates | |
| **Revenue** | **625.7** | **684.8** | **666.9** | **761.0** | **843.0** | **931.7** | **1 040.2** |
| *Percentage of GDP* | *30.1%* | *29.5%* | *27.2%* | *28.4%* | *28.7%* | *28.9%* | *29.1%* |
| **Expenditure** | **591.3** | **711.7** | **832.5** | **904.1** | **977.2** | **1 059.1** | **1 154.2** |
| *Percentage of GDP* | *28.4%* | *30.7%* | *33.9%* | *33.7%* | *33.3%* | *32.8%* | *32.3%* |
| **Budget balance** | **34.4** | **-26.8** | **-165.6** | **-143.1** | **-134.2** | **-127.4** | **-114.0** |
| *Percentage of GDP* | *1.7%* | *-1.2%* | *-6.7%* | *-5.3%* | *-4.6%* | *-3.9%* | *-3.2%* |

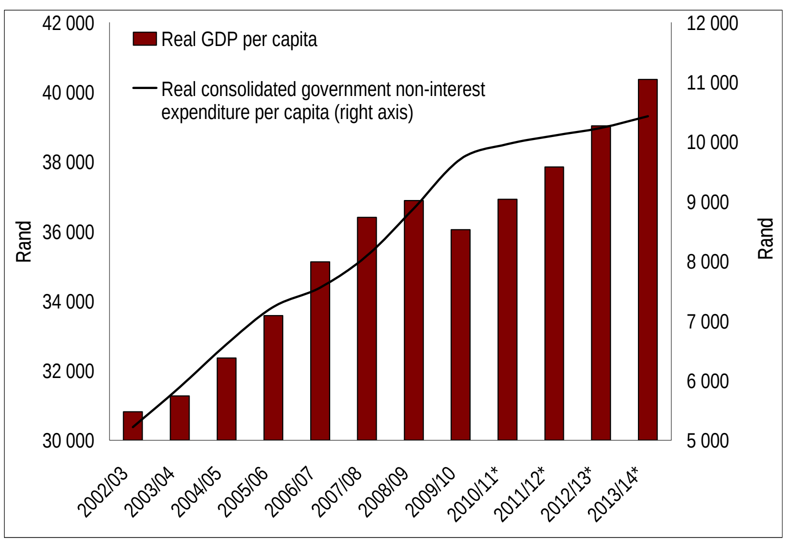
Public-sector capital infrastructure programmes will continue to provide stimulus to the economy over the medium term. Borrowing by the state-owned enterprises to finance these investments will keep the public-sector borrowing requirement at an elevated level.

## Countercyclical fiscal policy

*Over the next three years, the pace of growth in government spending will moderate*

Government spending has supported the economy through the recession, and continues to do so into the recovery. Figure 3.1 below shows how real government non-interest expenditure per South African grew leading up to and during the economic crisis. Over the next three years, as the economy grows, the pace of government spending growth will moderate in a countercyclical fashion.

**Figure 3.1 GDP and consolidated government non-interest expenditure per capita, 2002/03 – 2013/14**




**2010/11 – 2013/14 are based on forecasts.*

*Government is obliged to ensure that the fiscus is sustainable so that future priorities can be afforded*

In addition to financing current expenditure, government is obliged to ensure that the fiscus can sustainably finance future priorities. Countercyclical fiscal policy assists in defining a sustainable fiscal path in two ways: by ensuring that expenditure that seems affordable when the economy is overperforming remains affordable during a recession; and by encouraging a growth-friendly environment with low inflation, a low cost of capital and a competitive real exchange rate.

### Aligning fiscal policy to support economic growth

There is considerable international debate over how rapidly governments should reduce the large fiscal deficits that have emerged over the past two years. Some economists argue that deep budget cuts will retard the global recovery. Others maintain that austerity is needed to steady economies that have spent too freely.

This fiscal debate has been framed by weak economic recoveries in the United States and Europe. The US deficit is expected to remain above 10 per cent of GDP next year, and debt is likely to grow to about 85 per cent of GDP by 2035. The average debt of major European economies is expected to reach 95 per cent of GDP by 2014.

Economist Paul Krugman has criticised developed-country efforts to cut spending at a time when the global economy is still recovering. He argues that many industrialised countries continue to require fiscal stimulus and that premature consolidation will undermine global growth.

By contrast, Alberto Alesina of Harvard University argues that budget cuts can boost growth when fiscal sustainability is in question. Economic historian Niall Ferguson says that the slow US recovery is due partly to high deficits, and that fiscal consolidation now will reduce the need for harsher budget cuts in future.

South Africa's countercyclical policy is designed to steady the economy and to protect core social and economic programmes from undue volatility. In practice, a government pursuing countercyclical policy should save revenue (run a surplus) during good times in order to spend more (run a deficit) when the economy is faltering. This approach moderates the impact of the business cycle and raises long-term growth. As the economy's growth rate increases, the rate of growth in government spending needs to slow.

While the higher fiscal deficit was the appropriate countercyclical response during the downturn, government will have to reduce the level of borrowing in the years ahead. As the economy recovers, government will tighten its stance to avoid pushing up interest rates and crowding out private-sector investment.

## Revenue, expenditure, the deficit and debt management

Over the next three years, the fiscal stance targets a combination of revenue and expenditure that will enable government to pay for existing programmes while reinforcing the sustainability of the public finances. The main features include:

- Higher GDP growth and reduced inflation
- A recovery in tax revenue from 24.4 per cent of GDP in 2009/10 to 26.4 per cent of GDP by 2013/14
- A moderation in the real growth of non-interest expenditure and a reduction in the proportion of expenditure to GDP over the medium-term expenditure framework (MTEF)
- A rise in government debt-service costs from 7.5 per cent of expenditure in 2010/11 to 9.6 per cent by 2013/14.

### *Expenditure*

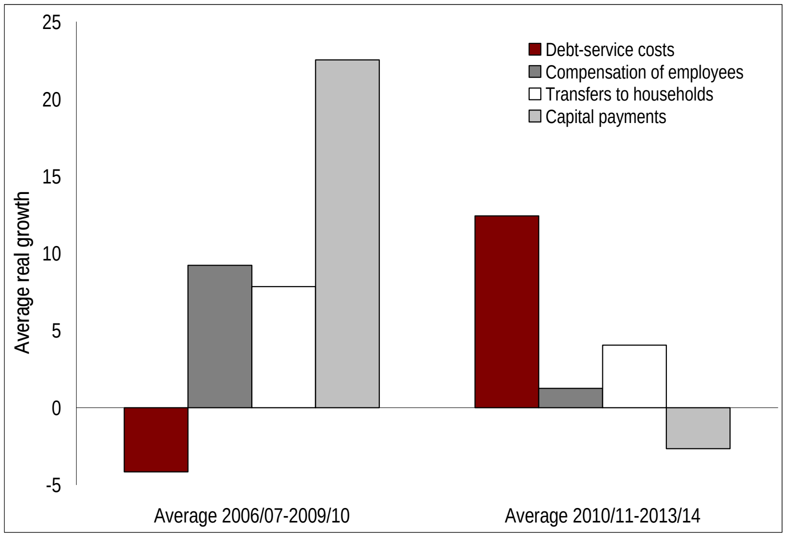
*Fiscal framework makes R977.2 billion available for spending next year*

The proposed fiscal framework makes R977.2 billion available for spending next year. In real per capita terms, this represents a doubling of the resources available to the fiscus over the past eight years.

Figure 3.2 shows how declining debt-service costs in the years preceding the downturn created the fiscal space for government to expand investment, social grants and public-sector employment. As revenue fell during the recession, the fiscus required higher levels of borrowing, resulting in a marked increase in debt-service costs for the period ahead.

Over the medium term, the higher costs of servicing debt crowd out growth in non-interest expenditure. Without a moderation in government spending, budgets will continue to be financed through borrowing instead of tax revenue, leading eventually to further reductions in the growth of non-interest expenditure and a rising debt burden to be borne by South Africans in the years ahead.

**Figure 3.2 Real growth in expenditure, 2006/07 – 2013/14**




*Fiscal framework adds R89.1 billion to expenditure over the MTEF period*

The fiscal framework adds R17.9 billion to expenditure in 2011/12, R28 billion in 2012/13 and R43.2 billion in 2013/14, resulting in average real growth of 2.7 per cent in government non-interest spending over the next three years. Since 2005/06 government has increased spending in education and health by 50 per cent in real terms.

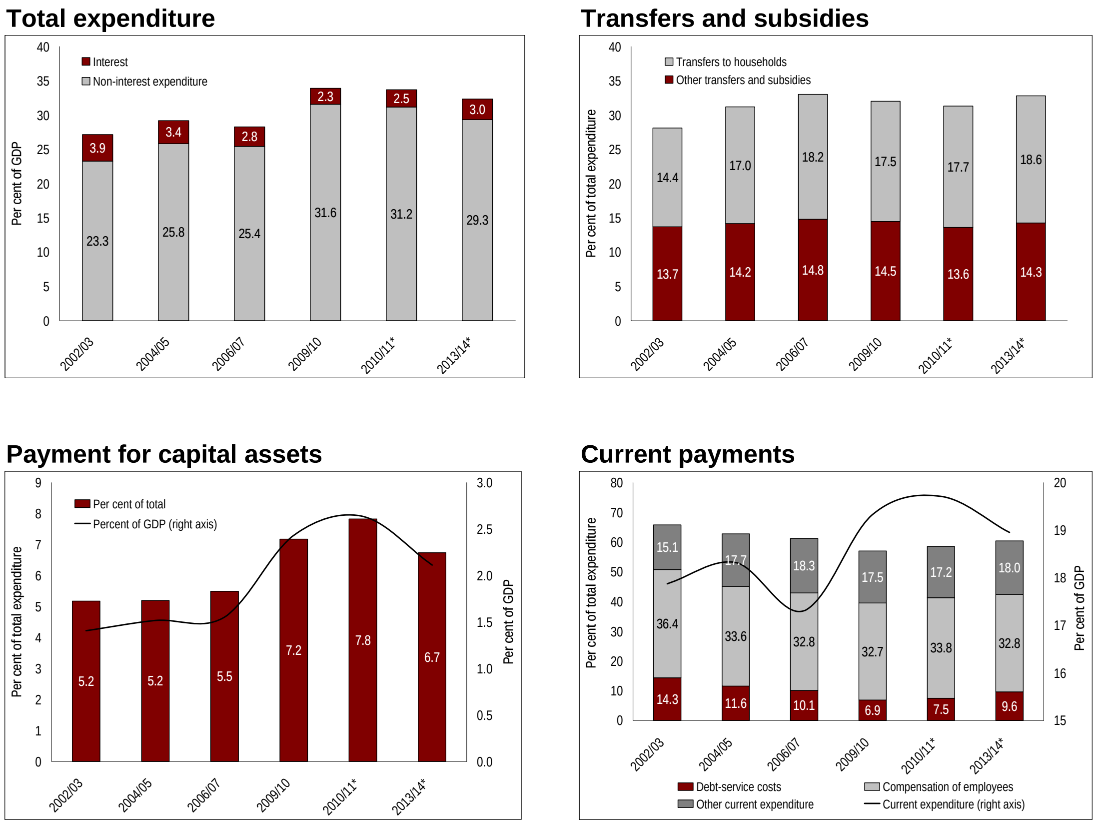
Government recognises the need to improve the efficiency of public expenditure. This core fiscal objective is even more important as spending growth moderates over the medium term. The large-scale increase in public expenditure over the past decade needs to be matched by better public services. Over the MTEF period, government departments will be called on to prioritise effective programmes, while curtailing or withdrawing ineffective activities. Guided by government's 12 outcome priorities, the focus will be on improving public education and health, and investing in infrastructure that supports economic development and service delivery.

*South Africa needs to keep consumption expenditure within sustainable limits*

Within the proposed expenditure envelope, government will also need to assess the trade-off between consumption expenditure and investments that support higher growth and improved front-line service delivery. Expenditure on compensation lays claim to 40 per cent of tax revenue. Should wage growth continue to accelerate in excess of revenue growth, the sustainability of government employment, investment and other goods and services will be undermined. The proposed fiscal framework makes provision for average annual growth in compensation of 6.3 per cent.

An appropriately balanced composition of expenditure is important, both for the effectiveness of public-service delivery, and its potential effects on inflation and potential growth. Disproportionate wage increases unrelated to productivity trends in the wider economy – and at the expense of capital and investment spending – would retard growth and employment through labour-market mismatches and rising production costs.

**Figure 3.3 Consolidated government expenditure, 2002/03 – 2013/14**




**2010/11 – 2013/14 are based on forecasts.*

Since 2002/03, government spending on capital has increased from 5.2 per cent of total spending to 7.8 per cent in 2010/11. Capital expenditure, however, continues to underperform budgeted amounts, with an estimated R12.9 billion of capital underspending by provincial and local government in 2009/10. Over the next three years, the rate of capital expenditure will slow moderately as higher interest payments, wage pressures and growth in social grants claim a greater share of expenditure.

**Table 3.2 General government capital expenditure[1] preliminary outcome, 2009/10**

| R billion | Adjusted budget | Outcome | Deviation | *% over/ underspending* |
|---|---|---|---|---|
| National | 8.2 | 8.7 | 0.5 | *6.2%* |
| Provincial | 24.0 | 21.4 | -2.6 | *-10.9%* |
| Municipalities | 49.9 | 39.6 | -10.3 | *-20.7%* |
| **Total** | **82.1** | **69.7** | **-12.4** | ***-15.1%*** |

*1. Capital expenditure includes goods that will be used in more that one reporting period. This includes buildings and other fixed structures, machinery, equipment, heritage assets and biological assets.*

Infrastructure expenditure includes spending on new buildings and fixed structures, as well as the maintenance and rehabilitation of existing structures. Table 3.3 shows the public-sector infrastructure expenditure estimates by sector over the MTEF period.

*Addressing government's capacity to better plan and implement infrastructure projects is a priority*

Over the next three years, provinces and municipalities will account for 75 per cent of general government's infrastructure spending, with R287.8 billion being spent mainly on health and education infrastructure, roads and public transport. Municipalities are expected to spend R137.8 billion on infrastructure over the period ahead. A number of projects at municipal level have been postponed owing to pressure on income from household rates and taxes. Addressing government's capacity to better plan and implement infrastructure projects is a priority over the medium term.

*R428 billion to be spent on infrastructure over MTEF period by non-financial public enterprises*

Looking more broadly at the public sector, the need for improved economic infrastructure in transport and energy continues to sustain the capital programme of non-financial public enterprises. Between 2011/12 and 2013/14, these enterprises are expected to spend R428 billion on infrastructure. Eskom projects will extend electricity generation, transmission and distribution in line with the country's present and future energy requirements. Upgrades and expansion by Transnet will improve the capacity of South Africa's railways and ports.

Table 3.3 shows that over the medium term, public-sector infrastructure spending totals R811.2 billion, increasing at an annual average of 4.7 per cent. In total, public-sector infrastructure expenditure is projected to have increased from 4.6 per cent of GDP in 2006/07 to an average of 8.4 per cent over the next three years.

**Table 3.3 Public-sector infrastructure expenditure estimates by sector, 2010/11 – 2013/14**

| R billion | 2010/11 | 2011/12 | 2012/13 | 2013/14 | MTEF total | *% of total* |
|---|---|---|---|---|---|---|
| **Economic services** | **212.9** | **226.8** | **227.9** | **238.1** | **692.8** | ***85.4%*** |
| Energy | 95.6 | 107.2 | 106.7 | 113.3 | 327.1 | *40.3%* |
| Water and sanitation | 24.1 | 30.5 | 27.3 | 29.4 | 87.1 | *10.7%* |
| Transport and logistics | 74.4 | 68.9 | 70.8 | 72.3 | 212.0 | *26.1%* |
| Other economic services[1] | 18.8 | 20.2 | 23.2 | 23.2 | 66.6 | *8.2%* |
| **Social services** | **25.5** | **27.9** | **29.5** | **32.3** | **89.7** | ***11.1%*** |
| Health | 9.4 | 9.9 | 10.3 | 10.4 | 30.7 | *3.8%* |
| Education | 7.6 | 8.9 | 10.6 | 13.2 | 32.6 | *4.0%* |
| Other social services[2] | 8.4 | 9.1 | 8.6 | 8.6 | 26.4 | *3.3%* |
| **Justice and protection services** | **3.8** | **4.1** | **5.5** | **6.7** | **16.3** | ***2.0%*** |
| **Central government and administration services** | **2.6** | **4.3** | **4.9** | **3.2** | **12.4** | ***1.5%*** |
| **Total** | **244.7** | **263.0** | **267.8** | **280.3** | **811.2** | ***100.0%*** |
| *Percentage of GDP* | *9.1%* | *9.0%* | *8.3%* | *7.9%* | | |

*1. Other economic services includes agriculture and environmental infrastructure, telecommunications and industrial development zones.*

*2. Other social services includes labour centres, heritage institutions, national libraries and community facilities.*

**Development finance institutions**

Government has challenged its development finance institutions to play a more active role in contributing to economic growth. They will focus on supporting investment, with emphasis on emerging and expanding businesses, agrarian and land reform, infrastructure development and access to affordable housing.

The National Treasury has increased the lending capacity of the Development Bank of Southern Africa (DBSA) to step up provision and maintenance of municipal infrastructure, and facilities for social services. There is a growing realisation that South Africa's economic success also depends on growth in the region, and the DBSA is looking for ways to expand its activities in the Southern African Development Community.

Government has directed the Industrial Development Corporation to use its balance sheet to help distressed companies stem job losses resulting from the recession. In addition, government allocated R400 million during 2010/11 to rejuvenate the clothing and textiles sector.

The state has also strengthened the balance sheet of the Land Bank, with a R3.5 billion capital injection over the next three years to restore investor confidence and support emerging farmers. The National Housing Finance Corporation has for the first time secured international funds from multilateral agencies for low-cost housing development, relieving domestic credit demand.

### *Revenue*

Tax revenue is the largest source of budget revenue. When the economy is underperforming, tax revenue tends to perform poorly; when the economy is doing well, tax revenue tends to perform above expectations. Countercyclical fiscal policy takes account of this natural oscillation.

*Cyclical boost contributes to a strong recovery in revenue in 2010/11*

Over the medium term, tax revenue is projected to recover in line with economic growth. Given the pronounced decline in revenue during the recession, it is expected that the recovery in 2010/11, coming off a low base, will be strong. This projection reflects cyclical effects, rather than a permanent or structural increase in the size of the tax base. Between 2011/12 and 2013/14, growth in tax revenue is expected to be broadly in line with economic growth.

**Table 3.4 Consolidated government revenue, 2007/08 – 2013/14**

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|---|---|
| **R billion** | | Outcome | | Estimate | | Medium-term estimates | |
| **Tax revenue** | **572.8** | **625.1** | **598.7** | **679.2** | **751.4** | **840.1** | **943.8** |
| *Percentage of GDP* | *27.5%* | *26.9%* | *24.4%* | *25.3%* | *25.6%* | *26.0%* | *26.4%* |
| Non-tax revenue[1] | 11.7 | 12.6 | 9.5 | 12.3 | 13.4 | 14.8 | 16.4 |
| Estimate of SACU payments[2] | -24.7 | -28.9 | -27.9 | -15.0 | -20.5 | -31.1 | -34.5 |
| Other adjustment[3] | – | – | – | -2.9 | – | – | – |
| Provinces, social security funds and selected public entities | 65.9 | 76.0 | 86.6 | 87.4 | 98.7 | 107.9 | 114.4 |
| **Budget revenue** | **625.7** | **684.8** | **666.9** | **761.0** | **843.0** | **931.7** | **1 040.2** |
| *Percentage of GDP* | *30.1%* | *29.5%* | *27.2%* | *28.4%* | *28.7%* | *28.9%* | *29.1%* |

*1. Includes mineral and petroleum royalties, mining leases and departmental revenue.*

*2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the revenue-sharing formula contained in the SACU agreement.*

*3. Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.*

Over the longer term tax revenue must grow to finance spending commitments. This will require broadening of the tax base, driven by economic growth, higher employment and improved compliance. If the current mix of tax instruments cannot provide sufficient resources, changes to tax policy, including higher taxes, will need to be considered.

Transfers to South Africa's Southern African Customs Union (SACU) partners represent a large claim on customs and excise revenue. In 2010/11 and 2011/12, transfers to SACU partners will be low by historical comparisons due to adjustments for overpayments in 2008/09 and 2009/10. SACU transfers will continue to grow over the medium term in line with imports and consumption. The SACU revenue-sharing formula is being reviewed. This will in due course affect the level of payments from South Africa to its partners.

### *Fiscal deficit*

*Over the long term, government will reduce debt stock as percentage of GDP*

Government will maintain an appropriate level of short-term stimulus and move deliberately to reduce public debt to sustainable levels over the medium term. The combination of targeted growth in spending and improving revenue will result in a measured decline in the borrowing requirement. Over the longer term, fiscal policy aims to rebuild fiscal space to allow government to provide stimulus during the next downturn.

The National Treasury estimates that debt stock will stabilise at about 40 per cent of GDP in 2015/16. The actual outcome will depend largely on the pace of economic growth. The probability of debt stock breaching 50 per cent of GDP remains relatively low. While this illustrates the underlying strength of the fiscus, it also highlights the constraining effects of high fiscal deficits and lower GDP growth on future expenditure.

The structural budget balance strips out cyclical revenue to provide an estimate of what the budget deficit would be if the economy was performing at its long-term potential growth rate. The balance is calculated by subtracting estimated structural expenditure from structural revenue.

*Structural budget deficit is estimated to be 4.1 per cent in the current year*

After removing the effects of the economic cycle on revenue, consolidated structural budget revenue in 2010/11 is about 29 per cent of GDP, resulting in a structural budget deficit of about 4.1 per cent of GDP. Over the next three years, improvements in potential GDP growth will lead to a gradual rise in structural revenue. In combination with moderate growth in spending, this will lead to the structural budget deficit improving to 3 per cent of GDP by 2013/14. The relatively large structural budget deficit over the period underlines the need for economic reforms to improve growth potential and place the fiscus on a more sustainable long-term foundation.

### *Funding strategy*

South Africa continues to enjoy strong capital inflows, reflecting confidence in the economy and the management of public finances.

**Table 3.5 Total government debt, 2007/08 – 2013/14**

| As at 31 March<br>R billion | 2007/08 | 2008/09<br>Outcome | 2009/10 | 2010/11<br>Estimate | 2011/12 | 2012/13<br>Medium-term estimates | 2013/14 |
|---|---|---|---|---|---|---|---|
| **Domestic debt** | | | | | | | |
| Gross loan debt[1] | 480.8 | 529.7 | 705.5 | 880.9 | 1 045.2 | 1 211.6 | 1 356.0 |
| Less: cash balance | 93.8 | 101.3 | 106.6 | 107.2 | 107.2 | 107.2 | 107.2 |
| Net loan debt[2] | 387.0 | 428.4 | 598.9 | 773.8 | 938.0 | 1 104.4 | 1 248.8 |
| **Foreign** | | | | | | | |
| Gross loan debt[1] | 96.2 | 97.3 | 99.5 | 96.7 | 104.4 | 107.7 | 104.4 |
| Less: cash balance | – | – | 25.2 | 45.3 | 56.5 | 51.5 | 37.8 |
| Net loan debt[2] | 96.2 | 97.3 | 74.3 | 51.4 | 47.9 | 56.2 | 66.6 |
| **Total gross loan debt** | **577.0** | **627.0** | **804.9** | **977.6** | **1 149.6** | **1 319.3** | **1 460.4** |
| **Total net loan debt** | **483.2** | **525.6** | **673.2** | **825.2** | **985.9** | **1 160.6** | **1 315.4** |
| *As percentage of GDP :* | | | | | | | |
| *Total gross loan debt* | *27.7* | *27.0* | *32.8* | *36.4* | *39.2* | *40.9* | *40.9* |
| *Total net loan debt* | *23.2* | *22.6* | *27.4* | *30.7* | *33.6* | *36.0* | *36.9* |
| *As percentage of total gross loan debt:* | | | | | | | |
| *Foreign gross loan debt* | *16.7* | *15.5* | *12.4* | *9.9* | *9.1* | *8.2* | *7.2* |

*1. Forward estimates are based on National Treasury's projections of exchange and inflation rates.*

*2. Net loan debt is calculated with due account of the bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).*

The surge of capital inflows to emerging markets provides a window of opportunity to lower external vulnerability by reducing government's foreign debt through the purchase of foreign currency at attractive rates in the domestic market. This will also assist in moderating exchange rate strength. National government borrowing provides for the continued purchase of foreign currency as pre-funding to meet future currency commitments. This will be financed from cash reserves and borrowing.

**Table 3.6 Main budget net borrowing requirement and financing, 2009/10 – 2013/14**

| R million | 2009/10<br>Outcome | 2010/11<br>Budget | Revised | 2011/12 | 2012/13<br>Medium-term estimates | 2013/14 |
|---|---|---|---|---|---|---|
| **Main budget balance** | **-166 878** | **-174 904** | **-142 105** | **-146 239** | **-145 345** | **-130 804** |
| Extraordinary payments | -671 | – | -572 | -120 | – | – |
| Extraordinary receipts | 6 435 | – | 2 450 | 50 | – | – |
| **Borrowing requirement (-)** | **-161 114** | **-174 904** | **-140 227** | **-146 309** | **-145 345** | **-130 804** |
| **Domestic short-term loans (net)** | **49 770** | **22 000** | **22 000** | **20 000** | **20 000** | **19 000** |
| **Domestic long-term loans (net)** | **118 856** | **137 740** | **137 740** | **129 136** | **120 234** | **102 802** |
| Market loans | 132 395 | 151 344 | 151 344 | 142 677 | 142 950 | 133 500 |
| Redemptions[1] | -13 539 | -13 604 | -13 604 | -13 541 | -22 716 | -30 698 |
| **Foreign loans (net)** | **23 258** | **11 564** | **-2 431** | **4 810** | **-3 467** | **-8 281** |
| Market loans | 30 873 | 14 439 | – | 7 580 | 8 080 | 8 500 |
| Arms procurement loan agreements | 800 | 352 | 352 | 511 | 38 | – |
| Redemptions (including revaluation of loans) | -8 415 | -3 227 | -2 783 | -3 281 | -11 585 | -16 781 |
| **Change in cash and other balances[2]** | **-30 770** | **3 600** | **-17 082** | **-7 637** | **8 578** | **17 283** |
| Rand | -5 594 | 3 600 | 2 993 | 3 600 | 3 600 | 3 600 |
| Foreign currency | -25 176 | – | -20 075 | -11 237 | 4 978 | 13 683 |
| **Financing** | **161 114** | **174 904** | **140 227** | **146 309** | **145 345** | **130 804** |

*1. Redemption figures are net of anticipated switches, reducing redemptions by R8 billion in 2011/12 and by R35 billion in 2012/13.*

*2. A negative change indicates an increase in cash balances.*

*Domestic borrowing is projected to remain in line with projections set out in 2010 Budget*

Supported by deep and liquid domestic markets, domestic borrowing remains government's primary source of funding. Over the medium term, domestic borrowing is projected to remain in line with levels set out in the 2010 Budget, using a combination of treasury bills, fixed-income and inflation-linked bonds as financing instruments. A limited amount will be borrowed in international markets, primarily to maintain benchmarks in major currencies.

### Public-sector borrowing requirement

The public-sector borrowing requirement represents the funds needed by the public sector to cover any deficit in financing its own activities.

**Table 3.7 Public-sector borrowing requirement,[1] 2009/10 – 2013/14**

| | 2009/10 | 2010/11 | | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|---|
| **R billion** | **Outcome** | **Budget** | **Revised** | **Medium-term estimates** | | |
| **Main budget balance** | **166.9** | **174.9** | **142.1** | **146.2** | **145.3** | **130.8** |
| Extraordinary payments | 0.7 | – | 0.6 | 0.1 | – | – |
| Extraordinary receipts | -6.4 | – | -2.5 | -0.1 | – | – |
| **Borrowing requirement** | **161.1** | **174.9** | **140.2** | **146.3** | **145.3** | **130.8** |
| Other government borrowing[2] | 14.8 | 7.2 | 10.7 | -2.4 | -6.6 | -5.7 |
| **General government borrowing** | **175.9** | **182.1** | **151.0** | **143.9** | **138.8** | **125.1** |
| *Percentage of GDP* | *7.2%* | *6.7%* | *5.6%* | *4.9%* | *4.3%* | *3.5%* |
| Plus: Non-financial public enterprises | 45.3 | 117.4 | 121.0 | 124.9 | 108.6 | 93.1 |
| **Public sector borrowing requirement** | **221.3** | **299.5** | **272.0** | **268.8** | **247.4** | **218.2** |
| *Percentage of GDP* | *9.0%* | *11.1%* | *10.1%* | *9.2%* | *7.7%* | *6.1%* |

*1. A negative number reflects a surplus and a positive number a deficit.*

*2. Includes RDP, social security funds, provinces, extra-budgetary institutions and local government.*

The total public-sector borrowing requirement continues to be higher than total borrowing by general government, reflecting the capital expenditure programmes of the non-financial public enterprises. The public-sector borrowing requirement is expected to be 10.1 per cent of GDP in 2010/11 and declines to 6.1 per cent in 2013/14. Borrowing by the non-financial public enterprises, such as Transnet and Eskom, will continue to support their capital programmes. Both public enterprises and development finance institutions need to operate on a financially sustainable basis.

## Conclusion

*By consolidating the fiscal position, South Africa will be well placed for future opportunities*

South Africa responded to the recession by maintaining social expenditure and continuing to invest in infrastructure, providing a stimulus to economic activity. With a decline in revenue, government raised its borrowing level, bringing the fiscal position from a deficit of 1.2 per cent of GDP in 2008/09 to a deficit of 6.7 per cent of GDP in 2009/10. This was an appropriate response to the economic crisis. As the economy recovers, government will reduce the budget deficit in line with stronger economic growth. By consolidating the fiscal position over the medium term, South Africa will be well placed to take advantage of future growth opportunities.