3

Fiscal policy

In brief

- Government remains committed to sustainable public finances. Despite major spending pressures, the expenditure ceiling remains intact.
- Gross debt is projected to stabilise at 59.6 per cent of GDP in 2023/24. Currency depreciation accounts for about 70 per cent of the upward revision to gross loan debt in the current year.
- Tax revenue has been revised down by R27.4 billion in 2018/19, R24.7 billion in 2019/20 and R33 billion in 2020/21 relative to the 2018 Budget. This mainly reflects higher-than-expected VAT refunds.
- The consolidated budget deficit is estimated at 4 per cent in 2018/19, compared with the 2018 Budget projection of 3.6 per cent of GDP. After rising to 4.2 per cent, the deficit stabilises at 4 per cent in the outer year.
- Slow economic growth remains the primary risk to the framework. While some state-owned companies receive funding in the current year, their poor financial position could burden the public finances over the medium term.

Fiscal resilience in a constrained environment

The 2018 *Budget Review* announced large-scale expenditure reprioritisation and tax increases, notably a one percentage point increase in the VAT rate. These measures, combined with the expectation of improved confidence, implied that gross national debt would stabilise at 56.2 per cent of GDP in 2022/23.

Weak economic performance and revenue shortfalls contribute to slippage in fiscal projections

In recent months, deteriorating economic performance and revenue shortfalls have contributed to some slippage in fiscal projections. Other risks identified in the 2018 Budget have materialised, including a public-service wage agreement significantly above inflation, and continued decline in the financial condition of some state-owned companies, leading to requests for budget support. Following years of slow spending growth and tax increases, there is little room for large fiscal adjustments.

Taking these developments into account, government is maintaining its commitment to fiscal sustainability and debt stabilisation without introducing fiscal measures that could limit growth. Over the medium-term expenditure framework (MTEF) period, government will:

- Maintain the main budget expenditure ceiling. Funds will be reprioritised to manage spending pressures and support the President's economic stimulus and recovery plan.
- Avoid increases in the major tax instruments unless the economic environment requires it. At this stage, revenue projections assume no changes to tax rates, but provide for annual adjustments to personal income tax brackets, levies and excise duties in line with inflation.
- Retain national departments' compensation ceilings. This implies continued restrictions on personnel budgets and public employment.

Consolidated budget deficit expected to decline from 4.2 per cent of GDP in 2019/20 to 4 per cent in 2021/22

The fiscal strategy, together with a moderate recovery in economic growth, is projected to reduce the consolidated budget deficit from 4.2 per cent of GDP in 2019/20 to 4 per cent of GDP in 2021/22. As the main budget primary balance narrows, gross debt is expected to stabilise at 59.6 per cent of GDP in 2023/24, reflecting higher borrowing, rising interest rates and rand depreciation. In the current year, the weakening rand accounts for more than two-thirds of the increase in gross loan debt.

Figure 3.1 Main budget primary balance*

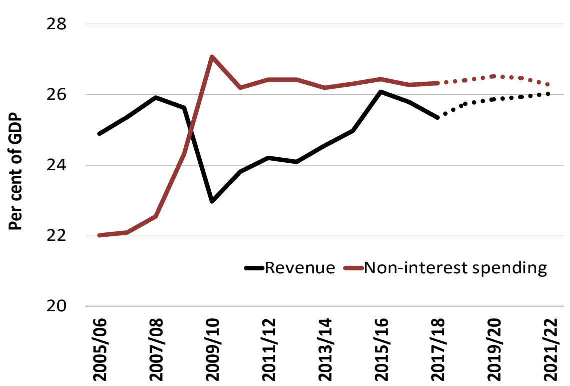
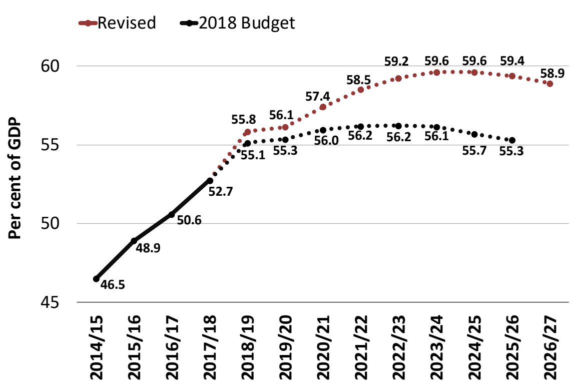


Figure 3.2 Gross debt-to-GDP outlook**



** Excluding transactions in financial assets and liabilities*
*** The assumptions underlying the long-term projections appear in Annexure C*
Source: National Treasury

Revenue performance and outlook

In 2017/18, for the first time since the 2008 global financial crisis, tax revenue growth did not exceed GDP growth. Revenue shortfalls have widened over the past four years, with under-collections rising from R7.4 billion in 2014/15 to R49 billion in 2017/18. These shortfalls would have been larger were it not for increases in personal income, dividend withholding, capital gains and other taxes. Revenue collections in 2017/18 were R0.8 billion lower than estimated in the 2018 Budget.

In-year revenue shortfall now amounts to R27.4 billion

Revenue collection for the first six months of 2018/19 grew by 10.7 per cent compared with the same period last year. However, the technical recession experienced in the first half of the year has begun to feed through to revenue collection, which has slowed. Weaker economic growth, alongside a once-off payment of overdue VAT refunds, will result in an in-year revenue shortfall now estimated at R27.4 billion, relative to the 2018 Budget estimate.

Table 3.1 Gross tax revenue

		2017/18			2018/19	
R billion	**Budget[1]**	**Outcome**	**Deviations**	**Budget[1]**	**Revised**	**Deviations**
Persons and individuals	461.0	461.0	-0.0	505.8	504.2	-1.6
Companies	218.1	217.4	-0.7	231.2	225.3	-5.9
Value-added tax	299.1	298.0	-1.1	348.1	328.1	-20.0
Dividend withholding tax[2]	29.0	27.9	-1.1	30.8	29.3	-1.5
Specific excise duties	37.3	37.4	0.1	40.7	40.0	-0.6
Fuel levy	71.3	70.9	-0.4	77.5	77.4	-0.1
Customs duties	49.0	49.2	0.1	52.6	54.0	1.4
Ad-valorem excise duties	3.8	3.8	-0.0	4.2	4.3	0.1
Other	48.7	51.0	2.3	54.0	54.9	0.9
Gross tax revenue	**1 217.3**	**1 216.5**	**-0.8**	**1 345.0**	**1 317.6**	**-27.4**

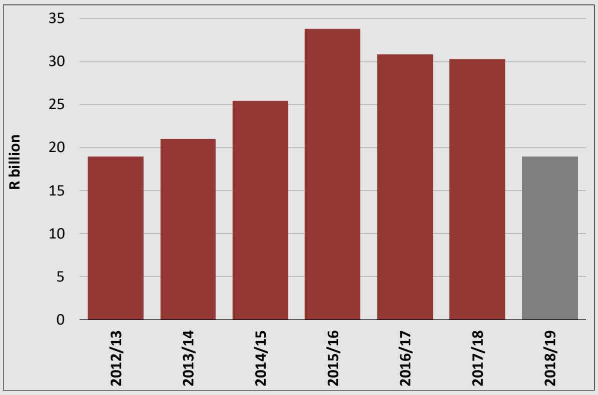
1. 2018 Budget figures
2. Includes secondary tax on companies
Source: National Treasury

A backlog of VAT refunds at SARS, and an underestimation of refunds due, has led to an overly optimistic view of revenue growth. Net VAT collections account for about R20 billion of the in-year revenue shortfall. Two factors account for the revision in net VAT. The VAT refund estimate has been revised upwards by R9 billion, and about R11 billion will be paid out to clear the backlog in the VAT credit book.

Clearing the VAT refund backlog

VAT is a tax on domestic consumption. Businesses registered as VAT vendors pay this tax on goods and services they purchase (input tax), and charge VAT on the goods and services they supply (output tax). If output tax exceeds input tax, the vendor pays the difference to SARS. If input tax exceeds output tax, the business can claim the difference as a VAT refund. Similarly, VAT vendors may claim refunds on input tax incurred in the production of goods that are exported. SARS is required to pay a VAT refund within 21 working days of receiving a correctly completed VAT return.

SARS VAT credit book



Source: South African Revenue Service (as at 31 March of each year)

The SARS VAT credit book shows the refund amounts owed to registered VAT vendors. Lower refund payments would boost SARS's overall tax collection levels. The credit book increased from R21 billion in 2013/14 to R34 billion in 2015/16. In August 2017, the Tax Ombud stated that some VAT refunds "could and should have been paid earlier". SARS data suggests that the credit book should normally be about R19 billion if verified VAT refunds are distributed without delay.

The disbursement of VAT refunds had been linked to the published estimate of refunds for the year ahead. In future, SARS will ensure that all refunds from correctly completed VAT returns are paid out within 21 working days.

The remaining R7.4 billion of the shortfall in the current year mostly reflects slower corporate income tax collections due to weak growth in wholesale and retail trade, manufacturing and transport. Personal income tax continues to be negatively affected by job losses, moderate wage settlements, lower bonus payments and a slower expansion of public-sector employment.

Commission of inquiry has underlined concerns about severe governance weaknesses in SARS

Public testimony at the Nugent Commission of Inquiry has underlined concerns about severe governance and administrative weaknesses within SARS over the past several years. The commission has submitted an interim report to the President, with the final report due on 30 November 2018. Government is committed to tackling concerns related to SARS in an open manner. Ensuring transparency in tax administration will help to rebuild taxpayer confidence and compliance.

Medium-term revenue outlook

Tax revenue growth projections lower across medium term

Lower projected revenue growth over the next three years is a result of downward revisions to estimated revenues in the current year, slower growth in major tax bases and a reduction in the anticipated buoyancy for domestic VAT from 1.1 to 1.0. As Table 3.2 shows, these assumptions produce gross tax revenue projections that fall short of the 2018 Budget estimates by R27.4 billion in 2018/19, R24.7 billion in 2019/20 and R33 billion in 2020/21.

Table 3.2 Revised revenue projections

R billion	2018/19	2019/20	2020/21	2021/22
2018 Budget	**1 345.0**	**1 454.8**	**1 581.9**	
Buoyancy	*1.51*	*1.13*	*1.13*	
Revised estimates	**1 317.6**	**1 430.1**	**1 548.9**	**1 674.8**
Buoyancy	*1.21*	*1.17*	*1.07*	*1.04*
Change since 2018 Budget	**-27.4**	**-24.7**	**-33.0**	

Source: National Treasury

The medium-term revenue framework is set out in Table 3.3. Details on tax revenue and tax bases are in Table C.4 of Annexure C.

Table 3.3 Medium-term revenue framework

R billion	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised		Medium-term estimates	
Gross tax revenue	**1 070.0**	**1 144.1**	**1 216.5**	**1 317.6**	**1 430.1**	**1 548.9**	**1 674.8**
Gross tax revenue growth	8.5%	6.9%	6.3%	8.3%	8.5%	8.3%	8.1%
Nominal GDP growth	6.8%	6.9%	7.0%	6.9%	7.3%	7.8%	7.8%
Buoyancy	*1.26*	*1.00*	*0.91*	*1.21*	*1.17*	*1.07*	*1.04*
Non-tax revenue	42.9	19.0	19.3	18.6	19.1	20.1	21.1
Southern African Customs Union[1]	-51.0	-39.4	-56.0	-48.3	-50.3	-61.1	-64.5
National Revenue Fund receipts[2]	14.4	14.2	16.6	10.4	1.5	4.3	5.5
Main budget revenue	**1 076.2**	**1 137.9**	**1 196.4**	**1 298.3**	**1 400.3**	**1 512.2**	**1 636.8**

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
Source: National Treasury

Tax buoyancy describes the relationship between revenue collection and economic growth. Buoyancy has consistently declined over the past four years. In 2017/18, tax buoyancy fell to 0.91 despite additional tax policy measures designed to add R28 billion to revenue.

The 2018 Budget announced measures aimed at raising R36 billion in additional revenue, with an anticipated buoyancy of 1.51. As a result of the higher VAT refund payments and revisions to estimates discussed earlier, the buoyancy is expected to decrease to 1.21.

Government proposes to zero rate three additional items

Earlier this year, a panel of experts was commissioned to investigate mitigating the effect of the VAT rate increase on low-income households. The panel suggested that six items be considered for zero-rating, while pointing out that targeted expenditure would be more effective in helping low-income households. In response, government proposes to zero-rate white bread flour, cake flour and sanitary pads from 1 April 2019.

The Southern African Customs Union (SACU) common revenue pool forms part of the National Revenue Fund and main budget calculations. Payments to SACU partners have been revised upwards by R4 billion in 2019/20 and R0.9 billion in 2020/21 compared with the 2018 Budget estimates. Details are provided in Annexure C.

Expenditure performance and outlook

Expenditure ceiling

Expenditure ceiling for the medium term remains unchanged since 2018 Budget

The main budget expenditure ceiling, which includes the contingency reserve, has anchored fiscal policy since the 2012 Budget. Allocations made over the MTEF period provide an agreed-upon upper limit within which departments prepare their budgets. The ceiling for the current year and the next two years remains unchanged from the 2018 Budget.

Table 3.4 Main budget expenditure ceiling[1]

R million	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
2016 MTBPS	1 074 992	1 144 353	1 229 742	1 323 465	1 435 314		
2017 Budget Review	1 074 970	1 144 225	1 229 823	1 323 553	1 435 408		
2017 MTBPS		1 141 978	1 233 722	1 316 553	1 420 408	1 524 222	
2018 Budget Review			1 232 678	1 315 002	1 416 597	1 523 762	
2018 MTBPS			**1 225 455**	**1 314 865**	**1 416 597**	**1 523 762**	**1 630 026**

1. The expenditure ceiling differs from main budget non-interest expenditure
The precise definition and calculation of the expenditure ceiling is contained in Annexure C
Source: National Treasury

As Table 3.5 shows, in-year adjustments add R17.4 billion to spending, which includes recapitalisation of South African Airways (R5 billion) and the South African Post Office (R2.9 billion). South African Express Airways receives funding amounting to R1.2 billion. Funding is also allocated to drought relief and education infrastructure. These additions to spending are fully offset by the use of the contingency reserve, provisional allocations, projected underspending and declared unspent funds.

Table 3.5 Revisions to the 2018/19 expenditure ceiling

	R million
Expenditure ceiling: 2018 Budget Review	**1 315 002**
Upward expenditure adjustments	**17 392**
Budget Facility for Infrastructure projects and project preparation	870
Schools infrastructure backlogs grant	800
Drought relief	3 412
Financial support to state-owned companies:	
Special Appropriation Bill: South African Airways	5 000
South African Express Airways	1 249
South African Post Office	2 947
Commissions of inquiry into tax administration and state capture	409
Self-financing[1]	1 777
Roll-overs and unforeseeable and unavoidable expenditure	927
Downward expenditure adjustments	**(17 529)**
Declared unspent funds	(329)
Contingency reserve	(8 000)
Provisional allocation for contingencies not assigned to votes	(6 000)
National government projected underspending	(2 700)
Local government repayment to the National Revenue Fund	(500)
Revised expenditure ceiling	**1 314 865**

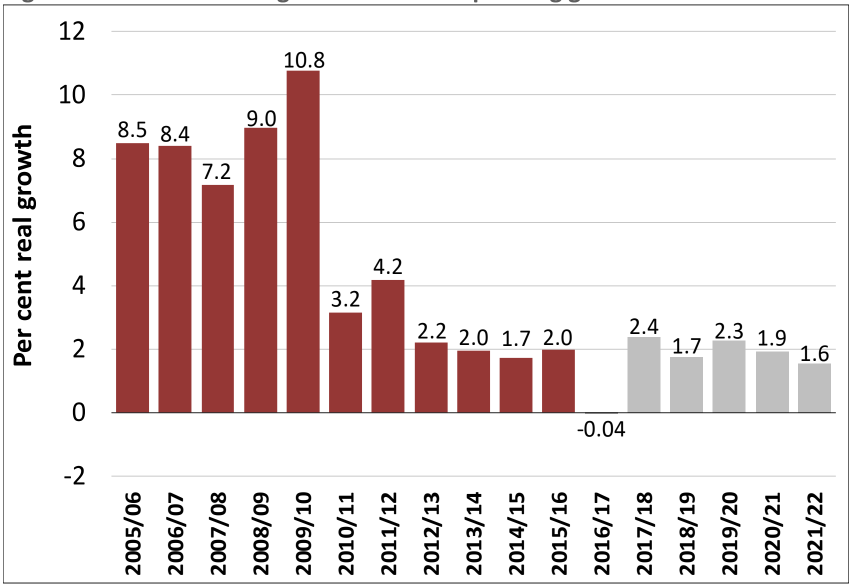
1. Spending financed from revenue derived from departments' specific activities
Source: National Treasury

Medium-term expenditure outlook

Expenditure ceiling for next two years will be maintained, and grows by 1.5 per cent in real terms in 2021/22

The expenditure ceiling will be maintained for the next two years and is set to grow at 1.5 per cent in real terms in 2021/22 — largely in line with average real GDP growth over the past decade. Non-interest expenditure remains broadly unchanged as a share of GDP over the medium term. In real terms, non-interest spending grows by an average 1.9 per cent per year. This includes a contingency reserve amounting to R7 billion in 2019/20, R8 billion in 2020/21 and R12 billion in 2021/22.

Figure 3.3 Real main budget non-interest spending growth*



**Excluding payments for financial assets*
Source: National Treasury

To ensure the expenditure ceiling remains intact, and to support policy priorities, baselines are reprioritised by a total of R32.4 billion over the next three years. Funding of non-performing and under-performing areas has been reallocated, baselines have been reduced, the contingency reserve has been drawn down and provisional allocations have been adjusted. Reprioritised resources support the President's economic stimulus and recovery plan, and some non-discretionary and infrastructure spending pressures. In addition, R14.7 billion has been shifted within grants for upgrading informal settlements. More details appear in Chapter 4.

Baselines are reprioritised by R32.4 billion over medium term

In 2016, government introduced legally binding compensation ceilings for national departments. These ceilings remain unchanged over the MTEF period ahead, with departments expected to absorb any shortfall within their current allocations.

Features of the 2018 public-service wage agreement

The public-service wage agreement reached in June 2018 includes:

- A cost-of-living adjustment that is linked to (but for many employees exceeds) CPI inflation.
- A commitment to standardise progression policies, including a 1.5 per cent annual wage increase. Teachers and police previously had lower rates of progression than other public servants.
- An extension of the housing allowance to cover qualifying spouses.

These three items are estimated to cost R242.7 billion over the 2018 MTEF period, exceeding the R212.5 billion budgeted for salary increases and other conditions of service. Of the R30.2 billion shortfall across national and provincial government departments, the largest gaps are in defence, the police, provincial health and provincial education.

Government's current wage bill accounts for about 35 per cent of consolidated spending. No additional funding is available over the 2019 MTEF period. Instead, departments need to fund shortfalls by adjusting within their compensation baselines. This means increasing efficiency, and carefully managing overtime and performance incentives.

The Department of Public Service and Administration will assist departments facing increased wage cost pressures. Over the long term, government and trade unions need to agree on an approach that ensures fair remuneration and a sustainable wage bill. Annexure B analyses the drivers of the wage bill over the past decade.

Debt-service costs

The cost of servicing government debt is expected to exceed 2018 Budget estimates by R1 billion in 2018/19, R4.9 billion in 2019/20 and R7.9 billion in 2020/21. This reflects a larger main budget deficit, currency depreciation and higher interest rates. An estimated 15.1 per cent of main budget revenue will be used to service debt in 2021/22 compared with 13.9 per cent in 2018/19.

Debt-service costs increase to about 15 per cent of main budget revenue in 2021/22

Fiscal framework

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue is projected to increase from 25.7 per cent of GDP in 2018/19 to 26 per cent of GDP in 2021/22. Main budget expenditure is estimated to remain stable at 30.2 per cent of GDP over the medium term.

Table 3.6 Main budget framework

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised		Medium-term estimates	
Main budget revenue	**1 076.2**	**1 137.9**	**1 196.4**	**1 298.3**	**1 400.3**	**1 512.2**	**1 636.8**
	26.1%	*25.8%*	*25.3%*	*25.7%*	*25.9%*	*25.9%*	*26.0%*
Main budget expenditure	**1 244.6**	**1 305.5**	**1 405.0**	**1 513.4**	**1 637.9**	**1 766.0**	**1 899.6**
	30.2%	*29.6%*	*29.8%*	*30.0%*	*30.3%*	*30.3%*	*30.2%*
Non-interest expenditure	1 115.8	1 159.0	1 242.3	1 332.3	1 435.4	1 544.2	1 652.3
	27.0%	*26.3%*	*26.3%*	*26.4%*	*26.5%*	*26.5%*	*26.3%*
Debt-service costs	128.8	146.5	162.6	181.1	202.5	221.7	247.2
	3.1%	*3.3%*	*3.4%*	*3.6%*	*3.7%*	*3.8%*	*3.9%*
Main budget balance	**-168.4**	**-167.6**	**-208.6**	**-215.2**	**-237.6**	**-253.7**	**-262.7**
	-4.1%	*-3.8%*	*-4.4%*	*-4.3%*	*-4.4%*	*-4.3%*	*-4.2%*
Primary balance	**-39.6**	**-21.1**	**-45.9**	**-34.1**	**-35.0**	**-32.0**	**-15.5**
	-1.0%	*-0.5%*	*-1.0%*	*-0.7%*	*-0.6%*	*-0.5%*	*-0.2%*

Source: National Treasury

The 2018/19 main budget deficit is estimated to widen to 4.3 per cent of GDP compared with the 2018 Budget estimate of 3.8 per cent, mainly as a result of tax revenue shortfalls. Over the next two years, higher debt-service costs and SACU transfers, and lower revenue, widen the main budget deficit by an average of 0.6 per cent of GDP. The primary balance – the difference between revenue and non-interest spending – narrows over time, stabilising at 0.2 per cent of GDP in 2021/22.

Consolidated budget framework

The consolidated budget includes the main budget and spending financed from revenues raised by provinces, social security funds and public entities.

Table 3.7 Consolidated fiscal framework

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised		Medium-term estimates	
Main budget							
Revenue	1 076.2	1 137.9	1 196.4	1 298.3	1 400.3	1 512.2	1 636.8
Expenditure	1 244.6	1 305.5	1 405.0	1 513.4	1 637.9	1 766.0	1 899.6
Balance	**-168.4**	**-167.6**	**-208.6**	**-215.2**	**-237.6**	**-253.7**	**-262.7**
Social security funds							
Revenue	55.1	59.1	66.3	75.5	81.1	85.7	90.5
Expenditure	45.0	50.9	56.4	66.0	73.9	81.8	86.3
Balance	**10.1**	**8.2**	**9.8**	**9.6**	**7.2**	**3.9**	**4.2**
Public entities							
Revenue	64.9	67.6	75.6	70.4	76.8	82.3	86.7
Expenditure	57.3	62.2	67.4	69.0	72.2	77.0	79.5
Balance	**7.6**	**5.4**	**8.2**	**1.5**	**4.5**	**5.2**	**7.2**
Other balances							
Provinces	0.6	-2.5	1.3	2.2	-0.5	-1.1	0.4
RDP Fund	-1.0	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1
Consolidated budget							
Revenue	1 215.2	1 285.3	1 360.0	1 467.2	1 582.0	1 705.1	1 840.0
Expenditure	1 366.3	1 442.0	1 549.5	1 669.2	1 808.4	1 950.9	2 091.1
Balance	**-151.0**	**-156.7**	**-189.6**	**-202.0**	**-226.4**	**-245.8**	**-251.1**
	-3.7%	*-3.6%*	*-4.0%*	*-4.0%*	*-4.2%*	*-4.2%*	*-4.0%*

Source: National Treasury

Estimates for social security funds and public entities for the period 2018/19 to 2020/21 will be updated in the 2019 Budget. Data for provinces has been revised in line with tabled provincial budgets and annual financial statements.

Provinces ran a cash surplus of R1.3 billion in 2017/18 due to higher-than-expected own-revenue collections. Over the next two years, provinces are projected to run small cash deficits. The combined annual cash balances of social security funds and public entities offset the deficits at the main budget and provincial levels in 2018/19 and over the medium term. The in-year estimate for the consolidated budget deficit is now at 4 per cent of GDP compared with 3.6 per cent of GDP in the 2018 Budget. Over the next two years, the consolidated budget deficit is projected to be 0.6 per cent wider than the 2018 Budget estimates.

Consolidated budget deficit projected to be 0.6 per cent wider than 2018 Budget estimates over next two years

Financing and debt management strategy

Government's debt management strategy is informed by strategic risk benchmarks for interest, inflation, the currency and refinancing. This ensures that the debt portfolio can accommodate changes in the fiscal stance, and minimise debt-service costs and refinancing risk. In recent years, government has lengthened the debt maturity profile and successfully managed refinancing risk in the long-term debt portfolio. The longer maturity profile allows government to consider increased issuance in the 5- to 10-year maturity bracket to reduce debt-service costs.

Government has lengthened debt maturity profile and successfully managed refinancing risk

Table 3.8 Total national government debt

End of period R billion	2017/18 Outcome	2018/19 Revised	2019/20	2020/21 Medium-term estimates	2021/22
Domestic loans[1]	**2 271.9**	**2 501.3**	**2 753.4**	**3 028.9**	**3 309.8**
Short-term	310.6	334.6	357.6	391.6	427.6
Long-term	1 961.3	2 166.7	2 395.8	2 637.3	2 882.2
Fixed-rate	*1 455.1*	*1 600.9*	*1 757.1*	*1 915.8*	*2 129.0*
Inflation-linked	*506.2*	*565.8*	*638.7*	*721.5*	*753.2*
Foreign loans[1]	**217.8**	**316.4**	**285.0**	**320.7**	**370.1**
Gross loan debt	**2 489.7**	**2 817.7**	**3 038.4**	**3 349.6**	**3 679.9**
Less: National Revenue Fund bank balances	-225.2	-271.4	-215.4	-215.9	-222.6
Net loan debt[2]	**2 264.5**	**2 546.3**	**2 823.0**	**3 133.7**	**3 457.3**
As percentage of GDP:					
Gross loan debt	*52.7%*	*55.8%*	*56.1%*	*57.4%*	*58.5%*
Net loan debt	*48.0%*	*50.5%*	*52.1%*	*53.7%*	*55.0%*

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund
Source: National Treasury

Gross loan debt is expected to increase from R2.8 trillion or 55.8 per cent of GDP in 2018/19 to R3.7 trillion or 58.5 per cent of GDP in 2021/22, mainly to finance the budget deficit. Fluctuations in inflation, interest and exchange rates since the 2018 Budget also affected debt. The weaker rand accounts for about 70 per cent of the R47.6 billion upward revision to gross loan debt in the current year. Debt is expected to stabilise at 59.6 per cent of GDP in 2023/24 – at a higher level and a year later than projected in the 2018 Budget. Net debt (gross loan debt minus cash balances) stabilises at 56.5 per cent of GDP in 2025/26.

Government's gross borrowing requirement — consisting of the budget deficit and maturing debt— is expected to increase from 4.6 per cent of GDP in 2018/19 to 5.2 per cent of GDP in 2021/22. It will be financed by raising funds in both the domestic and international capital markets. Domestic debt issuances will remain the major source of financing.

Table 3.9 National government gross borrowing requirement and financing

	2017/18	2018/19		2019/20	2020/21	2021/22
R billion	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Gross borrowing						
Main budget balance	**-208.6**	**-191.1**	**-215.2**	**-237.6**	**-253.7**	**-262.7**
Redemptions	**-28.4**	**-33.2**	**-15.1**	**-78.3**	**-62.9**	**-64.2**
Domestic long-term loans	-24.3	-31.1	-13.0	-30.6	-51.1	-60.0
Foreign loans	-4.1	-2.1	-2.1	-47.7	-11.8	-4.2
Total	**-237.0**	**-224.2**	**-230.3**	**-315.9**	**-316.6**	**-326.9**
Financing						
Domestic short-term loans (net)	**33.4**	**14.2**	**24.0**	**23.0**	**34.0**	**36.0**
Domestic long-term loans	**198.7**	**191.0**	**175.5**	**212.5**	**237.0**	**252.0**
Foreign loans	**33.9**	**38.0**	**53.8**	**27.5**	**41.9**	**43.3**
Change in cash and other balances	**-29.0**	**-19.0**	**-23.0**	**52.9**	**3.7**	**-4.4**
Total	**237.0**	**224.2**	**230.3**	**315.9**	**316.6**	**326.9**

Source: National Treasury

Risks to the fiscal outlook

Risks to the fiscal outlook remain elevated over the medium term. These include weak economic growth, uncertainty in the revenue outlook and the poor financial position of major state-owned companies. Several entities with acute financial difficulties do not have sufficient cash to repay debt falling due. Ordinarily these institutions would refinance these amounts, but given negative investor sentiment there is a strong possibility that they will have to redeem this debt. Government has taken initial steps to strengthen governance and management of these entities.

Most government debt is denominated in rands, reducing exposure to external volatility

External factors will also play a major role in government's ability to narrow the budget balance and stabilise debt. These are likely to include a general rise in bond yields, higher interest rates and further exchange rate depreciation. While most government debt is denominated in rands, reducing South Africa's exposure to external volatility, non-residents hold 38 per cent of South African foreign and domestic government debt. This relatively high share of foreign ownership leaves South Africa vulnerable to sudden shifts in investor sentiment. The 2018 fiscal risk statement, which appears in Annexure A, analyses risks to the baseline fiscal outlook that could result in a deviation from targets.

Conclusion

Government remains committed to a balanced fiscal consolidation to stabilise debt and narrow the budget deficit. The expenditure ceiling will be maintained, as will national departments' compensation ceilings. Fiscal policy and the debt management strategy will work to mitigate risks to fiscal projections.