3

# Fiscal policy

- Over the past 14 years, fiscal policy has helped to stabilise the economy, contributing to a steady improvement in long-term growth prospects. Increasing expenditure on capital investment and key social needs promotes a more productive base and raises living standards.
- The fiscal stance presented in the 2008 Budget builds on these policy choices by continuing to finance growth in government expenditure without placing an excessive burden on the economy or future generations. Increased inflationary and current account pressures require that fiscal policy contribute more meaningfully to national savings while investing strongly in enhancing the productive capacity of the economy. A budget surplus supports the sustainability of government finances and contributes to ensuring that the economic achievements of the past five years are protected from cyclical and external risks.
- Consolidated government expenditure continues to grow over the next three years, with real growth averaging 6.1 per cent a year. Additional resources are targeted at strengthening economic and social infrastructure, improving the quality of public services and broadening social security. Tax revenue is broadly stable as a percentage of GDP, reflecting a relative decline in revenue buoyancy. Overall public sector borrowing will rise as investment spending by state enterprises accelerates.

## Overview

Prudent fiscal policy choices and strong economic growth over the past five years have created the fiscal space to support economic and social development. Consolidated government spending has increased by an average of 10 per cent in real terms over the past four years, allowing government to significantly grow expenditure on social services, increase transfers to households and accelerate infrastructure investment.

*Fiscal policy has enabled the public sector to make a major contribution to improved welfare*

The 2007 *Medium Term Budget Policy Statement* introduced the concept of a structural budget balance, also known as a cyclically adjusted budget balance, which factors in estimates of cyclical or once-off revenue.

*High commodity prices introduce a strong cyclical factor into revenue growth*

The 2008 Budget takes account of a more unsettled global economic environment. While total revenue growth is expected to moderate in line with economic activity, strong commodity prices are generating robust tax revenues from the mining sector. As a result, the cyclical element of tax revenue remains significant.

Taking these factors into account, government is budgeting for a fiscal surplus, which keeps the cyclically adjusted budget balance from deteriorating. By saving a share of the cyclical revenue, the fiscus is protected from cyclical and external volatility, and ensures that the state does not contribute to pressure on inflation and the current account deficit.

*Investment in productive capacity will allow economy to grow more rapidly*

Continued growth in capital expenditure and other allocations aimed at raising the productive capacity of the economy will support the alleviation of supply constraints and allow the economy to grow more rapidly in the future. Over the next three years, growth in public spending slows to more sustainable levels, while remaining robust.

Key features of the 2008 Budget include the following:

- Additional main budget resources totalling R115.6 billion over the 2007 Budget baseline.
- Consolidated national budget revenue grows in line with the economy, averaging 28.6 per cent of GDP over the medium term.
- Debt-service costs continue to decline as a result of prudent fiscal management.
- Consolidated national budget surpluses of 0.8 per cent of GDP in 2008/09, 0.6 per cent in 2009/10 and 0.7 per cent in 2010/11.

## The fiscal stance: expenditure, revenue and debt

*Government expenditure continues to grow strongly*

Public expenditure is focused on areas that will raise growth over the medium to long term, such as economic infrastructure, education, health and basic household services. The budget also maintains government's redistributive stance, increasing transfers to poor households.

*Revenue growth remains supportive of expenditure, moderating to 28.9 per cent of GDP by 2010/11*

Tax revenues continue to exceed expenditure. Improved tax administration and the strength of the economic base have supported growing revenue levels even after provision of substantial tax relief. Cyclical economic factors have also contributed to the strength of the revenue performance over the past four years. Fiscal policy accounts for these trends to ensure that they do not result in unsustainable financing of government expenditure. General government tax revenue peaked at 29.2 per cent of GDP in 2006/07 and is expected to moderate to 28.9 per cent of GDP by 2010/11.

**Table 3.1 Fiscal trends and projections for general government**[1]

| Calendar year | 2002 – 2006 | | 2006 – 2010 |
|---|---|---|---|
| *Average annual real growth* | | | |
| Gross fixed capital formation | | | |
| General government | 5.6% | | 10.9% |
| Public corporations | 12.9% | | 19.4% |
| Government consumption expenditure | | | |
| Compensation of employees | 1.8% | | 3.6% |
| Non-wage | 9.4% | | 5.5% |
| Government transfers to households | 21.1% | | 9.3% |
| **Fiscal year** | **2002/03** | **2006/07** | **2010/11** |
| *Percentage of GDP* | | | |
| Interest on public debt | 4.4% | 3.3% | 2.1% |
| General government savings | -1.0% | 0.8% | 1.5% |
| Public sector borrowing requirement | 1.4% | -0.3% | 1.4% |
| General government tax revenue | 25.3% | 29.2% | 28.9% |

*1. General government refers to the accounts of national government, provincial government and local government, the social security funds, extra-budgetary institutions, adjusted to net out flows between government institutions.*

*Cost-of-living adjustments push up wage bill*

Compensation of public-sector employees accounts for about 65 per cent of government consumption expenditure and is expected to grow by 3.6 per cent in real terms over the period 2006 to 2010. This takes account of the public service salary agreement negotiated in 2007, higher-than-expected inflation and the introduction of occupation-specific dispensations. These matters are discussed in more detail in Chapter 8. Growth in non-wage consumption expenditure by government is driven mainly by equipment and materials needed, for example, in the provision of education and health services.

*Rapid growth in government transfers to households is expected to moderate*

Over the past four years general government transfers to households have grown at well above the rate of inflation. This is largely the result of the extension of the social grant system and further rollout of government's housing programme. With the stabilisation of the social grants system, transfers to households are expected to moderate, averaging real growth of 9.3 per cent between 2006 and 2010, reflecting continued take-up by eligible recipients and the phased expansion of the social grant system.

Investment in social and economic infrastructure remains a core government priority, reflected in projected average real growth of about 11 per cent in gross fixed capital formation, which covers additional allocations to water, sanitation, public transport, education, health, social development, and justice and protection services. These spending priorities and allocations are described in Chapters 7 and 8. The pace of capital outlays by public corporations has also accelerated, with average annual real growth of 12.9 per cent between 2002 and 2006.

Table 3.2 below shows that over the medium term, public sector infrastructure expenditure is projected to amount to R568.1 billion, representing average annual growth rate of 19.2 per cent over the next three years. The amount is R85.7 billion higher than the estimate in the 2007 *Medium Term Budget Policy Statement,* largely as a result of Eskom's revised capital expenditure plan.

**Table 3.2 Public sector infrastructure expenditure and estimates, 2004/05 – 2010/11**

| R million | 2004/05 | 2005/06 | 2006/07 | 2007/08 Revised estimate | 2008/09 Medium-term estimates | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|---|
| National departments [1,2] | 4 566 | 4 903 | 4 638 | 5 023 | 6 425 | 7 539 | 9 434 |
| Provincial departments [2] | 19 955 | 22 535 | 27 112 | 32 481 | 36 860 | 42 226 | 45 766 |
| Municipalities | 16 865 | 21 084 | 21 441 | 27 568 | 31 163 | 34 471 | 36 873 |
| Public private partnerships [3, 4] | 1 106 | 1 343 | 2 443 | 3 354 | 8 450 | 10 321 | 11 259 |
| Extra-budgetary public entities | 3 470 | 3 144 | 3 699 | 3 814 | 4 450 | 5 123 | 7 014 |
| **General government** | **45 962** | **53 010** | **59 332** | **72 240** | **87 348** | **99 679** | **110 346** |
| Non-financial public enterprises | 22 145 | 25 736 | 37 176 | 52 165 | 71 243 | 99 246 | 100 284 |
| **Total** | **68 106** | **78 745** | **96 508** | **124 405** | **158 591** | **198 925** | **210 629** |
| *Percentage of GDP* | *4.8%* | *5.0%* | *5.3%* | *6.1%* | *6.9%* | *7.9%* | *7.6%* |
| *GDP* | *1 427 445* | *1 584 743* | *1 807 316* | *2 045 533* | *2 286 906* | *2 506 870* | *2 758 552* |

*1. Transfers between spheres have been netted out.*
*2. Includes maintenance of infrastructure assets.*
*3. Capital expenditure on PPPs overseen by the Treasury PPP Unit, SA National Roads Agency, Department of Public Works and at municipal level.*
*4. PPPs only reflect private sector contributions.*

*Investment in airports, ports, freight rail, dams and wireless broadband*

Over the medium-term expenditure framework (MTEF) large additional amounts are set aside for the school building programme, the hospital revitalisation programme, public transport, housing, water and sanitation. In addition, non-financial public enterprises[1] continue to invest in airports, ports, freight rail, pipelines, dams and wireless broadband. The budget framework also makes provision for financial support for Eskom's capital investment programme within the contingency reserve.

*Public sector borrowing requirement grows to 1.4 per cent in 2010/11*

The stronger fiscal position provides scope for municipalities, provinces and state-owned enterprises to increase their borrowings to finance a higher level of capital expenditure required to strengthen and expand key economic infrastructure. The public sector moves from a cash surplus of 0.1 per cent of GDP in 2007/08 to a borrowing requirement of 1.4 per cent of GDP by 2010/11. This increase is driven by the accelerating capital investment programmes at all levels of the public sector, in particular the non-financial enterprises.

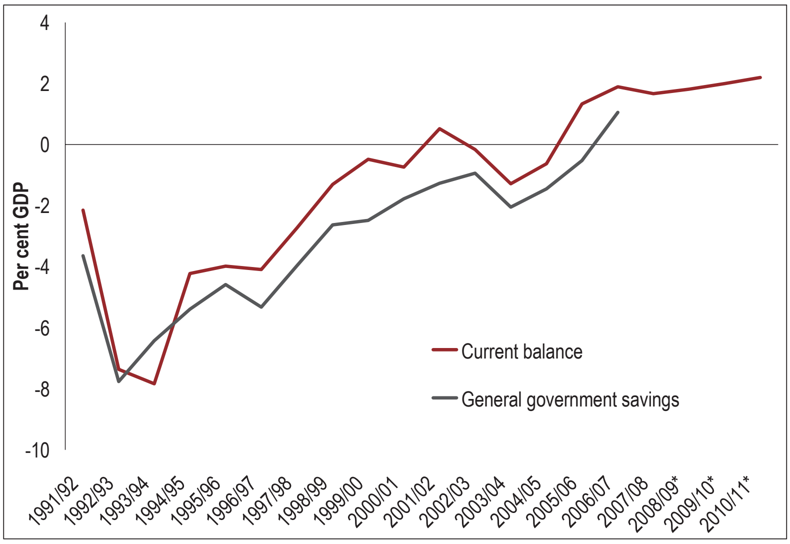
Figure 3.1 shows the current balance (measured at the consolidated national and provincial level as current income less current expenditure) and general government savings. The current balance is a useful proxy for government savings, with consumption of fixed capital and local government and extra-budgetary institutions' savings accounting for the difference between the two.

[1] Including Denel, Eskom and Transnet, but excluding the development finance institutions such as the Land Bank and Development Bank of Southern Africa.

Government savings have significantly improved since 1992/93 as a result of strong revenue growth and the prioritisation of growth in capital expenditure relative to current expenditure. Over the medium term, the stabilisation of the current balance at just over 2 per cent of GDP suggests that government will continue to contribute positively to national savings, supporting both short-term stability and continued investment growth.

*Government savings have improved, reflecting prioritisation of capital expenditure*

**Figure 3.1 The current balance and government savings, 1991/92 – 2010/11**




*Source: SARB quarterly bulletin.*
**2008/09 to 2010/11 current balance values are based on 2008 MTEF growth rates.*

## The budget framework

Government categorises its accounts according to the levels at which expenditure takes place or revenue is collected. Beginning with the narrowest coverage, successive components are added until the full extent of public sector revenue and expenditure is captured.

### Consolidated national accounts

Consolidated national budget revenue has increased significantly as a percentage of GDP over the past four years. The main factor driving this buoyancy has been broader economic growth and participation, which has been supportive of gross tax and social contributions.

In line with more moderate economic growth and slowing private consumption, growth in gross tax revenue is expected to stabilise as a percentage of GDP. While domestic consumption is expected to moderate, demand for imported goods will keep customs revenue (and consequently Southern African Customs Union transfers) at relatively high levels over the next three years. Growth in the revenue of the social security funds is expected to remain broadly in line with GDP growth. As a result, consolidated national budget revenue is expected to stabilise at about 28.6 per cent of GDP over the MTEF.

*Gross tax revenue is expected to stabilise as a percentage of GDP*

*Additional expenditure totalling R115.6 billion over the MTEF*

Consolidated national expenditure grows from 27.4 per cent of GDP in 2007/08 to 27.9 per cent in 2010/11. This allows for additional spending of R115.6 billion at the main budget level. Including inflation adjustments, new allocations to the main budget are R24 billion in 2008/09, R32.7 billion in 2009/10, and R58.9 billion in 2010/11.

**Table 3.3 Consolidated national government, 2006/07 – 2010/11**

| R million / *per cent* | 2006/07 | 2007/08 Estimate | 2008/09 | 2009/10 Projections | 2010/11 |
|---|---|---|---|---|---|
| **Main budget revenue** | | | | | |
| Gross tax revenue | 495 515 | 571 063 | 642 269 | 711 481 | 777 948 |
| *percentage of GDP* | 27.4% | 27.9% | 28.1% | 28.4% | 28.2% |
| plus: other non-tax receipts and payments | 10 881 | 11 612 | 12 005 | 13 550 | 15 000 |
| less: SACU transfers | -25 195 | -24 713 | -28 921 | -32 143 | -33 992 |
| **Total Revenue** | **481 201** | **557 962** | **625 353** | **692 888** | **758 956** |
| **Main budget expenditure** | | | | | |
| State debt cost | 52 192 | 52 829 | 51 236 | 51 125 | 51 156 |
| *percentage of GDP* | *2.9%* | *2.6%* | *2.2%* | *2.0%* | *1.9%* |
| Non-interest expenditure[1] | 418 000 | 489 288 | 559 860 | 630 481 | 693 514 |
| *percentage of GDP* | *23.1%* | *23.9%* | *24.5%* | *25.2%* | *25.1%* |
| *per cent real growth* | *9.0%* | *9.0%* | *7.7%* | *7.5%* | *5.1%* |
| Of which: | | | | | |
| Increases over 2007 Budget | | 11 330 | 23 997 | 32 731 | 58 898 |
| Contingency reserve | | – | 6 000 | 12 000 | 20 000 |
| **Total expenditure** | **470 192** | **542 117** | **611 096** | **681 606** | **744 670** |
| *percentage of GDP* | *26.0%* | *26.5%* | *26.7%* | *27.2%* | *27.0%* |
| **Social security funds** | | | | | |
| Revenue | 20 447 | 22 465 | 24 683 | 27 257 | 30 035 |
| Expenditure | 14 035 | 17 979 | 20 454 | 22 521 | 23 795 |
| **Consolidated national budget[2]** | | | | | |
| **Revenue** | **501 636** | **580 417** | **650 026** | **720 134** | **788 980** |
| *percentage of GDP* | *27.8%* | *28.4%* | *28.4%* | *28.7%* | *28.6%* |
| **Expenditure** | **484 216** | **560 086** | **631 540** | **704 116** | **768 454** |
| *percentage of GDP* | *26.8%* | *27.4%* | *27.6%* | *28.1%* | *27.9%* |
| **Budget balance** | **17 420** | **20 331** | **18 486** | **16 018** | **20 526** |
| *percentage of GDP* | *1.0%* | *1.0%* | *0.8%* | *0.6%* | *0.7%* |
| Gross domestic product | 1 807 316 | 2 045 533 | 2 286 906 | 2 506 870 | 2 758 552 |

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

*Contingency reserve is set aside over MTEF*

Within the main budget, a contingency reserve is set aside for each of the next three years. In the first year, the reserve allows for the possibility of unforeseen and unavoidable expenditure, such as responses to natural disasters or programmes announced in the budget but not yet appropriated. In the outer years, the reserve is partly drawn down to fund new priorities. The contingency reserve for each year of the MTEF is R6 billion, R12 billion and R20 billion, respectively.

The larger reserve provides for financial support to help Eskom meet the costs of its investment programme. Funding of up to R60 billion is anticipated and assists Eskom's capital-raising programme. About one-third of this is expected to be drawn over the MTEF period.

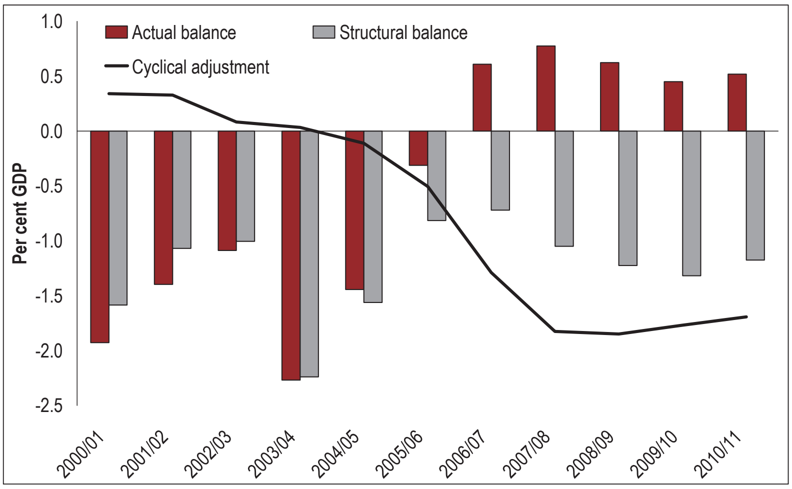
*Debt service costs continue to fall*

Since peaking at 5.6 per cent of GDP in 1998/99, debt service costs have shown a steadily declining trend, freeing additional resources for spending in support of government's social and economic programmes. Debt service costs are expected to continue declining over the medium term, moving from 2.6 per cent of GDP in 2007/08 to 1.9 per cent in 2010/11. The decline in debt service costs underscores the sustainability of the framework by providing fiscal space to accommodate cyclical volatility or to finance new priorities in the years ahead. For more information on debt management and trends refer to Chapter 5.

*A modest consolidated national budget surplus forecast over MTEF*

Increased risk in the economic environment, coupled with continued widening of the current account deficit and domestic inflationary pressures, signals the need for greater caution in the management of government finances. As a result, the 2008 consolidated national budget allows for a surplus of 0.8 per cent of GDP in 2008/09, declining to 0.6 per cent in 2009/10, and returning to 0.7 per cent in 2010/11.

**Figure 3.2 Main budget and structural budget balances, 2000/01 – 2010/11**




*Government saves a share of tax revenue to offset economic risk*

Despite an anticipated moderation in the pace of global growth, commodity prices are expected to remain high, resulting in the economy continuing to operate with a significant positive cyclical component. After adjusting the budget framework for estimates of cyclical revenue, the structural budget balance is broadly stable at a deficit averaging 1.2 per cent of GDP over the next three years. This illustrates the strength of the government finances and the ability of the fiscus to sustainably finance the current level of expenditure should the economic cycle reverse.

### Revisions to 2006/07 and 2007/08 main budget estimates

The main budget consists of the receipts of the National Revenue Fund, and expenditure either voted by Parliament or allocated by statutory appropriation. The main budget represents the full extent of resources available for allocation by the National Treasury. The outcomes and changes to the forward estimates of the main budget are presented in Tables 3.4 and 3.5.

**Table 3.4 Revised estimates of main budget revenue and expenditure, 2006/07 and 2007/08**

| | 2006/07 | | | 2007/08 | | | % change |
|---|---|---|---|---|---|---|---|
| R million | Budget estimate | Outcome | Deviation | Budget estimate | Revised estimate | Deviation | 2006/07 – 2007/08 |
| **Revenue** | | | | | | | |
| Direct taxes | 252 058 | 286 382 | 34 325 | 319 130 | 339 850 | 20 720 | 18.7% |
| Indirect taxes | 204 729 | 209 133 | 4 404 | 237 432 | 231 213 | -6 219 | 10.6% |
| Other revenue | 9 320 | 10 881 | 1 560 | 11 093 | 11 612 | 519 | 6.7% |
| Less: SACU payments | -19 744 | -25 195 | -5 451 | -23 053 | -24 713 | -1 660 | -1.9% |
| **Total revenue** | **446 362** | **481 201** | **34 839** | **544 602** | **557 962** | **13 361** | **16.0%** |
| **Expenditure** | | | | | | | |
| State debt cost | 52 049 | 52 192 | 143 | 52 916 | 52 829 | -87 | 1.2% |
| Current payments[1] | 82 922 | 77 979 | -4 943 | 91 413 | 89 966 | -1 447 | 15.4% |
| Transfers and subsidies | 328 878 | 333 661 | 4 782 | 379 897 | 392 277 | 12 380 | 17.6% |
| Payments for capital assets[1] | 6 376 | 6 360 | -15 | 6 647 | 7 045 | 398 | 10.8% |
| Contingency reserve | 2 500 | – | -2 500 | 3 000 | – | -3 000 | 0.0% |
| **Total expenditure** | **472 725** | **470 192** | **-2 532** | **533 873** | **542 117** | **8 243** | **15.3%** |
| *Increase in non-interest allocated expenditure* | | | -176 | | | 11 330 | |
| **Main budget balance[2]** | **-26 363** | **11 008** | **37 371** | **10 728** | **15 846** | **5 117** | |

1. *Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.*
2. *A positive number reflects a surplus and a negative number a deficit.*

Total expenditure in 2006/07 was R2.5 billion greater than the original 2006 Budget estimate and R422 million lower than the revised budget estimate. Revenue over collections totalling R34.8 billion and underspending on current payments contributed to a main budget surplus for 2006/07 of R11 billion.

The estimated budget balance for 2007/08 remains in surplus at R15.8 billion, R5.1 billion more than was estimated at the time of the 2007 Budget. An upward revision to gross tax revenue estimates of R14.5 billion and additional expenditure of R8.2 billion leave the budget position broadly unchanged. The continued strong growth in tax revenue results in main budget revenue totalling R558 billion.

**Table 3.5 Main budget medium-term estimates, 2008/09 – 2010/11**

| | 2008/09 | | | 2009/10 | | | 2010/11 |
|---|---|---|---|---|---|---|---|
| R million | 2007 Forward estimate | 2008 Budget | Change to baseline | 2007 Forward estimate | 2008 Budget | Change to baseline | 2008 Budget |
| **Revenue** | | | | | | | |
| Direct taxes | 350 209 | 378 194 | 27 985 | 381 511 | 418 822 | 37 311 | 464 064 |
| Indirect taxes | 256 661 | 264 075 | 7 414 | 278 308 | 292 659 | 14 351 | 313 884 |
| Other revenue | 11 371 | 12 005 | 634 | 11 246 | 13 550 | 2 304 | 15 000 |
| Less: SACU payments | -27 075 | -28 921 | -1 846 | -29 551 | -32 143 | -2 592 | -33 992 |
| **Total revenue** | **591 166** | **625 353** | **34 187** | **641 515** | **692 888** | **51 373** | **758 956** |
| *Percentage of GDP* | *27.6%* | *27.3%* | | *27.0%* | *27.6%* | | *27.5%* |
| **Expenditure** | | | | | | | |
| State debt cost | 52 967 | 51 236 | -1 731 | 50 915 | 51 125 | 210 | 51 156 |
| Current payments[1] | 99 193 | 101 472 | 2 279 | 109 286 | 112 414 | 3 129 | 122 408 |
| Transfers and subsidies | 427 013 | 444 917 | 17 904 | 469 119 | 496 915 | 27 795 | 541 332 |
| Payments for capital assets[1] | 7 026 | 7 471 | 445 | 7 981 | 9 152 | 1 171 | 9 774 |
| Contingency reserve | 8 000 | 6 000 | -2 000 | 13 000 | 12 000 | -1 000 | 20 000 |
| **Total expenditure** | **594 198** | **611 096** | **16 898** | **650 301** | **681 606** | **31 305** | **744 670** |
| *Percentage of GDP* | *27.7%* | *26.7%* | | *27.3%* | *27.2%* | | *27.0%* |
| **Main budget balance[2]** | **-3 032** | **14 257** | **17 289** | **-8 786** | **11 282** | **20 068** | **14 286** |

*1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.*
*2. A positive number reflects a surplus and a negative number a deficit.*

The 2008 Budget adjusts the forward estimates from the 2007 Budget for 2008/09 and 2009/10 to take account of changes in the economic environment and government priorities, and adds projections for 2010/11.

## Consolidated government accounts

Table 3.6 summarises the consolidated expenditure of government. The table is arranged by economic classification, providing insight into how expenditure is distributed within the economy.

The consolidated government account includes national, provincial and social security fund expenditure, along with spending by various public entities and government business enterprises. A list of all entities included in the consolidation and a full explanation of the consolidation process is available at www.treasury.gov.za.

*Real non-interest expenditure grows at an average rate of 6.1 per cent*

Real non-interest expenditure grows at an average rate of 6.1 per cent over the next three years. Payments for capital assets grow faster than total non-interest expenditure, averaging 10.2 per cent over the MTEF. This represents government's continued commitment to improving economic infrastructure and basic services to communities.

### Table 3.6 Consolidated government expenditure, 2004/05 – 2010/11

| R million | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|---|
| | | Outcome | | Revised estimate | | Medium-term estimates | |
| **Current payments** | | | | | | | |
| Compensation of employees | 141 910 | 156 193 | 173 492 | 199 216 | 223 954 | 246 098 | 266 620 |
| Goods and services | 73 872 | 90 090 | 100 500 | 118 806 | 134 536 | 149 127 | 164 323 |
| Interest and rent on land | 52 502 | 54 634 | 55 029 | 55 819 | 55 012 | 55 439 | 55 715 |
| *State debt cost* | *48 851* | *50 912* | *52 192* | *52 829* | *51 236* | *51 125* | *51 156* |
| Financial transactions in assets and liabilities | 746 | 328 | 247 | 57 | – | – | – |
| **Total current payments** | **269 030** | **301 244** | **329 268** | **373 897** | **413 502** | **450 665** | **486 658** |
| *Real growth* [1] | | *7.5%* | *4.2%* | *5.8%* | *4.1%* | *4.0%* | *3.2%* |
| **Transfers and subsidies** [2] | | | | | | | |
| Municipalities | 16 931 | 19 891 | 29 663 | 40 378 | 45 076 | 50 675 | 58 662 |
| Departmental agencies and accounts | 19 041 | 21 697 | 26 180 | 28 539 | 31 640 | 33 157 | 32 687 |
| Universities and technikons | 9 404 | 9 930 | 11 078 | 11 995 | 13 650 | 15 022 | 17 175 |
| Public corporations and private enterprises | 13 896 | 16 366 | 15 121 | 22 879 | 21 456 | 23 150 | 21 766 |
| Foreign governments and international organisations | 681 | 919 | 1 234 | 1 298 | 1 312 | 1 361 | 1 417 |
| Non-profit institutions | 7 152 | 8 263 | 9 482 | 12 799 | 16 344 | 17 567 | 19 387 |
| Households | 64 757 | 75 632 | 85 492 | 98 658 | 112 298 | 123 726 | 133 404 |
| **Total transfers and subsidies** | **131 862** | **152 697** | **178 249** | **216 546** | **241 776** | **264 659** | **284 497** |
| *Real growth* [1] | | *11.2%* | *11.3%* | *13.2%* | *5.1%* | *4.5%* | *2.7%* |
| **Payments for capital assets** | | | | | | | |
| Buildings and other fixed structures | 13 077 | 18 117 | 21 503 | 26 866 | 41 880 | 45 433 | 48 360 |
| Machinery and equipment | 6 913 | 9 277 | 9 210 | 11 125 | 11 002 | 13 775 | 15 482 |
| Cultivated assets & land and subsoil assets | 70 | 224 | 488 | 931 | 1 360 | 1 189 | 1 222 |
| Software and other intangible assets | 1 921 | 1 504 | 2 701 | 3 166 | 724 | 1 604 | 534 |
| **Total payments for capital assets** | **21 980** | **29 122** | **33 902** | **42 088** | **54 966** | **62 001** | **65 599** |
| *Real growth* [1] | | *27.2%* | *11.0%* | *15.6%* | *23.0%* | *7.7%* | *1.1%* |
| **Contingency reserve** | **–** | **–** | **–** | **–** | **6 000** | **12 000** | **20 000** |
| **Consolidated expenditure** [3] | **422 872** | **483 064** | **541 419** | **632 532** | **716 243** | **789 325** | **856 753** |
| **Consolidated non-interest expenditure** [3] | **370 445** | **428 489** | **486 475** | **576 760** | **661 283** | **733 940** | **801 097** |
| *Percentage of GDP* | *26.0%* | *27.0%* | *26.9%* | *28.2%* | *28.9%* | *29.3%* | *29.0%* |
| *Real growth* [1] | | *11.1%* | *8.3%* | *10.4%* | *8.0%* | *5.9%* | *4.3%* |

1. *Deflated using the CPIX deflator.*
2. *Including capital transfers.*
3. *Including national contingency reserve.*

Compensation of employees makes up approximately 3.4 per cent of total non-interest expenditure at the consolidated government account level, growing at 4.7 per cent in real terms. Expenditure on goods and services averages 5.9 per cent real growth, while transfers and subsidies are driven mainly by transfers to households and non-profit institutions. Transfers and subsidies represent both capital and current transfers across government.

The consolidated accounts of general government represent the full extent of the revenue and expenditure for all levels of government. These estimates are made by aggregating the revenue and expenditure of the main budget, the social security funds, foreign technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities. Flows between institutions are simultaneously netted out. The consolidated general government account for 2006/07 is set out in Table 3.7.

**Table 3.7 Consolidated accounts of general government,[1] 2006/07**

| R million | Main budget | Social security funds | Provinces | Extra-budgetary institutions[2] | Local authorities[3] | Consolidated general government |
|---|---|---|---|---|---|---|
| Current receipts | 479 418 | 20 436 | 7 894 | 23 484 | 86 182 | **617 414** |
| *Tax receipts (net of SACU)* | *470 320* | *9 854* | *4 657* | *125* | *22 561* | ***507 517*** |
| *Non-tax receipts* | *9 098* | *10 582* | *3 237* | *23 359* | *63 621* | ***109 897*** |
| Sales of capital assets | 1 782 | – | 110 | 235 | 76 | **2 203** |
| **Total own account receipts** | **481 201** | **20 436** | **8 003** | **23 719** | **86 258** | **619 616** |
| *Percentage of total* | *77.7%* | *3.3%* | *1.3%* | *3.8%* | *13.9%* | ***100.0%*** |
| Transfers received[4] | 1 920 | 11 | 178 871 | 38 346 | 28 694 | **1 920** |
| **Total receipts** | **483 121** | **20 447** | **186 874** | **62 065** | **114 952** | **621 536** |
| Current payments | 131 129 | 1 447 | 142 462 | 47 514 | 101 904 | **424 457** |
| *Compensation of employees* | *49 637* | *804* | *104 267* | *20 246* | *28 422* | ***203 376*** |
| *Goods and services* | *29 157* | *643* | *38 034* | *25 605* | *69 443* | ***162 882*** |
| *Interest* | *52 192* | – | – | *283* | *1 892* | ***54 367*** |
| *Other current payments* | *143* | – | *162* | *1 380* | *2 147* | ***3 832*** |
| Transfers and subsidies[5] | 333 661 | 12 565 | 28 521 | 7 423 | – | **136 247** |
| Payments for capital assets | 7 318 | 23 | 15 580 | 3 411 | 20 674 | **47 006** |
| **Total payments** | **472 108** | **14 035** | **186 563** | **58 348** | **122 578** | **607 711** |
| *Percentage of total* | *77.7%* | *2.3%* | *30.7%* | *9.6%* | *20.2%* | ***100.0%*** |
| **Budget balance[6]** | **11 012** | **6 412** | **310** | **3 717** | **-7 626** | **13 826** |
| Extraordinary payments | -4 214 | – | – | – | – | **-4 214** |
| Extraordinary receipts | 3 438 | – | – | – | – | **3 438** |
| **Financing requirement (-)** | **10 237** | **6 412** | **310** | **3 717** | **-7 626** | **13 050** |
| *Percentage of GDP* | *0.6%* | *0.4%* | *0.0%* | *0.2%* | *-0.4%* | ***0.7%*** |

*1. Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the Reserve Bank.*
*2. Including universities and technikons.*
*3. Including the net financing requirement of local government enterprises.*
*4. RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.*
*5. Including transfers and subsidies to other spheres of government.*
*6. A positive number reflects a surplus and a negative number a deficit.*

### Improved trends in general government infrastructure spending

General government infrastructure projects are gathering momentum, and reflect improved correlation between budgeted amounts, project plans and actual expenditure. The table below summarises spending on major projects and programmes in 2006/07. During this period government spent R36.3 billion or 93.9 per cent of the total budgeted amount.

**Major infrastructure projects and programmes, 2005/06 – 2006/07**

| R million | 2005/06 Outcome (as at 31 March 2006) | 2006/07 Adjusted Budget | Actual expenditure as at 31 March 2007 | Actual expenditure as % of adjusted budget | Year-on-year growth |
|---|---|---|---|---|---|
| Integrated housing and human settlement | 5 014 | 6 751 | 6 549 | 97.0% | 30.6% |
| Hospital revitalisation programme | 939 | 1 755 | 1 613 | 91.9% | 71.8% |
| National roads | 2 186 | 3 487 | 3 027 | 86.8% | 38.5% |
| Provincial roads | 7 553 | 8 494 | 8 795 | 103.5% | 16.4% |
| Passenger rail | 1 059 | 1 155 | 1 104 | 95.6% | 4.2% |
| Electrification programme | 1 125 | 1 284 | 1 081 | 84.2% | -3.9% |
| School building | 2 453 | 3 448 | 3 370 | 97.7% | 37.4% |
| Gautrain[1] | 601 | 4 641 | 4 622 | 99.6% | 669.1% |
| 2010 FIFA World Cup stadiums[2] | – | 600 | 329 | 54.8% | |
| De Hoop dam[3] | – | 300 | 40 | 13.3% | |
| Municipal Infrastructure Grant projects | 4 163 | 6 756 | 5 796 | 85.8% | 39.2% |

*1. Gautrain excludes private sector contribution.*

*2. Construction only commenced in the 2006/07 financial year.*

*3. Construction only commenced in June 2007.*

*General government expenditure in 2006/07 totalled R608 billion*

In 2006/07, general government raised R619.6 billion, or 34.3 per cent of GDP, in revenue. Of this, 77.7 per cent was collected by national government. General government expenditure in 2006/07 totalled R607.7 billion, or 33.6 per cent of GDP. Of this expenditure, over half took place at provincial and local government level. The consolidated general government deficit is the sum of the deficits of all the levels of government and extra-budgetary institutions and accounts. In 2006/07, the consolidated general government budget balance was a surplus of 0.7 per cent of GDP.

## Public sector borrowing requirement

Table 3.8 shows the anticipated public sector borrowing requirement for the period ahead, taking into account the financing requirements of state-owned enterprises, municipalities and other public entities.

*Borrowing requirement widens over medium term*

The public sector borrowing requirement represents the funds needed by the public sector to cover any deficit in financing its own activities, and has moved from a negative requirement to a positive average of 1.3 per cent of GDP over the MTEF. Although the main budget balance, social security funds and the extra-budgetary institutions are in surplus, these are offset by significant deficit funding requirements by local government and the non-financial public enterprises. Borrowing is used primarily to fund projected capital investment plans, which have grown significantly, especially for state-owned entities.

### Eskom capital investment

Eskom's capital expenditure for the 2006/07 financial year amounted to R17.7 billion, which represents a year-on-year increase of 67 per cent. About R10 billion was spent on increasing generation capacity. In contrast, over the next five years Eskom's capital expansion plans will amount to R342.9 billion, with about 73% earmarked for generation, 12% for transmission and 10% for distribution.

**Eskom capital investment plans,[1] 2008/09 – 2012/13**

| R million | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Total |
|---|---|---|---|---|---|---|
| Generation | 34 354 | 60 346 | 55 112 | 49 828 | 50 130 | 249 770 |
| Transmission | 5 054 | 10 509 | 12 183 | 9 636 | 6 077 | 43 459 |
| Distribution | 6 078 | 6 617 | 7 446 | 7 939 | 8 815 | 36 895 |
| Corporate | 1 390 | 3 263 | 4 994 | 2 886 | 211 | 12 744 |
| **Total** | **46 876** | **80 735** | **79 735** | **70 289** | **65 233** | **342 868** |

*1. Reflects estimated capital plans.*

Spending is directed to meeting medium- and long-term demand. Return-to-service projects at Camden (R5.2 billion), Grootvlei (R4.8 billion) and Komati (R6.1 billion) will add a combined 3 677MW of generating capacity by 2011. Other power generation projects include the open cycle gas turbine project Gas 1, which extends Ankerlig and Gourikwa by 1 036 MW by mid-2009, and the Ingula pump-storage project in northern KwaZulu-Natal. Major generation projects are the coal-fired plants at Medupi in Lephalale (approved budget of R85.6 billion) and Bravo near Witbank (approved budget of R84.8 billion). To improve transmission capacity, Eskom is strengthening the Cape grid, building new lines from Majuba to KwaZulu-Natal and integrating new power stations into the transmission network.

### Transnet capital investment

In 2006/07 Transnet spent R11.7 billion as part of its plans to upgrade and expand its rail, port facilities and pipeline infrastructure.

**Transnet capital investment plans,[1] 2007/08 – 2011/12**

| R million | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Total |
|---|---|---|---|---|---|---|
| Freight Rail | 7 878 | 8 869 | 7 210 | 5 603 | 5 262 | **34 822** |
| Rail Engineering | 699 | 774 | 796 | 866 | 947 | **4 082** |
| Port Terminals | 3 136 | 2 642 | 1 343 | 1 338 | 1 054 | **9 513** |
| National Ports Authority | 3 949 | 5 691 | 4 631 | 2 452 | 1 812 | **18 535** |
| Pipelines | 900 | 3 282 | 3 289 | 2 302 | 188 | **9 961** |
| Other business | 373 | 223 | 211 | 153 | 141 | **1 101** |
| **Total** | **16 935** | **21 481** | **17 480** | **12 714** | **9 404** | **78 014** |

*1. Reflects estimated capital plans.*

The largest share (about 45%) of Transnet's capital investment leading up to 2011/12 will be spent on improving the freight rail business, with a focus on infrastructure and rolling stock. Projects include expanding the coal line (R4.9 billion) and the ore line (R3.8 billion). To increase port capacity, Transnet is widening and deepening the entrance to the Durban harbour (R7.6 billion), building a new container terminal at Ngqura (R1.5 billion), expanding the Cape Town container terminal and buying new equipment to handle projected volume increases. Transnet is also building a multi-product pipeline between Durban and Gauteng at a cost of R9.3 billion.

**Table 3.8 Public sector borrowing requirement,[1] 2004/05 – 2010/11**

| R million | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|---|
| | | Outcome | | Revised estimate | Medium-term estimates | | |
| **Main budget balance** | **20 605** | **4 936** | **-11 008** | **-15 846** | **-14 257** | **-11 282** | **-14 286** |
| Extraordinary payments | 9 787 | 4 554 | 4 214 | 771 | – | – | – |
| Extraordinary receipts | -2 492 | -6 905 | -3 438 | -1 837 | -850 | -850 | -600 |
| **Financing requirement** | **27 900** | **2 585** | **-10 233** | **-16 912** | **-15 107** | **-12 132** | **-14 886** |
| Social security funds | -5 363 | -7 553 | -6 412 | -4 486 | -4 229 | -4 736 | -6 241 |
| Provinces | -2 121 | 18 | -313 | 525 | 863 | -2 840 | -5 331 |
| Extra-budgetary institutions | -1 126 | -2 658 | -3 718 | -3 789 | -2 719 | -2 014 | -2 034 |
| Local authorities | 8 388 | 8 222 | 7 626 | 8 643 | 10 550 | 12 847 | 14 067 |
| **General government borrowing** | **27 679** | **614** | **-13 049** | **-16 018** | **-10 642** | **-8 875** | **-14 424** |
| *Percentage of GDP* | *1.9%* | *0.0%* | *-0.7%* | *-0.8%* | *-0.5%* | *-0.4%* | *-0.5%* |
| Non-financial public enterprises | -5 754 | -12 348 | 8 472 | 14 260 | 37 674 | 43 798 | 51 682 |
| **Public sector borrowing requirement** | **21 925** | **-11 734** | **-4 577** | **-1 758** | **27 032** | **34 923** | **37 258** |
| *Percentage of GDP* | *1.5%* | *-0.7%* | *-0.3%* | *-0.1%* | *1.2%* | *1.4%* | *1.4%* |
| *Gross domestic product* | *1 427 445* | *1 584 743* | *1 807 316* | *2 045 533* | *2 286 906* | *2 506 870* | *2 758 552* |

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

At the local level, larger municipalities have traditionally financed capital expenditure through borrowing. This trend is expected to continue based on data supplied by the Development Bank of Southern Africa and the Infrastructure Finance Corporation.

*Public enterprises account for largest share of the borrowing requirement*

The largest portion of the borrowing requirement is that of the non-financial public enterprises, averaging about R44 billion per year over the MTEF. The majority of this (about 87 per cent) is required to finance the revised capital expenditure plans of Eskom and Transnet.

## Conclusion

*Fiscal policy supports macroeconomic stability and sustainable financing*

South Africa's fiscal policy continues to support macroeconomic stability, while providing sustainable financing for government's social and economic objectives. The broad fiscal stance, taking note of slowing global growth, disquiet in international financial markets and cyclical factors, ensures that temporary or once-off revenues are not used in a way that undermines sustainable growth.

The savings performance of government continues to improve, reflective of both stronger budget balances and a rising proportion of spending on capital infrastructure. Budget surpluses at a consolidated general government level provide scope for increased borrowings to finance capital investment, especially by the state-owned enterprises, to contribute to removing short-term capacity constraints.

Revenue trends suggest continued buoyancy in the period ahead, but revenue growth moderates somewhat in line with economic growth.