3

Fiscal policy

In brief

- Given recent deterioration in the economic outlook, government proposes fiscal policy adjustments to reduce the budget deficit and stabilise debt. In line with these changes, projected deficits in each year of the forecast are lower than estimates set out in October 2015. A primary surplus will be achieved in 2016/17. Government is committed to achieving these targets and will take additional steps to do so as conditions warrant.
- The expenditure ceiling has been reduced by R25 billion over the next three years compared with the 2015 MTBPS. Tax adjustments will yield gross revenue increases of R48.1 billion over the next three years.
- National debt is projected to stabilise at 46.2 per cent of GDP in 2017/18 and to decline thereafter. Rising debt-service costs reflect the weaker exchange rate and higher interest rates.
- Risks to the fiscal outlook include below-projection GDP growth, increases in inflation-linked expenditure and the weak balance sheets of several state-owned entities. Government is actively managing these risks.

Overview

Fiscal policy adapts to deteriorating economic environment

In the four months since government presented the 2015 *Medium Term Budget Policy Statement* (MTBPS), the economic environment has deteriorated significantly, dragging down South Africa's GDP growth and revenue projections. Bond yields have increased markedly and the rand exchange rate has depreciated by 14 per cent against the US dollar. This deterioration is partly the consequence of a weakening global outlook. Falling commodity prices, increased risk aversion and rising interest rates in developed economies have led to an outflow of capital and a broad pattern of currency depreciation across developing countries.

The economic slowdown also reflects diminished confidence among South African consumers and businesses. Growth expectations have been further reduced by continued energy constraints. More recently, drought has curtailed agricultural output and increased food prices. Investors responded negatively to changes in the finance portfolio announced on 9 December last year, which prompted questions about South Africa's commitment to prudent fiscal management, raising the premium on government debt. At the same time, new public spending requirements have arisen in higher education and to provide drought relief.

Table 3.1 Macroeconomic performance and projections, 2012/13 – 2018/19

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Percentage change		**Actual**		**Estimate**		**Forecast**	
GDP at current prices (R billion)	**3 328**	**3 610**	**3 844**	**4 073**	**4 388**	**4 751**	**5 161**
Real GDP growth	2.1	2.2	1.6	0.9	1.2	1.9	2.5
GDP inflation	5.8	6.1	4.8	5.1	6.4	6.3	6.0
CPI inflation	5.6	5.8	5.6	5.4	6.6	6.2	5.9

Source: National Treasury

In December 2015, ratings agencies, citing poor economic growth prospects and other concerns, either downgraded South Africa's sovereign credit rating for foreign-currency debt or put the country on a negative outlook, raising the possibility of a downgrade to sub-investment grade status. The impact of such an event, if it were to occur, is difficult to predict. In a more benign scenario, a downgrade would probably lead to a short-term spike in interest rates and further weakening of the rand. In a less favourable scenario, it could trigger a sharp reversal of capital flows and precipitate a recession. In such an event, aggressive austerity measures would likely be required to restore the public finances to a sustainable position.

Since 2012, government has maintained core social and infrastructure programmes. However, sluggish economic growth has weighed heavily on revenue collection – constraining the very resources needed to close the budget deficit. The outlook for economic growth over the next three years is the lowest it has been since the medium-term expenditure framework (MTEF) was introduced in 1997. It appears that structural, rather than cyclical factors, are the primary cause of a protracted period of slower growth in South Africa and the world economy.

Fiscal proposals intended to pre-empt need for stronger action in future

These considerations have prompted government to propose additional revenue and expenditure measures over the medium term, pre-empting the need for stronger action in future.

Securing fiscal sustainability

The 2016 Budget proposals reinforce government's commitment to a prudent, sustainable fiscal policy trajectory, and respond actively to the changed circumstances since the tabling of the 2015 MTBPS.

Over the next three years, government will lower the expenditure ceiling, bolster tax revenues, actively manage fiscal risks emanating from state-owned companies and sharply restrict the growth of compensation budgets.

Deficit will close more rapidly than announced in 2015 MTBPS

As a result of these measures, the budget deficit will close more rapidly than announced at the time of the 2015 MTBPS. In 2016/17, for the first time since the 2009 recession, government will achieve a consolidated primary surplus: revenue will exceed non-interest spending. The budget deficit will fall from 3.2 per cent in 2016/17 to 2.8 per cent in 2017/18, and 2.4 per cent the following year.

Table 3.2 Consolidated fiscal framework, 2012/13 – 2018/19

R billion/percentage of GDP	2012/13	2013/14 Outcome	2014/15	2015/16 Revised estimate	2016/17	2017/18 Medium-term estimates	2018/19
Revenue	**907.6**	**1 008.1**	**1 100.0**	**1 223.1**	**1 324.3**	**1 436.7**	**1 571.6**
	27.3%	*27.9%*	*28.6%*	*30.0%*	*30.2%*	*30.2%*	*30.4%*
Non-interest expenditure	950.1	1 034.5	1 116.5	1 245.6	1 308.9	1 403.4	1 509.6
	28.6%	*28.7%*	*29.0%*	*30.6%*	*29.8%*	*29.5%*	*29.2%*
Interest payments	93.3	109.6	121.2	135.3	154.3	168.7	185.6
	2.8%	*3.0%*	*3.2%*	*3.3%*	*3.5%*	*3.6%*	*3.6%*
Expenditure	**1 043.4**	**1 144.1**	**1 237.7**	**1 380.9**	**1 463.3**	**1 572.1**	**1 695.2**
	31.4%	*31.7%*	*32.2%*	*33.9%*	*33.3%*	*33.1%*	*32.8%*
Budget balance	**-135.9**	**-136.0**	**-137.8**	**-157.9**	**-139.0**	**-135.3**	**-123.6**
	-4.1%	*-3.8%*	*-3.6%*	*-3.9%*	*-3.2%*	*-2.8%*	*-2.4%*
Primary balance	**-42.6**	**-26.4**	**-16.6**	**-22.6**	**15.4**	**33.4**	**62.0**
	-1.3%	*-0.7%*	*-0.4%*	*-0.6%*	*0.4%*	*0.7%*	*1.2%*

Source: National Treasury

To achieve its fiscal goals, government proposes to:

- Increase revenue through tax policy measures that raise an additional R18.1 billion in 2016/17, and R15 billion in each of the subsequent two years.
- Lower the expenditure ceiling by R10 billion in 2017/18 and R15 billion in 2018/19 by reducing compensation budgets, complemented by measures to restrict hiring.
- Reprioritise R31.8 billion over the next three years to meet new spending needs, without increasing the total expenditure envelope.

Budget proposes additional fiscal consolidation of R73 billion over medium term

Relative to projections contained in the 2015 MTBPS, these steps will lead to additional fiscal consolidation of R18 billion in 2016/17, R25 billion in 2017/18 and R30 billion in 2018/19. This adds to the R42 billion of consolidation measures (R25 billion in spending reductions and a R17 billion tax increase) announced in the 2015 Budget. The fiscal consolidation will see gross tax revenue increase by 1.5 percentage points of GDP and main budget non-interest expenditure (excluding the Eskom appropriation) fall by 0.5 percentage points of GDP between 2015/16 and 2018/19.

Table 3.3 Consolidation measures, 2015/16 – 2018/19

R billion	2015/16	2016/17	2017/18	2018/19
2015 Budget Review				
Expenditure reductions	10	15		
Revenue increases	17			
2016 Budget Review				
Expenditure reductions			10	15
Revenue increases		18	15	15

Source: National Treasury

Additional steps will be taken to meet deficit targets, if necessary

Government is committed to achieving its medium-term budget deficit targets and will take additional steps to fulfil this commitment as conditions warrant. Future budgets may alter the mix of revenue and expenditure measures proposed without reducing the overall size of the consolidation. For example, government could decide to moderate tax increases in favour of stronger spending reductions, or vice versa.

Tax policy reforms to boost revenue

Budget proposes R48 billion increase in gross taxes over medium term

The 2016 Budget proposes tax increases of R48 billion over the next three years relative to the 2015 MTBPS estimates. In 2016/17, an additional R7.6 billion in revenue will be raised by limiting relief for the effects of inflation on personal income tax (fiscal drag). Increases in the fuel levy and specific excise duties will amount to R9.5 billion, while adjustments to capital gains tax and transfer duty raise R2 billion. Another R30 billion in revenue has been included in the baselines of the two outer years (R15 billion in 2017/18 and R15 billion in 2018/19), with details of tax policy proposals to be determined following consultation and review, and set out in subsequent budgets.

Lowering the expenditure ceiling

The 2016 Budget proposals reduce growth in baseline expenditure by R25 billion over the MTEF period compared with 2015 MTBPS estimates. These reductions – R10 billion in 2017/18 and R15 billion in 2018/19 – will be applied to the compensation budgets of national and provincial departments.

Table 3.4 Expenditure ceiling,[1] 2012/13 – 2018/19

R million	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
2013 Budget Review	864 658	942 000	1 015 718	1 092 747			
2014 Budget Review		935 071	1 014 222	1 091 253	1 168 284		
2015 Budget Review			1 006 905	1 081 214	1 152 833	1 250 086	
2015 MTBPS			1 001 789	1 077 527	1 152 833	1 250 086	1 354 422
2016 Budget Review			1 001 874	1 076 705	1 152 833	1 240 086	1 339 422

1. Non-interest spending financed from the National Revenue Fund, excluding skills development levy, special appropriations in 2015/16 for Eskom and New Development Bank, debt management and Gold and Foreign Exchange Contingency Reserve Account transactions
Source: National Treasury

New appointments subject to clear human resource plans aligned with lower budgets

To effect these measures, appointments to fill administrative and managerial vacancies will be blocked on government's payroll system starting in April 2016. The National Treasury, working with provincial treasuries and the Department of Public Service and Administration, will consider authorising appointments only after departments have submitted clear human resource plans aligned with reduced compensation budgets and greater efficiency. In many cases, these plans will need to trim employment of non-critical personnel, eliminate supernumerary positions and establish a sustainable level of authorised, funded posts that will be closely monitored in the years ahead.

Reprioritising for new spending needs

Service delivery to the poor has been protected from reductions

Government has responded to new spending needs without compromising expenditure limits. Care has been taken to avoid reducing budgets that would adversely affect service delivery to poor South Africans.

The 2016 Budget proposes to reprioritise spending amounting to R31.8 billion over the MTEF period to support higher education and South Africa's contributions to the New Development Bank. In addition, R3.5 billion of this amount will be added to the contingency reserve in 2016/17 in response to elevated macroeconomic risks. Additional allocations for small business development and performance monitoring have also been made. These allocations are funded by large reductions in budgets for non-essential goods and services in national departments, including travel, complemented by stronger cost-containment initiatives, and reforms to procurement and supply chain management.

Compensation budgets of departments with high vacancy rates have been significantly reduced, as have transfers to several national public entities. A commensurate share of the reprioritisation has been sourced from provincial and local government allocations. Where infrastructure programmes have persistently underspent, prudent cuts have been made.

Risks to the fiscal outlook

GDP growth, food inflation, energy prices and stability of state-owned companies are main risks to forecast

The main risks to government's fiscal consolidation plans are weaker-than-expected economic outcomes, inflation and the financial position of several state-owned entities:

- A weaker-than-expected economic growth performance in the outer years of the framework would reduce revenue growth, pushing out the year in which debt is to stabilise. Further increases in interest rates, combined with a weaker exchange rate and rising inflation, would raise the cost of borrowing and increase the stock of debt.
- Food inflation has increased and Eskom has approached the energy regulator for higher tariff increases. If these result in higher consumer price index inflation over the coming year, there will be upward pressure on inflation-linked expenditure, including compensation, social grants and free basic services.
- Several state-owned entities are in financial distress. The financial position of South African Airways has deteriorated since October 2015. In the event of default, government will likely be called on to pay a portion of its guarantee to the airline, which currently stands at about R14.4 billion.

Contingency measures may be necessary if risks materialise

If any of these risks were to materialise, government would need to consider contingency measures. In the event of slower growth or higher inflation, government may reprioritise spending, further reduce baseline allocations or defer new programmes. Government is working with state-owned companies facing financial difficulties to stabilise their balance sheets and implement realistic turnaround plans (see Chapter 8).

Fiscal framework

Consolidated deficit for 2015/16 in line with 2015 MTBPS projections

At 3.9 per cent of GDP, the consolidated deficit in 2015/16 is broadly in line with the 2015 MTBPS estimate. Deficit estimates for the outer years of the framework improve on average by about 0.4 per cent of GDP compared with the October 2015 projection, as a result of tax policy proposals and reductions in spending. Excluding the R23 billion Eskom appropriation announced in the 2015 Budget, consolidated non-interest expenditure will grow at an annual average rate of 7.3 per cent over the next three years. Current transfers and subsidies are expected to grow on average by 6.8 per cent over the next three years, mainly reflecting inflation-related increases to social grants. Goods and services budgets grow by 6.9 per cent over the same period.

Compensation stable at 35 per cent of total spending

Compensation as a share of total spending is projected to remain at about 35 per cent between 2015/16 and 2018/19. After taking account of reprioritisation, the wage agreement and proposed reductions in national and provincial compensation, the consolidated wage bill is expected to grow at a nominal annual average of 7.4 per cent over the MTEF period.

Table 3.5 Consolidated operating and capital accounts, 2012/13 – 2018/19

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Outcome		Revised estimate	Medium-term estimates		
OPERATING ACCOUNT							
Current revenue	**892.2**	**992.9**	**1 083.3**	**1 181.2**	**1 310.5**	**1 431.1**	**1 567.2**
Current payments	**919.6**	**1 006.5**	**1 086.0**	**1 188.3**	**1 283.0**	**1 377.5**	**1 481.5**
Compensation	376.3	408.2	437.0	476.8	516.8	551.5	590.9
Goods and services	162.9	174.2	187.5	193.7	204.7	221.9	236.6
Interest payments	93.3	109.6	121.2	135.3	154.3	168.7	185.6
Current transfers and subsidies	287.1	314.6	340.2	382.5	407.2	435.4	468.4
Current balance	**-27.5**	**-13.7**	**-2.7**	**-7.1**	**27.4**	**53.6**	**85.7**
Percentage of GDP	*-0.8%*	*-0.4%*	*-0.1%*	*-0.2%*	*0.6%*	*1.1%*	*1.7%*
CAPITAL ACCOUNT							
Capital receipts	0.3	0.2	1.3	0.2	0.1	0.1	0.1
Capital payments	66.3	75.8	86.4	97.9	100.4	105.6	110.5
Capital transfers	52.4	57.5	59.7	65.1	68.7	73.9	83.2
Capital financing requirement	**-118.4**	**-133.1**	**-144.8**	**-162.8**	**-168.9**	**-179.3**	**-193.5**
Percentage of GDP	*-3.6%*	*-3.7%*	*-3.8%*	*-4.0%*	*-3.8%*	*-3.8%*	*-3.7%*
Financial transactions[1]	10.0	10.8	9.7	12.0	8.5	0.4	-0.8
Contingency reserve	–	–	–	–	6.0	10.0	15.0
Budget balance	**-135.9**	**-136.0**	**-137.8**	**-157.9**	**-139.0**	**-135.3**	**-123.6**
Percentage of GDP	*-4.1%*	*-3.8%*	*-3.6%*	*-3.9%*	*-3.2%*	*-2.8%*	*-2.4%*

1. Transactions in financial assets and liabilities
Source: National Treasury

Capital-financing requirement remains broadly unchanged at 3.8 per cent of GDP over MTEF period

Nominal growth in capital payments declines from 16 per cent in 2015/16 to an annual average of 4.1 per cent over the medium term, as funds allocated to underspending capital grants are reallocated to priority areas. Capital transfers grow by a nominal annual average of 8.5 per cent, reflecting funding for local government infrastructure. The capital-financing requirement as a share of GDP will remain broadly unchanged, at about 3.8 per cent over the three-year spending period. This reflects relatively strong growth in capital spending by the South African National Roads Agency Limited and the Passenger Rail Agency of South Africa, financed in part by drawdowns on their reserves.

From 2016/17 onwards, government will close its current deficit

From 2016/17 onwards, government will close its current deficit – the difference between current revenue and spending on compensation, goods and services, interest, and current transfers and subsidies. The resultant savings are expected to reach 1.7 per cent of GDP in 2018/19, equivalent to 44 per cent of government's budgeted capital spending.

Elements of the consolidated budget

The consolidated budget includes the main budget as well as spending by provinces, public entities and social security funds financed from their own revenue.

Main budget framework

The main budget framework summarises spending financed by revenue and borrowing deposited into the National Revenue Fund. The main budget deficit, which is government's borrowing requirement, will be 4.2 per cent of GDP in 2015/16, declining to 2.9 per cent in the outer year. The main budget primary deficit – the difference between revenue and non-interest spending – is projected to narrow, reaching a surplus in 2017/18.

Main budget primary surplus expected in 2017/18

Table 3.6 Main budget framework, 2012/13 – 2018/19

R billion/percentage of GDP	2012/13	2013/14 Outcome	2014/15	2015/16 Revised estimate	2016/17	2017/18 Medium-term estimates	2018/19
Revenue							
Gross tax revenue after proposals	813.8	900.0	986.3	1 069.7	1 174.8	1 296.5	1 434.7
Non-tax revenue	16.2	18.9	18.3	41.7	14.5	15.1	14.4
SACU[1]	-42.2	-43.4	-51.7	-51.0	-39.4	-51.1	-63.0
National Revenue Fund receipts[2]	12.3	11.7	12.6	14.2	12.2	3.8	2.5
Main budget revenue	**800.1**	**887.3**	**965.5**	**1 074.5**	**1 162.0**	**1 264.3**	**1 388.7**
	24.0%	*24.6%*	*25.1%*	*26.4%*	*26.5%*	*26.6%*	*26.9%*
Expenditure							
National departments	420.2	453.4	490.0	546.8	559.8	594.1	637.8
Provinces	380.9	410.6	439.5	471.8	499.8	542.3	582.9
Local government	76.2	82.6	87.7	99.7	104.9	113.3	125.8
Non-interest allocations	**877.4**	**946.6**	**1 017.2**	**1 118.2**	**1 164.6**	**1 249.8**	**1 346.5**
Debt-service costs	88.1	101.2	114.8	129.1	147.7	161.9	178.6
Contingency reserve	–	–	–	–	6.0	10.0	15.0
Main budget expenditure	**965.5**	**1 047.8**	**1 132.0**	**1 247.3**	**1 318.3**	**1 421.7**	**1 540.0**
	29.0%	*29.0%*	*29.5%*	*30.6%*	*30.0%*	*29.9%*	*29.8%*
Main budget balance	**-165.4**	**-160.5**	**-166.6**	**-172.8**	**-156.3**	**-157.4**	**-151.3**
	-5.0%	*-4.4%*	*-4.3%*	*-4.2%*	*-3.6%*	*-3.3%*	*-2.9%*
Primary balance	**-77.2**	**-59.3**	**-51.8**	**-43.7**	**-8.6**	**4.5**	**27.2**
	-2.3%	*-1.6%*	*-1.3%*	*-1.1%*	*-0.2%*	*0.1%*	*0.5%*

1. Southern African Customs Union. Amount made up of payments and other adjustments
2. Previously classified as extraordinary receipts

Source: National Treasury

As a result of weaker GDP growth, a tax revenue shortfall of R4 billion is projected for 2015/16 compared with 2015 MTBPS projections. This reflects under-collections in personal income tax (R4 billion), value-added tax (R2.4 billion) and dividend withholding tax (R1.4 billion), partially offset by the strong performance of customs duties (R3.2 billion above projections) and marginally higher corporate income tax.

Tax revenue shortfall of R4 billion projected for 2015/16 compared to 2015 MTBPS

In addition, the recent depreciation of the rand has improved anticipated receipts from financial transactions, which includes revaluation profits on government's foreign exchange deposits at the Reserve Bank. When used to meet government's foreign-currency commitments, these revaluations generate additional cash receipts into the National Revenue Fund. This revenue source has been revised up by R6 billion in the current year, and by R7.3 billion over the MTEF period. Upward revisions to gross tax and National Revenue Fund receipts are partially offset by higher payments to

Southern African Customs Union members as a result of better-than-expected customs duty receipts.

Non-interest spending to decline to 26.4 per cent of GDP in 2018/19

In real terms, non-interest expenditure (excluding the Eskom appropriation) will grow by 2.2 per cent in 2015/16 and by 0.2 per cent in 2016/17. As a share of GDP, non-interest spending declines to 26.4 per cent in 2018/19 from 26.9 per cent in the current fiscal year.

Table 3.8 details the changes to main budget revenue and expenditure estimates since Budget 2015. For 2015/16, the disposal of Vodacom shares and subsequent allocation to Eskom is reflected in revised non-tax revenue receipts and payments for financial assets. In 2016/17, total expenditure has been revised up due to higher debt-service costs and the skills development levy. Payments for capital assets have been revised down in 2016/17 and 2017/18, reflecting the reprioritisation of underspending capital grants towards other priority areas.

Table 3.7 Revisions to main budget revenue and expenditure estimates, 2015/16 – 2017/18

	2015/16		2016/17		2017/18	
R billion/percentage of GDP	**2015 Budget**	**2016 Budget**	**2015 Budget**	**2016 Budget**	**2015 Budget**	**2016 Budget**
Revenue						
Gross tax revenue	1 081.3	1 069.7	1 179.2	1 174.8	1 289.7	1 296.5
Non-tax revenue	17.0	41.7	17.9	14.5	18.6	15.1
SACU[1]	-51.0	-51.0	-36.5	-39.4	-45.4	-51.1
National Revenue Fund receipts	2.0	14.2	5.4	12.2	2.5	3.8
Main budget revenue	**1 049.3**	**1 074.5**	**1 166.0**	**1 162.0**	**1 265.4**	**1 264.3**
Percentage of GDP	*25.0%*	*26.4%*	*25.7%*	*26.5%*	*25.7%*	*26.6%*
Expenditure						
Current payments	324.1	327.4	351.5	359.7	376.0	383.7
of which:						
Compensation of employees	*137.6*	*137.1*	*146.6*	*148.5*	*155.1*	*154.8*
Goods and services	*60.1*	*61.1*	*64.0*	*63.3*	*67.5*	*66.8*
Debt-service costs	*126.4*	*129.1*	*141.0*	*147.7*	*153.4*	*161.9*
Transfers and subsidies	873.0	874.0	925.6	933.0	980.1	1 009.5
Payments for capital assets	16.7	16.4	17.4	14.4	19.3	13.0
Payments for financial assets	3.5	29.5	0.3	5.0	0.4	5.0
Provisional allocation not assigned to votes	–	–	–	0.3	–	0.5
Contingency reserve	5.0	–	15.0	6.0	45.0	10.0
Total expenditure	**1 222.3**	**1 247.3**	**1 309.9**	**1 318.3**	**1 420.8**	**1 421.7**
Percentage of GDP	*29.2%*	*30.6%*	*28.9%*	*30.0%*	*28.8%*	*29.9%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Exchange rate depreciation and rising interest rates have increased the medium-term forecast of debt-service costs. In total, debt-service costs are revised up by R18 billion from 2015/16 to 2017/18. As a ratio of GDP, debt-service costs increase from 3.2 per cent in the current year to 3.5 per cent in the outer year.

Table 3.8 National government debt-service costs, 2014/15 – 2018/19

R million	2014/15 Outcome	2015/16 Revised	2016/17	2017/18 Medium-term estimates	2018/19
Domestic loans	106 522	118 596	134 175	148 103	164 057
Short-term	14 743	16 242	19 674	23 607	26 425
Long-term	91 779	102 354	114 501	124 496	137 632
Foreign loans	8 276	10 515	13 545	13 824	14 499
Total	**114 798**	**129 111**	**147 720**	**161 927**	**178 556**
As percentage of:					
GDP	*3.0*	*3.2*	*3.4*	*3.4*	*3.5*
Expenditure	*10.1*	*10.4*	*11.2*	*11.4*	*11.6*
Revenue	*11.9*	*12.0*	*12.7*	*12.8*	*12.9*

Source: National Treasury

Social security funds, public entities and provincial balances

The social security funds, provinces and public entities have a combined cash surplus over the medium term, which partially offsets the main budget deficit. In aggregate, social security funds continue to generate a large cash surplus, increasing from R19 billion in the current fiscal year to R26 billion in 2018/19. Compared with the 2015 Budget, the Unemployment Insurance Fund has revised up its 2015/16 surplus by R12 billion, while the Compensation Fund has revised down its revenue projections by about R5 billion in each year from 2015/16 to 2017/18.

Table 3.9 Consolidated budget balance, 2012/13 – 2018/19

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Main budget	-165.4	-160.5	-166.6	-172.8	-156.3	-157.4	-151.3
Social security funds	17.8	13.5	15.8	19.2	20.6	23.4	25.9
Provinces	6.5	4.3	6.2	-0.4	-1.0	0.3	0.6
Public entities	5.3	6.2	6.3	-3.5	-1.0	-0.3	2.5
RDP Fund[1]	-0.1	0.6	0.5	-0.5	-1.2	-1.3	-1.3
Consolidated budget balance	**-135.9**	**-136.0**	**-137.8**	**-157.9**	**-139.0**	**-135.3**	**-123.6**

1. Reconstruction and Development Programme Fund
Source: National Treasury

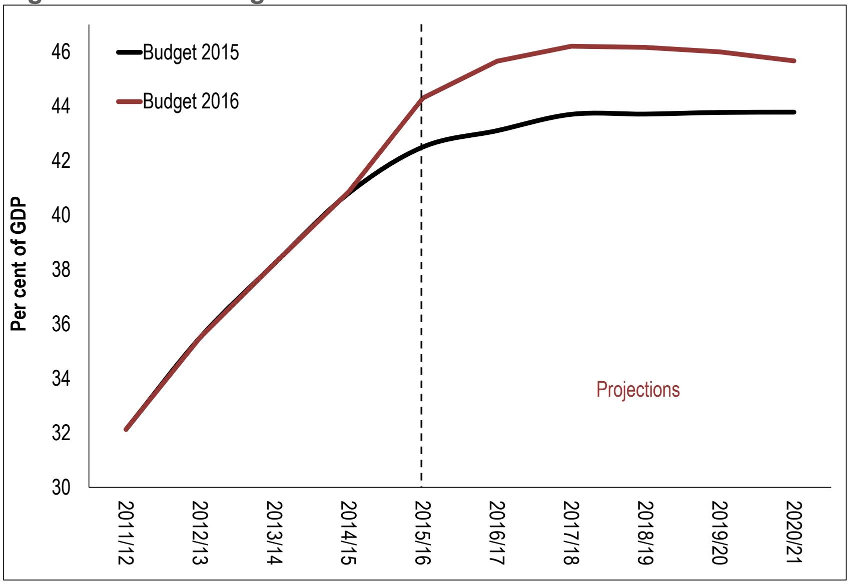
As a result of the 2015 public-sector wage agreement, projections of provincial surpluses have been reduced sharply compared with the 2015 Budget. Some provinces will draw on accumulated reserves, running a deficit in 2015/16 and 2016/17. Surpluses projected for public entities in October 2015 have been lowered by R3 billion in 2015/16 and R4 billion over the MTEF period, mainly due to higher projected infrastructure spending and lower transfers from government.

Debt outlook

Consolidation stabilises government's debt-to-GDP ratio

Over the medium term, the proposed consolidation will stabilise and begin to reduce government's debt-to-GDP ratio. The depreciation of the rand, however, has increased the stock of foreign debt by an estimated R45 billion in 2015/16. This increase, combined with lower nominal GDP, results in net debt stabilising at 46.2 per cent of GDP in 2017/18. At the time of the 2015 MTBPS, net debt was projected to stabilise at 45.7 per cent of GDP in 2019/20.

Figure 3.1 National government net debt outlook



Source: National Treasury

Public-sector borrowing

Public-sector borrowing requirement will be R254.6 billion in 2015/16

The public-sector borrowing requirement will be R254.6 billion or 6.2 per cent of GDP in 2015/16, broadly unchanged from the 2015 Budget estimate. In 2018/19, the borrowing requirement narrows to 3.9 per cent of GDP, reflecting the main budget consolidation and lower borrowing by state-owned companies. Total public-sector debt – gross government debt, non-financial state-owned companies and local government – was 61.9 per cent of GDP in 2014/15. Public-sector debt accumulation will slow, in line with the narrowing of the consolidated deficit and revisions to the borrowing plans of state-owned companies.

Table 3.10 Public-sector borrowing requirement,[1] 2012/13 – 2018/19

R billion/percentage of GDP	2012/13	2013/14 Outcome	2014/15	2015/16 Budget 2015	2015/16 Budget 2016	2016/17	2017/18 Medium-term estimates	2018/19
Main budget	165.4	160.5	166.6	173.1	172.8	156.3	157.4	151.3
Social security funds	-17.8	-13.5	-15.8	-11.6	-19.2	-20.6	-23.4	-25.9
Provinces	-6.5	-4.3	-6.2	-0.2	0.4	1.0	-0.3	-0.6
Public entities	-5.3	-6.2	-6.3	0.3	3.5	1.0	0.3	-2.5
RDP Fund[2]	0.1	-0.6	-0.5	0.6	0.5	1.2	1.3	1.3
Consolidated government	**135.9**	**136.0**	**137.8**	**162.2**	**157.9**	**139.0**	**135.3**	**123.6**
	4.1%	*3.8%*	*3.6%*	*3.9%*	*3.9%*	*3.2%*	*2.8%*	*2.4%*
Local authorities	**7.3**	**7.8**	**9.0**	**9.5**	**9.5**	**9.8**	**10.0**	**10.9**
	0.2%	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
State-owned companies[3]	**58.3**	**56.7**	**78.7**	**83.8**	**87.2**	**72.9**	**83.5**	**67.1**
	1.8%	*1.6%*	*2.0%*	*2.0%*	*2.1%*	*1.7%*	*1.8%*	*1.3%*
Borrowing requirement	**201.5**	**200.4**	**225.6**	**255.4**	**254.6**	**221.6**	**228.8**	**201.6**
	6.1%	*5.6%*	*5.9%*	*6.1%*	*6.2%*	*5.1%*	*4.8%*	*3.9%*

1. A negative number indicates a surplus and a positive number a deficit
2. Reconstruction and Development Programme Fund
3. SANRAL and Trans-Caledon Tunnel Authority are included as public entities under consolidated government borrowing
Source: National Treasury