3

Fiscal policy and the budget framework

Government's fiscal stance aims to put growth and development on firm foundations for the years ahead. Social expenditure grows strongly, tax relief again puts spending power back into workers' hands and a moderate deficit is forecast.

Real non-interest expenditure of consolidated national and provincial government grows at an average of 4,5 per cent over the MTEF period, providing for an expanding resource envelope in which to address the country's social and economic priorities.

Personal income tax relief of R13,3 billion contributes to the expansionary stance, with main budget revenue stabilising at 24,6 per cent of GDP over the course of the 2003 MTEF.

The decline in debt service costs as a percentage of GDP, from 4,2 per cent in 2002/03 to 3,8 per cent in 2005/06, allows for greater social expenditure, while the continued decline in the national debt relative to GDP ensures that the public finances remain insulated from external risks.

Overview

The expansionary fiscal stance first signalled in the 2001 Budget is maintained for the 2003 MTEF, with the deficit widening to 2,4 per cent of GDP next year, maintaining this level in 2004/05, and declining to 2,3 per cent of GDP in 2005/06.

The 2003 Budget seeks to strike a balance between meeting the inter-linked social objectives of poverty reduction and development, and the economic goals of growth, job-creation and investment. It provides for:

Real non-interest expenditure growth of 4,5 per cent a year over the MTEF period

Real annual growth in national and provincial non-interest expenditure of 4,5 per cent over the 2003 MTEF to meet government's expenditure priorities, as set out in detail in chapters 6 and 7 and by individual department vote in the Estimates of National Expenditure

- R13,3 billion in personal income tax relief, focused on lower- and middle-income workers, as set out in detail in chapter 4

- Significant delivery on government's objective of increasing public infrastructure investment in the economy, set out in greater detail in the text box below.

Stable and sustainable fiscal framework

At the same time it provides for a stable and sustainable fiscal framework:

- Debt service costs decline to 4,2 per cent of GDP (or 16,2 per cent of main budget expenditure) in 2002/03, and further to 3,8 per cent of GDP in 2005/06 (or 13,9 per cent of main budget expenditure)
- Total net loan debt continues its decline, from 47,6 per cent of GDP in 1998/99, to 38,5 per cent in 2002/03, set out in greater detail in chapter 5
- Main budget revenue stabilises at 24,6 per cent of GDP over the MTEF.

This chapter looks first at trends in the development of South Africa's fiscal framework over the last decade, and projects their development over the next three years.

A closer look is taken at the contribution of the different elements of fiscal policy to growth and development in South Africa.

The structure of government's finances is explained, and details set out of projections on each of the accounts that make up the fiscal framework, noting trends and adjustments since 2002.

Fiscal policy: goals, trends and targets

The revenue and expenditure of government affects the economy both through the contribution of spending to meeting social and economic objectives, and in the impact of key fiscal aggregates on economic development.

Fiscal policy considered in terms of expenditure priorities…

Chapters 6 and 7 take up the first of these channels, describing the allocation of resources across the national, provincial and local spheres, and reflecting the considered balance between infrastructure, social development, security and other priorities of government.

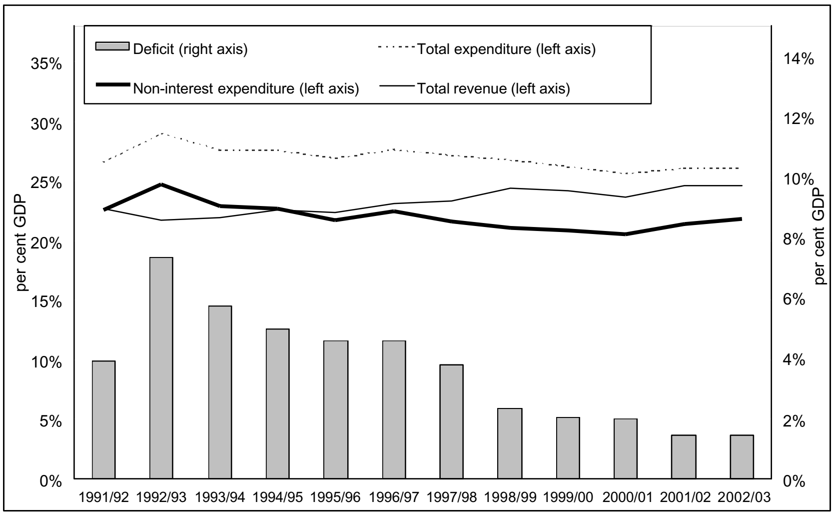
… and impact on economic development

The broad outlines of the evolving budget framework through which fiscal policy has impacted on the South African economy over the last decade are set out in figure 3.1 below. It highlights:

Evolution of fiscal policy stance from consolidation to expansion

- A period up to the democratic transition in 1994, of high expenditure and insufficient revenue collection, with deficits above 7,0 per cent of GDP.
- A period of consolidation between 1996/97 and 2000/01, which saw expenditure moderation, and consistent primary surpluses (revenue less non-interest expenditure), accompanied by a shrinking deficit.
- A phase of more expansionary fiscal policy from 2001/02, which forms the backdrop to the 2003 Budget.

Figure 3.1 Key indicators of fiscal policy, main budget



Trends in South Africa's key fiscal policy indicators, and targets going forward, are set out in table 3.1 below. These attest to the twin goals of fostering growth and investment, and maintaining a stable fiscal framework.

Towards fostering growth and investment:

Real growth in gross fixed capital formation by general government of 4,6 per cent for 2002

- After a period of consolidation, *gross fixed capital formation* by general government, which represents investment in the productive capacity of the economy, is estimated to have grown in real terms at 4,6 per cent in 2002, and is forecast to average growth of 5,1 per cent over the 2003 MTEF. This is accompanied by a recovery of investment by public enterprises. Progress in Government programmes of enhanced infrastructure expenditure are described in greater detail in the box below.

Government consumption spending shift towards non-wage recurrent expenditure

- *Government consumption expenditure* has stabilised in percentage GDP terms (from 20 per cent of GDP in the mid-1990s to an estimated 19,2 per cent in 2002) and has seen a shift away from remuneration towards expenditure on goods and services such as medicines, textbooks and the maintenance of capital stock.

Deficit between 2 and 2½ per cent over MTEF period

- A wider *main budget deficit* over the 2003 MTEF signals a more expansionary fiscal policy. While stronger than anticipated revenue-performance and inflation induced by the currency depreciation of 2002 have partly dampened the expansionary impact of fiscal policy, strong non-interest expenditure growth is set to raise the deficit to between 2 and 2½ per cent of GDP over the MTEF period.

PSRB declines to 1,4 per cent in 2002/03

- The *public sector borrowing requirement*, which adds the comparatively small borrowing requirements of the non-financial public enterprises to that of general government, has dropped significantly from 4,5 per cent in 1997/98, to an estimated 1,4 per cent in 2002/03. This has two important effects: first, less borrowing implies lower interest payments on debt, thus increasing the resources available for non-interest expenditure; second, it reduces pressures on capital markets, which feeds through to lower interest rates, and benefits the overall investment environment.

General government dissavings to be eliminated in 2003 MTEF

- *General government dissavings*, which measures the degree to which government diverts resources from the potentially investable pool of national savings to meet its own current expenditure, has been reduced from 4,6 per cent of GDP in 1997 to 0,4 per cent of GDP in 2002. Over the MTEF period, government will reverse the trend, and will contribute positively to national savings.

General government tax to GDP ratio stabilises at about 28 per cent

- The *tax to GDP ratio*, which is the overall burden of tax on the economy, is expected to stabilise at 27,8 per cent of GDP over the course of the 2003 MTEF, in line with the levels of general government taxation in comparable economies. Tax policy continues to provide incentives for growth and investment, as set out in greater detail in chapter 4.

Towards sustaining a stable fiscal framework:

Interest on public debt of general government to decline to 4,2 per cent of GDP in 2005

- Declining *interest on public debt*, from 6,1 per cent of GDP in 1997 to 4,9 per cent of GDP in 2002, with a further decline to 4,2 per cent of GDP expected by 2005, shows that the claims of servicing debt pose decreasing risk to the public finances.

Table 3.1 Fiscal trends and projections

	1997	1998	1999	2000	2001	2002 Estimate	2005 Target
Gross fixed capital formation (percentage real growth)							
general government	7,3	-4,4	-3,8	-6,2	0,1	4,6	5,1*
public corporations	9,2	52,8	-29,1	-19,7	-3,6	2,5	4,2*
Government consumption expenditure (per cent of GDP)	19,2	19,0	18,6	18,7	18,9	19,2	19,3
wages	*14,1*	*14,0*	*13,6*	*13,0*	*12,7*	*12,5*	*12,1*
non-wage	*5,2*	*5,0*	*5,0*	*5,7*	*6,2*	*6,7*	*7,2*
General Government savings (per cent of GDP)	-4,6	-2,8	-1,8	-1,9	-0,2	-0,4	0,3
General govt tax revenue (per cent of GDP)	25,4	26,9	27,1	26,3	27,6	28,0	27,8
Interest on public debt (per cent of GDP)	6,1	6,4	6,2	5,8	5,4	4,9	4,2
	1997/98	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03 Estimate**	**2005/06 Target**
Public sector borrowing requirement (per cent of GDP)	4,5	3,5	1,0	1,3	0,7	1,4	2,7
National government (per cent of GDP)							
Main budget deficit	3,8	2,3	2,0	2,0	1,5	1,4	2,3
Total net loan debt	47,4	47,6	45,7	43,5	42,3	38,5	36,8

** 2003 MTEF period average.*

Debt declines to 38,5 per cent of GDP in 2002/03

- *Net loan debt of national government* has declined steadily, from 47,4 per cent of GDP in 1997/98, to 38,5 per cent in 2002/03, reducing the country's vulnerability to capital market instability.

Foreign debt of 7,9 per cent of GDP in 2002/03

- While *foreign loan debt of national government* has risen to 7,9 per cent of GDP in 2002/03 and is set to reach 8,7 per cent by 2005/06, it remains moderate among emerging economies.

The next section considers in more detail how the trends in investment and non-wage consumption expenditure highlighted above, and the personal income tax relief set out in chapter 4, are likely to impact on growth and development.

Infrastructure expenditure: trends and projections

The table below reflects trends and projections in government's programme of boosting infrastructure development across the public sector, in the three spheres of government, the non-financial public enterprises and extra-budgetary institutions, and through public private partnerships (PPPs).

It shows capital expenditure averaging 5,7 per cent of GDP over the course of the MTEF, with large investments in the non-financial public enterprises scheduled for 2003/04, and strong growth in PPP expenditure supporting consistent national, provincial and municipal investment.

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Outcome	Preliminary estimates		Medium-term estimates		
R million						
National departments[1]	4 064	7 951	8 618	10 837	11 774	12 437
Provincial departments	7 610	11 194	12 965	17 712	18 479	20 806
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
	Outcome	**Preliminary estimates**		**Medium-term estimates**		
Municipalities	13 700	11 700	13 000	14 040	15 022	15 924
Public private partnerships[2]	886	1 371	1 344	1 735	2 933	4 002
Extra-Budgetary institutions	2 351	2 419	2 588	2 683	2 803	2 938
Non-financial public enterprises	17 119	17 387	19 636	27 106	25 207	23 046
Total	45 730	52 022	58 151	74 113	76 218	79 154
percentage GDP	5,0%	5,2%	5,2%	6,0%	5,7%	5,4%
GDP	*913 221*	*1 007 810*	*1 120 100*	*1 234 600*	*1 344 300*	*1 466 600*

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

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

At the national level, infrastructure development focuses on bulk water works, rail refurbishment, electrification, and tourism facilities, while provinces take responsibility for schools, clinics, roads and housing. The local sphere takes responsibility for water, sanitation, and other bulk municipal services. Strong expenditure growth is projected in all three spheres, with a combined annual average growth rate of 12,4 per cent.

Major public enterprises have signalled an increase in infrastructure spending over the next three years, in order to improve competitiveness in the face of pending competition and to cope with increased demand for services in ports and the electricity supply chain. The construction of a deep water harbour at Coega, the capacity expansion at the Durban container terminal, and other port infrastructure projects imply an investment of about R12,5 billion over the next three to four years.

A significant increase in infrastructure investment through public private partnerships is projected over the 2003 MTEF. Investment of over R3,4 billion on toll-road concessions is anticipated, under the auspices of the South African National Roads Agency Limited (SANRAL).

Key PPPs at national and provincial level, completed or under completion in 2002, include the Inkosi Albert Luthuli Hospital in Durban, and the Universitas and Pelonomi Hospitals Co-location projects. PPPs currently under consideration include the Gauteng Rapid Rail Link, Dube tradeport, three new hospitals, and the Home Affairs national identification system. PPPs underway at municipal level include the Kelvin Power Joint Venture, the Nelspruit water concession, as well as several solid waste disposal projects.

Fiscal policy as a tool for growth and development

With the successful achievement of fiscal consolidation between 1996/97 and 2000/01, government announced a more expansionary stance in the 2001 Budget. Subsequent budgets have signaled increases in investment and non-wage consumption expenditure, accompanied by significant personal income tax relief.

Econometric models attempt to assess impact of different fiscal stimuli

While the channels through which these measures may impact on growth are generally well understood, the scale of, and interaction between their effects remain the subject of empirical analysis for any particular economy.

Econometric models can be used to analyse the nature and scale of fiscal multipliers (the ratio between an increase in expenditure and the addition to GDP that it induces). A recent survey of international experience suggests short-term fiscal multipliers of between 0,6 and 1,4 for expenditure and 0,3 and 0,8 for tax, with long-term multipliers rather lower, in some cases turning negative[1].

Treasury simulations of how the different aspects of South Africa's more expansionary fiscal stance can be expected to impact on the economy are broadly in line with this international experience, as illustrated in table 3.2 below[2].

Table 3.2 Fiscal multipliers

	short term multiplier	long term multiplier
Investment	0,9	1,6
Non-wage consumption	0,8	0,2
Personal Income Tax Relief	0,5	0,5
Wage bill		
increased employment	1,2	-0,02
increased wage rate	0,4	-0,15
International comparison	0,3 to 1,4	-0,2 to 0,2

Expenditure on investment has greatest impact on economic growth

Table 3.2 suggests that increased investment expenditure has greater impact than other forms of government intervention, particularly over the longer term. In broad terms, for every rand by which investment expenditure increases the overall level of government expenditure, GDP can be expected to increase by R1,60.

Effects of non-wage consumption decrease over time

While increases in non-wage consumption have relatively high initial fiscal multipliers, these effects are likely to feed through the economy and reduce substantially in the long term. Nonetheless, the long-term effect of non-wage consumption expenditure on growth are likely to remain favourable by international comparison.

Impact of PIT relief constant over time

While the growth implications of personal income tax relief over the short term are likely to be lower than the short-term effects of non-

[1] 'The Effect of Fiscal Policy in Stimulating Economic Activity', Hemming, Kell and Mahfouz, IMF, 2002.

[2] Analysis is undertaken on the National Treasury Macroeconometric Model – a co-integrated quarterly demand-determined model with specific supply-side elements.

wage consumption expenditure, their effects are likely to remain more robust and persist in the long term.

Simulations of this kind help to predict how the economy responds to various shocks, but cannot be used as more than a guideline, given both model limitations, and the need to take on board broader issues of human development.

Growth a means to addressing poverty

While economic growth and human development are closely inter-linked, growth is but one of a number of tools for addressing the broad objectives of poverty-reduction, greater income equality, and the progressive realisation of social and economic rights. The way in which government expenditure is focused on achieving these goals is highlighted in chapter 6, and described in detail by departmental vote in the *Estimates of National Expenditure*.

Importance of sound management and enhanced service delivery

In promoting growth and development, and harnessing the inter-linkages between them, the effectiveness of public expenditure is critically dependent on an appropriate balance between personnel costs and complementary goods and services, and between investment in infrastructure and ongoing maintenance and improvements to physical assets. The effective targeting of transfers and services to the poor remains crucial, as do vigorous efforts to improve management and to enhance service delivery quality alongside expenditure increases.

The budget framework

The *Budget Review* presents Government revenue and expenditure at a number of levels of aggregation, each providing for different insights into the nature of state finances:

- The *main budget*, set out in table 3.3, comprises the receipts of the National Revenue Fund, and expenditure either voted by parliament or allocated by statutory appropriation[3]. The deficit on the main budget is taken as South Africa's budget deficit.
- The *consolidated national budget*, set out in table 3.6, supplements the finances of the main budget with receipts and expenditure of the RDP Fund and those generated by foreign technical cooperation (table 3.7), and the receipts and expenditure of the social security funds (table 3.8). This represents the extent of expenditure that falls within the direct control of the national sphere.
- Table 3.9 sets out the *consolidated expenditure of the national and provincial governments*, and includes expenditure of the consolidated national budget, the expenditure of provincial own revenue, as well as revenue transferred to provinces from the national sphere.
- The *consolidated general government account* is set out in table 3.10. This aggregates the revenue and expenditure of the main budget, the social security funds, the provinces, extra-budgetary institutions (including universities and technikons) and local

[3] From 2000/01 the main budget includes the skills development levy and transfers of skills funds to sector education and training authorities.

authorities. This account represents the full extent of the revenue and expenditure of all levels of government.

- The *public sector borrowing requirement* (*PSBR)*, which is set out in table 3.11, is derived from the consolidated general government deficit, the financing requirements of non-financial public enterprises, extraordinary expenditure items and the proceeds of the restructuring of state owned enterprises. The PSBR represents the full extent of the impact of the public sector, including general government and all state-owned non-financial enterprises on the pool of national savings.

Trends and projections for each of these accounts are set out in greater detail below.

The main budget

The main budget, 1999/00 to 2005/06

The projected revenue of the National Revenue Fund (the revenue side of the main budget) and the allocation of available resources are summarised in table 3.3 below.

Total revenue of the National Revenue Fund is derived from tax and other non-tax receipts, less payments to Namibia, Botswana, Swaziland and Lesotho, in terms of the Southern African Customs Union (SACU) Agreement. Foreign grants received in the RDP Fund were included in revenue up to 1998/99, and are now excluded from the main budget.

Gross receipts of the National Revenue Fund remain constant…

Gross receipts of the National Revenue Fund – i.e. tax revenue before SACU deductions and other tax receipts and repayments – are expected to remain stable over the course of the MTEF, at approximately 25,1 per cent of GDP.

… as do SACU payments…

This is accompanied by a stabilisation of SACU payments, at approximately 0,8 per cent of GDP over the same period, which in nominal terms represents an increase from R9,7 billion in 2003/04 to R12,4 billion in 2005/06.

… allows for stable main budget revenue over the 2003 MTEF

After deducting SACU payments and adding other non-tax receipts, receipts of the National Revenue Fund are projected to remain constant as a percentage of GDP over the course of the MTEF. Details on the composition of revenue are set out in Chapter 4.

Total expenditure rises significantly

Total expenditure on the main budget rises significantly over the 2002/03 level of 26,1 per cent of GDP, to a projected 27,0 per cent of GDP over the course of the MTEF, funded by higher borrowings.

This includes an unallocated contingency reserve set aside over the MTEF period. In the first year of the MTEF, the contingency reserve makes provision for unforeseen and unavoidable expenditure. It also cushions the fiscus against changes in the macroeconomic environment and other unanticipated events. In preparing future budgets, part of the contingency reserve is drawn down to accommodate new spending pressures and priorities.

The main budget deficit rises to R29,5 billion, or 2,4 per cent of GDP in 2003/04, maintaining this level as a percentage of GDP in 2004/05, before dropping to 2,3 per cent of GDP in 2005/06.

Budget deficit rises to 2,4 per cent of GDP in 2003/04

Table 3.3 Main budget framework: 1999/00–2005/06

R million	1999/00 Outcome	2000/01 Outcome	2001/02 Outcome	2002/03 Revised estimate	2003/04 Medium-term estimates	2004/05	2005/06
Revenue (National Revenue Fund)							
Tax revenue (gross)	201 386	220 334	252 298	280 095	310 025	338 046	368 720
RDP & other receipts and repayments	3 974	3 654	4 169	3 910	4 156	4 494	4 850
Less: SACU transfers	-7 197	-8 396	-8 205	-8 259	-9 723	-11 585	-12 361
Total revenue	**198 162**	**215 592**	**248 262**	**275 745**	**304 459**	**330 955**	**361 209**
Percentage of GDP	*24,2%*	*23,6%*	*24,6%*	*24,6%*	*24,7%*	*24,6%*	*24,6%*
Expenditure							
State debt cost	44 290	46 321	47 581	47 250	50 986	53 079	55 070
Percentage of GDP	*5,4%*	*5,1%*	*4,7%*	*4,2%*	*4,1%*	*3,9%*	*3,8%*
Current expenditure[1]	39 152	42 240	48 583	53 606	57 625	62 567	66 921
Capital expenditure[1]	2 270	2 525	4 452	4 569	5 938	6 921	7 544
Transfers	129 039	142 848	162 289	186 398	216 417	236 778	258 071
Contingency reserve	–	–	–	–	3 000	4 000	8 000
Total expenditure	**214 750**	**233 934**	**262 905**	**291 823**	**333 965**	**363 345**	**395 606**
Percentage of GDP	*26,2%*	*25,6%*	*26,1%*	*26,1%*	*27,1%*	*27,0%*	*27,0%*
Deficit(-)	**-16 588**	**-18 342**	**-14 642**	**-16 077**	**-29 506**	**-32 390**	**-34 397**
Percentage of GDP	*-2,0%*	*-2,0%*	*-1,5%*	*-1,4%*	*-2,4%*	*-2,4%*	*-2,3%*
Gross domestic product	*819 366*	*913 221*	*1 007 810*	*1 120 100*	*1 234 600*	*1 344 300*	*1 466 600*

1. Excludes conditional grants to provinces and local government, which are included in transfers.

Within the main budget MTEF, the following trends are reflected:

- Debt service costs decline as a percentage of GDP, ensuring that a greater portion of available resources is set aside for non-interest expenditure. Debt management and the assumptions underlying projected state debt costs are discussed in chapter 5.

Debt service costs decline from 4,2 per cent of GDP to 3,8 per cent of GDP over the 2003 MTEF

- Capital expenditure at national level increases both in nominal terms and as a percentage of total expenditure.
- Transfers to extra-budgetary institutions, and to provinces and local government in the form of the equitable share and conditional grants, assume an increasing portion of national government expenditure. Chapter 7 and annexure E explain the principles behind allocations to provinces and municipalities.
- The contingency reserve, which for the 2002 MTEF was increased to R3,3 billion, R5 billion, and R9 billion in order to cater for the effects of inflation, is set at R3 billion, R4 billion and R8 billion for the 2003 MTEF.

Revisions to 2001/02 and 2002/03 main budget estimates

Table 3.4 summarises the main budget outcome for 2001/02 and the revised estimates for 2002/03. These are discussed further in chapters 4 and 6. Annexure B provides details of main budget revenue, expenditure and financing for these and earlier years.

In broad terms, table 3.3 shows robust revenue growth contributing to a modest reduction in the budget deficit. Higher than expected nominal GDP growth rates in both years serve to lower deficits in percentage GDP terms.

Revenue exceeds projections in both 2001/02 and 2002/03

Revenue exceeded Budget projections by R14,8 billion in 2001/02 and is estimated to exceed projections in 2002/03 by R10,5 billion, due to strong growth in receipts from company taxes, amplified in 2002/03 by stronger profits from exporting firms benefiting from the competitiveness of the depreciation of 2001.

Table 3.4 Revised estimates of main budget revenue and expenditure: 2001/02–2002/03

R million	2001/02 Budget estimate	2001/02 Outcome	2001/02 *Deviation*	2002/03 Budget estimate	2002/03 Revised estimate	2002/03 *Deviation*	% change 01/02–02/03
Revenue							
Direct taxes	134 871	150 837	*15 966*	159 175	166 285	*7 110*	*10,2%*
Indirect taxes	101 937	101 462	*-475*	109 331	113 810	*4 478*	*12,2%*
Other revenue	4 835	4 169	*-666*	4 970	3 910	*-1 060*	*-6,2%*
Less: SACU transfers	-8 205	-8 205	–	-8 259	-8 259	–	*0,7%*
Total	**233 438**	**248 262**	***14 824***	**265 217**	**275 745**	***10 529***	***11,1%***
State debt cost	48 138	47 581	*-557*	47 503	47 250	*-253*	*-0,7%*
Current expenditure[1]	46 926	48 583	*1 657*	52 341	53 606	*1 265*	*10,3%*
Capital expenditure[1]	4 009	4 452	*443*	4 358	4 569	*211*	*2,6%*
Transfers	157 245	162 289	*5 044*	180 408	186 398	*5 990*	*14,9%*
Contingency reserve	2 000	–	*-2 000*	3 300	–	*-3 300*	*0,0%*
Total expenditure	**258 318**	**262 905**	***4 587***	**287 909**	**291 823**	***3 914***	***11,0%***
Increase in non-interest allocated expenditure			*7 144*			*7 467*	
Deficit(-)	**-24 880**	**-14 643**	***10 237***	**-22 692**	**-16 077**	***6 615***	

1. Excludes conditional grants to provinces and local government, which are included in transfers.

Higher than initially projected expenditure…

Expenditure in 2001/02 and 2002/03 exceeded initial Budget estimates by R4,6 billion and R3,9 billion respectively.

… accounted for by additional expenditure in the Adjustments Budget…

The greatest share of additional expenditure in 2002/03 is accounted for by the R8,1 billion Adjustments Budget of November 2002. Details are set out in chapter 6. Taking into account the R3,3 billion contingency reserve, amounts set aside for infrastructure in the main budget and projected underspending, net non-interest expenditure stood at R4,1 billion above the 2002 estimates. Offsetting this additional non-interest expenditure, debt service costs were R253 million lower than anticipated at the time of the 2002 Budget.

Main budget deficits for 2001/02 and 2002/03 lower than original estimates

The main budget deficits of 2001/02 and 2002/03 were both lower than anticipated in Budget Review projections. The 1,5 per cent deficit of 2001/02 was R10,2 billion lower than anticipated. The R16,1 billion deficit of 2002/03 was R6,6 billion lower than anticipated, while higher than anticipated growth in nominal GDP reduced this to 1,4 per cent of GDP against the 2,1 per cent projected in the 2002 Budget.

Changes to main budget medium term estimates since the 2002 Budget

The 2003 Budget updates estimates for 2003/04 and 2004/05 from the 2002 Budget, and adds projections for 2005/06, taking into account, inter alia, changes to the medium-term macroeconomic outline since the 2002 Budget, as set out in Chapter 2.

The main changes to the 2003/04 and 2004/05 estimates from the 2002 Budget, are set out in table 3.5 and summarised below:

Strong upward revisions to both revenue and non-interest expenditure

- Main budget revenue projections, already adjusted upwards in the 2002 MTBPS, are further increased to 24,6 per cent of GDP over the medium term, providing for significantly higher receipts to the National Revenue Fund.
- Expenditure is also revised upwards, both from the 2002 Budget, and projections set out in the 2002 MTBPS, with provision made for significant increases in non-interest expenditure. In nominal terms, R25,1 billion and R35,1 billion of additional allocations are made available over the 2002 Budget projections for 2003/04 and 2004/05, with a total of R105,4 billion made available over the full MTEF.
- Debt service costs for 2003/04 and 2004/05 are marginally higher in the 2003 Budget than in the 2002 Budget.

Main budget deficits revised upwards for 2003/04 and 2004/05

- Main Budget deficits for 2003/04 and 2004/05 are higher than projected at the time of the 2002 Budget. A comparison of the old and revised deficits as a percentage of GDP assumed at the time of the projections shows an increase of 0,5 percentage points in 2003/04 and 0,7 percentage points in 2004/05.

Table 3.5 Main budget medium-term estimates: 2003/04–2005/06

	2003/04			2004/05			2005/06
R million	**2002 Forward Estimate**	**2003 Budget**	***Change to baseline***	**2002 Forward Estimate**	**2003 Budget**	***Change to baseline***	**2003 Budget**
Revenue							
Direct taxes	175 170	182 039	*6 869*	191 640	200 557	*8 917*	220 980
Indirect taxes	116 693	127 986	*11 293*	124 752	137 489	*12 738*	147 740
Other revenue	5 600	4 156	*-1 444*	6 100	4 494	*-1 606*	4 850
Less: SACU transfers	-8 755	-9 723	-968	-9 280	-11 585	-2 305	-12 361
Total	**288 708**	**304 459**	***15 751***	**313 211**	**330 955**	***17 744***	**361 209**
Percentage of GDP	*24,5%*	*24,7%*		*24,5%*	*24,6%*		*24,6%*
State debt cost	49 845	50 986	1 141	52 434	53 079	645	55 070
Current expenditure[1]	55 482	57 625	2 143	59 067	62 567	3 500	66 921
Capital expenditure[1]	4 645	5 938	1 292	5 554	6 921	1 367	7 544
Transfers	196 259	216 417	20 158	208 507	236 778	28 272	258 071
Contingency reserve	5 000	3 000	-2 000	9 000	4 000	-5 000	8 000
Total expenditure	**311 231**	**333 965**	**22 735**	**334 561**	**363 345**	**28 784**	**395 606**
Percentage of GDP	*26,4%*	*27,1%*		*26,2%*	*27,0%*		*27,0%*
Deficit	**-22 523**	**-29 506**	***-6 984***	**-21 350**	**-32 390**	***-11 040***	**-34 397**

1. Excludes conditional grants to provinces and local government which are included in transfers.

The consolidated national government budget

The consolidated national budget supplements the finances of the National Revenue Fund, set out above, with receipts and expenditure of the RDP Fund and those generated by foreign technical cooperation agreements, and the receipts and expenditure of the social security funds. The consolidated national budget is set out in table 3.6 below.

In all three years of the 2003 MTEF, the deficit on the consolidated national government budget is approximately 0,1 per cent of GDP below that of the main budget, due to surpluses on both the social security funds and the cumulative accounts of South Africa's international development co-operation programmes.

Further details on the breakdown of revenue and expenditure generated through international development co-operation and the activities of the social security funds are set out in tables 3.7 and 3.8 respectively.

Table 3.6 Consolidated national budget framework: 2001/02–2005/06

	2001/02	2002/03		2003/04	2004/05	2005/06
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
National Revenue Fund (main budget)						
Revenue	**248 262**	**265 217**	**275 745**	**304 459**	**330 955**	**361 209**
Expenditure						
State debt cost	47 581	47 503	47 250	50 986	53 079	55 070
Percentage of GDP	*4,7%*	*4,9%*	*4,2%*	*4,1%*	*3,9%*	*3,8%*
Contingency reserve	–	3 300	–	3 000	4 000	8 000
Allocated expenditure[1]	215 324	237 106	244 573	279 979	306 266	332 536
Total	**262 905**	**287 909**	**291 823**	**333 965**	**363 345**	**395 606**
Percentage increase	*12,4%*	*9,5%*	*11,0%*	*14,4%*	*8,8%*	*8,9%*
Deficit (-)	**-14 642**	**-22 692**	**-16 077**	**-29 506**	**-32 390**	**-34 397**
Percentage of GDP	*-1,5%*	*-2,5%*	*-1,4%*	*-2,4%*	*-2,4%*	*-2,3%*
RDP Fund & foreign technical						
Receipts & technical cooperation	1 423	800	1 666	1 500	1 500	1 500
Disbursements	1 226	700	1 372	1 300	1 300	1 300
Social security funds						
Revenue	8 398	9 558	9 530	11 721	11 984	12 585
Expenditure	7 649	9 114	8 598	10 434	11 109	11 832
Consolidated national budget[2]						
Revenue	**257 460**	**275 237**	**286 603**	**317 414**	**344 273**	**375 278**
Expenditure	**271 157**	**297 385**	**301 455**	**345 433**	**375 588**	**408 721**
Percentage of GDP	*26,9%*	*27,3%*	*26,9%*	*28,0%*	*27,9%*	*27,9%*
Percentage increase	*12,1%*	*9,7%*	*11,2%*	*14,6%*	*8,7%*	*8,8%*
Deficit (-)	**-13 697**	**-22 148**	**-14 852**	**-28 019**	**-31 315**	**-33 443**
Percentage of GDP	*-1,4%*	*-2,0%*	*-1,3%*	*-2,3%*	*-2,3%*	*-2,3%*
Gross domestic product	*1 007 810*	*1 082 800*	*1 120 100*	*1 234 600*	*1 344 300*	*1 466 600*

1. Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.

2. Flows between funds are netted out.

RDP Fund and international foreign development cooperation

International assistance of R1,5 billion, or 0,5 per cent of consolidated national revenue

Since 1994, South Africa has benefited from an increasing flow of foreign grants and technical cooperation. This now includes some thirty international framework co-operation agreements, which since 2001/02 have contributed approximately Rl,5 billion (or 0,5 per cent of consolidated national revenue) annually. In addition, foreign support of the non-governmental development community and emerging businesses is substantial.

Table 3.7 summarises current and projected foreign grants and technical cooperation spending. Foreign assistance comprises both grants to finance government projects, channelled through the Reconstruction and Development Programme (RDP) Fund, and in-kind technical or project assistance, directly financed by foreign aid offices.

Significant changes to figures for 2001/02 and 2002/03 reflect uncertainty in the processes of donor fund disbursement, while upward revisions for the 2003 MTEF are associated with a shift to sector support.

Development co-operation focuses on strengthened MTEF alignment

The introduction of the three-year budgeting cycle has allowed for the increasing integration of development co-operation programmes and projects into the normal operations of government, particularly in key social service delivery sectors. Primary considerations informing the alignment of official development assistance with government spending include the optimal utilisation of limited resources in support of South Africa's development priorities; ensuring long-term sustainability beyond the phase of foreign support; and strengthened South African ownership of foreign assistance programmes and projects.

Table 3.7 RDP Fund grants and foreign technical cooperation: 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
R million		**Estimate**				**Medium-term estimates**	
RDP Fund							
Receipts	451	641	923	1 066	900	900	900
Disbursements	327	504	726	772	700	700	700
Technical cooperation							
Estimated expenditure	410	400	500	600	600	600	600
Total foreign assistance	**861**	**1 041**	**1 423**	**1 666**	**1 500**	**1 500**	**1 500**

Future programmes support key government priorities

Donor-supported programmes and projects to be implemented during the next phase of development co-operation include rural off-grid electrification, HIV/Aids awareness, implementation of the Public Finance Management Act (PFMA) and municipal financial management reform; as well as support to urban renewal and local economic development programmes, SMME promotion and enterprise development.

Social security funds

South Africa's social security benefits comprise both grants and funds, with each system financed differently, and accounted for separately in the national government accounts.

The social security grants are financed out of main budget revenue, and are appropriated in provincial social development votes. The social security grants are discussed in chapters 6 and 7.

Social security funds receive dedicated taxes or contributions

The social security funds are maintained through mandatory levies and taxes, and are accounted for separately from the main budget, within the consolidated national government framework.

The social security funds comprise:

- The Road Accident Fund (RAF), which pays compensation to victims of road accidents caused by other parties.
- The Unemployment Insurance Fund (UIF), which provides for short-term income replacement in the event of unemployment, short-term illness, death, maternity or adoption of a child.
- Two compensation funds – the Workmen's Compensation Fund and the Mines and Works Compensation Fund – which pay compensation for injuries, disease or death in the course of employment.

Social security numbers have been revised since the 2002 Budget, due to restatement of UIF accounts, and ongoing alignment of fund accounts with GFS accounting principles.

In 2003/04, the social security funds are expected to run a combined surplus of R931 million, with a deficit on the Road Accident Rund offset by surpluses on the UIF and the long-running surpluses on the Compensation Funds.

Continued deficits on the RAF…

This year's deficit of R1,0 billion on the Road Accident Fund is expected to narrow to R543 million in 2003/04, while a deficit of R766 million is expected by the end of the 2003 MTEF. This takes into account the 3 cents increase in the portion of the fuel levy that goes to the RAF, to 21,5 cents a litre, effective as of 2 April 2003.

… and the findings of the Satchwell Commission present grounds for reform

In January 2003, the Satchwell Commission submitted its report on reforms of the RAF. Government is currently considering the recommendations of the Commission, outlined in the box below.

UIF turnaround

The performance of the UIF in 2002/03, and projections for the 2003 MTEF, attest to the impact of the Fund's turnaround strategy. Surpluses on the fund are projected to remain stable over the 2003 MTEF at around R1,0 billion, driven by three measures in particular:

- The implementation of the new Unemployment Insurance Fund Act, which broadened the revenue base of the fund
- The implementation of the Unemployment Insurance Contributions Act, which consolidates the collection of unemployment insurance contributions from employers under SARS

- Budgetary transfers of R1,3 billion over four years on the Department of Labour vote, to assist the UIF to improve its financial position and reform its administrative operations.

RAF reform proposals

In 1999 Judge Kathleen Satchwell was appointed to head a three-person commission to investigate South Africa's Road Accident Fund and make recommendations for a reasonable, equitable, affordable and sustainable system of compensation and benefits for road accident victims. Its findings were published in January 2003.

The commission found that 23 per cent of the RAF budget is currently consumed by transaction costs, with approximately 30 to 55 per cent of the RAF's fuel levy income diverted from victims to the accident claims system.

The commission noted that the current system is based on exclusion rather than inclusion, with a claim to compensation focused on the presence or absence of fault. The result is that the cause of accident takes priority over the need for healthcare and rehabilitation, and perpetuates the marginalisation of individuals who are less able to access the system.

The commission finds the current system to be open to abuse, with a significant proportion of compensation claims being either false, exaggerated or opportunistic, in addition to a disturbing incidence of fraud within the RAF itself.

On this basis the commission proposes the following changes:

- The road accident benefits scheme should be clearly articulated to reflect principles of social security and not liability insurance.
- All persons who are injured, or who lose family members, as a result of road accidents should be entitled to seek assistance from the road accident benefits scheme.
- There should be a clear distinction between claims against the road accident benefits scheme and civil or common-law claims.
- Expenditure of fuel levy income on administration and compensation for minor injuries with negligible impact on health and no lasting effect should be eliminated or reduced. Fuel levy income should be directed to providing acute or life care, rehabilitation, and income support for those unable to earn or who have lost support through the death of a partner or parent.
- Instead of paying a lump-sum benefit, the road accident benefits scheme should provide medical, hospital, rehabilitation and life care expenses by direct payment to suppliers at the time of provision to the accident victim.
- Priority should be given to controlling administration and overhead costs of the administering authority of the scheme, and the fees charged by lawyers and experts.
- The administrative authority should operate in accordance with established benchmarking standards that are subject to independent scrutiny by an independent Office of the Ombud.
- The primary source of funding should be a flat-rate levy on fuel purchased for use on land, with secondary sources of funding derived from a surcharge on registration fees, and a surcharge on all traffic fines.
- The fuel levy should be reviewed bi-annually and adjusted to ensure sufficient funding for the road accident benefits scheme in accordance with budgeted expenditure.
- The road accident benefits scheme should be funded on a 'pay-as-you-go' basis. Reasonable reserves (based on a percentage of outstanding claims) should be set aside to ensure stability and reduce unnecessary fluctuations in the fuel levy.
- The administrators of the road accident benefits scheme should play a key role in capturing and analysing road accident statistics, and should be proactive in promoting road safety initiatives.

Government is still in the process of considering the findings of the Commission.

For the 2002/03 financial year, the Compensation Funds are expected to show a surplus of R537 million and are projected to run further surpluses of between R567 million and R732 million a year over the medium term. Cabinet has approved the development of a National Occupational Health and Safety Authority that will develop a more comprehensive and integrated safety net for injuries, diseases or death resulting from employment.

Table 3.8 Social security funds: 1999/00–2005/06

R million	1999/00 Outcome	2000/01 Outcome	2001/02 Outcome	2002/03 Revised estimate	2003/04 Medium-term estimates	2004/05	2005/06
Unemployment Insurance Fund							
Revenue	2 785	2 852	3 457	4 176	5 167	5 362	5 524
Expenditure	3 054	3 071	2 868	2 741	4 069	4 313	4 572
Compensation funds							
Revenue	1 953	1 920	2 122	2 376	2 704	2 839	2 982
Expenditure	1 156	1 385	1 619	1 839	1 973	2 183	2 414
Road Accident Fund							
Revenue	2 390	2 358	2 819	2 978	3 849	3 783	4 080
Expenditure	2 323	2 704	3 162	4 019	4 392	4 613	4 845
Total: social security funds							
Tax revenue	6 430	6 431	7 159	8 709	10 514	11 186	11 911
Non-tax revenue	682	681	616	483	940	632	658
Grants received	16	19	623	338	266	166	17
Total revenue	**7 128**	**7 131**	**8 398**	**9 530**	**11 721**	**11 984**	**12 585**
Total expenditure	**6 533**	**7 160**	**7 649**	**8 598**	**10 434**	**11 109**	**11 832**
Surplus(+)/deficit(-)	**595**	**- 29**	**748**	**931**	**1 287**	**875**	**753**

Consolidated government accounts and the PSBR

National and provincial consolidated expenditure

Table 3.9 summarises the consolidated national and provincial budget framework, with consolidated expenditure set out in terms of its economic classification.

Economic classification provides insights into the prioritisation of spending in terms of its effects on economic development, given the characteristics of broad categories of expenditure. It distinguishes between current and capital outlays, and between transfers (to other entities, enterprises and households) and direct expenditure on goods, services or assets.

A functional classification of consolidated national and provincial expenditure, which describes spending in terms of the services for which expenditure provides, can be found in chapter 6.

Table 3.9 Consolidated national and provincial expenditure: 1999/00–2005/06

R million	1999/00 Outcome	2000/01 Outcome	2001/02 Outcome	2002/03 Revised estimate	2003/04	2004/05 Medium-term estimates	2005/06
Revenue							
National and provincial	**210 174**	**228 249**	**262 440**	**292 061**	**323 097**	**350 244**	**381 556**
Expenditure							
Net national expenditure[1,2,3]	122 539	133 081	150 058	164 536	186 438	200 120	217 131
Provincial expenditure	99 977	110 062	122 314	145 694	164 901	180 658	197 880
Consolidated expenditure[3]	**222 516**	**243 143**	**272 372**	**310 230**	**351 338**	**380 778**	**415 012**
Percentage of GDP	*27,2%*	*26,6%*	*27,0%*	*27,7%*	*28,5%*	*28,3%*	*28,3%*
Current expenditure							
Goods and services	**113 122**	**123 017**	**135 205**	**153 352**	**166 911**	**180 854**	**193 239**
Remuneration of employees	87 300	93 154	100 871	111 388	122 544	131 473	140 150
Non-wage consumption	25 822	29 863	34 334	41 964	44 367	49 381	53 088
State debt cost	**44 290**	**46 321**	**47 581**	**47 250**	**50 986**	**53 079**	**55 070**
Current transfers	**53 322**	**60 061**	**68 145**	**84 617**	**97 733**	**107 989**	**120 447**
Business enterprises	4 442	4 319	4 666	5 431	5 714	6 379	6 961
Households	26 876	29 600	33 025	41 924	48 800	55 878	63 335
Foreign countries & international institutions	259	322	132	668	387	408	434
Government institutions & funds							
Universities and technikons	5 998	6 424	6 887	7 358	8 222	8 956	9 527
Extra-budgetary agencies	12 854	15 917	19 187	23 820	26 753	27 707	30 563
Local authorities	2 893	3 480	4 249	5 417	7 857	8 660	9 628
Total current	**210 734**	**229 399**	**250 931**	**285 219**	**315 630**	**341 922**	**368 756**
Real growth[5]	*-1,0%*	*1,0%*	*2,6%*	*2,5%*	*4,3%*	*3,1%*	*2,6%*
Capital expenditure							
Acquisition of fixed assets, stock and land	5 598	6 659	10 785	12 065	17 236	19 372	22 033
Capital transfers, loans, advances	6 185	7 085	10 656	12 946	15 473	15 484	16 223
Total capital	**11 782**	**13 744**	**21 441**	**25 011**	**32 708**	**34 857**	**38 256**
Real growth[5]	*-9,4%*	*8,2%*	*46,3%*	*5,2%*	*23,3%*	*1,4%*	*4,4%*
Unallocated	–	–	–	–	**3 000**	**4 000**	**8 000**
Consolidated non-interest expenditure[4]	**178 226**	**196 822**	**224 792**	**262 980**	**297 352**	**323 699**	**351 942**
Percentage of GDP	*21,8%*	*21,6%*	*22,3%*	*23,5%*	*24,1%*	*24,1%*	*24,0%*
Real growth[5]	*-1,1%*	*2,4%*	*7,1%*	*5,5%*	*6,6%*	*3,6%*	*3,4%*
Consolidated deficit	**-12 342**	**-14 894**	**-9 933**	**-18 169**	**-28 241**	**-30 535**	**-33 456**

1. Net of transfers to provinces

2. Including transfers to local government and extra-budgetary institutions.

3. Including transfer of R855 million to Umsobomvu Fund in 1999/00.

4. Excluding national contingency reserve.

5. Deflated using the CPIX deflator to constant 2000 prices.

Table 3.9 illustrates the following important trends:

Average real non-interest expenditure growth of 4,5 per cent

- Real non-interest expenditure growth at national and provincial level averaging 4,5 per cent over the 2003 MTEF.
- Average real growth in capital expenditure of 9,3 per cent over the course of the 2003 MTEF, reflecting government's prioritisation of investment in general, and infrastructure expenditure in particular.

- A moderation in current expenditure, with an increasing share of expenditure on goods and services going toward non-wage consumption.
- Significant increases in transfers to households, which represents steady increases in welfare spending over the 2003 MTEF.
- Deficits over the 2003 MTEF below that of the consolidated national government, reflecting surpluses at the provincial level.

Table 3.9 also provides useful insight into the decentralisation of expenditure to spheres outside of the provinces and national departments. Approximately 30 per cent of current expenditure takes the form of transfers to business enterprises in the public sphere, and to other government entities, institutions and funds, while just over 50 per cent of capital expenditure at national and provincial level takes the form of transfers, loans and advances.

The consolidated general government account

The consolidated general government account, summarised in table 3.10, sets out the full extent of the revenue and expenditure of government, not only at national and provincial, but also at local level and through the activities of its extra-budgetary agencies and accounts.

General government revenue of R292,2 billion

General government had resources of R292,2 billion at its disposal in 2001/02, or 29,0 per cent of GDP. This includes tax and non-tax revenue, as well as capital revenue. Over 85 per cent of this was raised by national government.

General government expenditure of 30,5 per cent of GDP

General government expenditure of R307,0 billion in 2001/02 represents 30,5 per cent of GDP. The system of inter-governmental transfers sees considerable decentralisation of spending. Just under half of general government expenditure on goods services took place at the provincial level, with consolidated national government accounting for just over a quarter, and the remainder shared between extra-budgetary institutions and local government

Overall deficit of 1,1 per cent

The consolidated general government deficit is the sum of the deficits of all the spheres and extra-budgetary institutions and accounts. In 2001/02 it was marginally below the main budget deficit, at 1,1 per cent of GDP, with the combined surpluses of provincial government, social security funds and extra-budgetary institutions off-setting local government deficits.

Table 3.10 Consolidated accounts of general government: 2001/02[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Tax revenue (net of SACU)	244 093	7 159	1 723	113	12 408	265 496
Non-tax revenue	4 165	614	3 188	6 527	11 557	26 051
Total current revenue	248 258	7 773	4 911	6 640	23 965	291 547
Capital revenue	4	2	69	537	41	653
Total revenue	**248 262**	**7 775**	**4 980**	**7 177**	**24 006**	**292 200**
Percentage of total	*85,0%*	*2,7%*	*1,7%*	*2,5%*	*8,2%*	*100%*
Grants received[4]	–	623	121 099	26 382	6 211	–
Total revenue and grants	**248 262**	**8 398**	**126 078**	**33 559**	**30 217**	**292 200**
Goods and services	*48 629*	*921*	*84 018*	*25 325*	*22 462*	*181 355*
Interest	*47 581*	*10*	*336*	*323*	*1 961*	*50 210*
Subsidies and transfers [5]	*151 147*	*6 663*	*26 681*	*4 537*	*1 516*	*36 229*
Current expenditure	247 357	7 593	111 036	30 185	25 939	267 795
Capital expenditure	15 594	29	11 194	2 419	8 673	37 910
Total expenditure	**262 951**	**7 622**	**122 230**	**32 604**	**34 612**	**305 704**
Net lending	- 46	27	84	–	52	117
Total expenditure and net lending	**262 905**	**7 649**	**122 314**	**32 604**	**34 664**	**305 821**
Percentage of total	*86,0%*	*2,5%*	*40,0%*	*10,7%*	*11,3%*	*100,0%*
Surplus / (Deficit)	**-14 642**	**748**	**3 764**	**955**	**-4 447**	**-13 622**
Extraordinary payments	-2 078					-2 078
Extraordinary receipts	4 159					4 159
Financing requirement(-)	**-12 561**	**748**	**3 764**	**955**	**-4 447**	**-11 540**
Percentage of GDP	-1,2%	0,1%	0,4%	0,1%	-0,4%	-1,1%

1. Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the South African Reserve Bank.

2. Including universities and technikons.

3. Including the net result 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 subsidies and transfers to other spheres of government.

The public sector borrowing requirement

The public sector borrowing requirement (PSBR) includes the consolidated general government deficit and the financing requirements of the non-financial public enterprises. It takes into account extraordinary expenditure items and the proceeds from the restructuring of state enterprises.

Table 3.11 summarises these balances since 1999/00 and provides projections to 2005/06.

Long-term decline in PSBR

The PSBR has seen a sharp decline since the mid-1990s, from 5,0 per cent of GDP in 1996/97 to 0,8 per cent of GDP in 2001/02, driven by a reduced main budget deficit, and aided by inflows of extraordinary receipts through the restructuring of state-owned enterprises, and consistently strong surpluses of the non-financial public enterprises from 1999/00.

PSBR of 2,7 per cent expected by the end of the 2003 MTEF

The PSBR is expected to rise to 3,1 per cent in 2003/04, falling back to 2,7 per cent in 2005/06, as increased capital expenditure leads to a wider deficits on both the main budget and within the non-financial public enterprises, and provision is made for extraordinary payments that include a maximum of R28 billion between 2002/03 and 2005/06 in settlement of the Reserve Bank's Gold and Foreign Exchange Contingency Account, pending agreement on the total amount owed. Further details are provided in chapter 5.

Table 3.11 Public sector borrowing requirement[1]: 1999/00–2005/06

R million	1999/00 Outcome	2000/01 Outcome	2001/02 Outcome	2002/03 Revised estimate	2003/04	2004/05	2005/06
					Medium-term estimates		
Main budget							
Main budget deficit	16 588	18 342	14 642	16 077	29 506	32 390	34 397
Extraordinary payments	1 485	2 299	2 078	7 889	7 000	7 000	7 000
Extraordinary receipts	-7 238	-2 984	-4 159	-10 219	-6 341	-6 250	-4 626
Financing requirement	**10 835**	**17 657**	**12 561**	**13 747**	**30 165**	**33 140**	**36 771**
RDP Fund	- 124	- 137	- 197	- 294	- 200	- 200	- 200
Social security funds	- 595	29	- 748	- 931	-1 287	- 875	- 753
Provinces	-3 527	-3 341	-3 764	3 317	222	- 780	13
Extra-budgetary institutions	265	-2 840	- 955	-2 531	-3 350	-3 200	-2 500
Local authorities & local government enterprises	3 285	1 516	4 447	5 509	4 700	5 000	5 100
General government deficit	**10 139**	**12 885**	**11 343**	**18 816**	**30 250**	**33 085**	**38 430**
Percentage of GDP	*1,2%*	*1,4%*	*1,1%*	*1,7%*	*2,5%*	*2,5%*	*2,6%*
Non-financial public enterprises[2]	-2 461	-5 416	-3 461	-2 899	7 800	5 400	1 500
Public sector borrowing requirement	**7 678**	**7 469**	**7 882**	**15 917**	**38 050**	**38 485**	**39 930**
Percentage of GDP	*0,9%*	*0,8%*	*0,8%*	*1,4%*	*3,1%*	*2,9%*	*2,7%*
Gross domestic product	*819 366*	*913 221*	*1 007 810*	*1 120 100*	*1 234 600*	*1 344 300*	*1 466 600*

1. Due to classification and timing differences, these estimates do not correspond fully with the Reserve Bank's estimates of the public sector borrowing requirement.

2. Public corporations and central government enterprises.