3

Fiscal policy and the budget framework

The fiscal stance in this budget allows Government to expand investment and spending to boost economic growth and meet its developmental objectives within a budget framework that is sound and sustainable. The objective of fiscal policy is to provide Government with the resources it needs to meet its mandate through a careful balance between taxation and borrowing that contributes towards long term economic growth, social development and declining interest costs. Government also aims to manage the mix of expenditure between capital, recurrent, and social transfers to households to optimally drive increases in productive human capital and physical infrastructure and reduce poverty and deprivation.

In the 2005 Budget, non-interest expenditure grows at an average real rate of 5,5 per cent over the MTEF period. While expenditure grows strongly, revenue continues to perform well supported by an accelerating economy. The budget deficit is projected to rise to 3,1 per cent of GDP in 2005/06, declining to 2,7 per cent in 2007/08. The public sector borrowing requirement is expected to increase from 2,8 per cent of GDP in 2004/05 to 3,8 per cent over the medium term, taking a significant capital investment programme by the major public enterprises into account.

Overview

Strong economic fundamentals

Over the past 12 months, the domestic economy has recovered significantly from the subdued performance of 2003. Supported by robust consumption growth, rising levels of investment, and a recovery of the international economy, real economic growth accelerated from 2,8 per cent in 2003 to 3,7 per cent in 2004.

Expansionary fiscal stance pursued

The budget framework laid out in this chapter continues the expansionary fiscal stance initiated in the 2001 Budget. The buoyant economic environment creates an opportunity to contribute further to meeting the mandate given by South Africans to reduce poverty while maintaining a prudent fiscal stance.

The 2005 MTEF provides the resources to reduce poverty in the short term through rising social security spending, while growth in social and economic infrastructure investment aims to support economic growth and facilitate a broadening of participation in economic activity. Targeted real increases in remuneration are aimed at enhancing service delivery, especially in safety and security, and education. Features of the 2005 Budget include:

- Real growth in non-interest expenditure of 5,5 per cent a year
- Revenue growing to 24,1 per cent of GDP in the 2004/05, and remaining broadly stable relative to GDP over the period ahead
- An increase in the deficit as a per cent of GDP in 2005/06 to 3,1 per cent, declining to 3,0 per cent in 2006/07 and 2,7 per cent in 2007/08
- A continued decrease in debt service costs as a per cent of GDP, from 3,5 per cent in 2004/05 to 3,2 per cent in 2007/08.

Fiscal policy: goals, trends and targets

Sound fiscal performance

Key fiscal indicators are summarised in table 3.1. These figures outline South Africa's fiscal performance since 1999, and give projections for the final year of the MTEF. The figures presented in calendar years are for general government, and are based on national accounts aggregates. They are not strictly comparable with the cash-based budgets used by Government.

Table 3.1 Fiscal trends and projections

Calendar year[1]	1999	2000	2001	2002	2003	2004[2] Actual	2007 Target
Gross fixed capital formation (percentage real growth)							
General government	-4,4	8,1	-3,3	4,7	26,3	8,1	7,9
Public corporations	-27,4	-20,1	-4,5	11,3	17,2	10,3	15,8
Percentage of GDP							
Government consumption expenditure	18,4	18,1	18,3	18,3	19,1	19,4	19,3
Wages	*13,4*	*12,6*	*12,1*	*11,4*	*11,5*	*11,7*	*11,4*
Non-wage	*5,0*	*5,5*	*6,1*	*6,8*	*7,6*	*7,7*	*7,9*
General government savings	-2,1	-2,2	-0,8	-0,8	-1,6	-2,0	-1,1
General government tax revenue	26,2	24,8	26,0	25,4	25,3	25,5	25,5
Interest on public debt	6,1	5,6	5,2	4,6	4,2	3,9	3,6
Fiscal year	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2007/08**
Percentage of GDP							
Public sector borrowing requirement	1,4	1,9	1,0	1,0	2,4	2,8	3,8
National government							
Main budget deficit	2,1	1,9	1,4	1,1	2,3	2,3	2,7
Total net loan debt	45,7	43,4	40,6	34,9	34,7	34,4	36,2

1. The calendar year fiscal indicators reported above are accrual-based national accounts estimates and take into account the full general government sector, including extra-budgetary agencies and municipalities. This accounts for differences with the cash-based budget estimates set out elsewhere in the Budget Review.

2. Based on actual data for first nine months of 2004.

Public investment rising rapidly

In support of the objective of raising economic growth to levels that can make a substantial impact on poverty and inequality, fixed capital formation by both general government and the public corporations continues to grow strongly. Following an erratic performance between 1999 and 2001, general government investment now shows strong real growth. Growth in capital budgets and increased technical capacity in Government should allow for a continuation of this trend into the future.

State enterprises to raise the level of infrastructure spending

Following a period of negative growth in fixed capital formation by public corporations, a pattern of strong real growth is now firmly established, albeit off a low base. This trend is expected to continue, ending the forecast period with real growth of 15,8 per cent. Expenditure will be driven by substantial investment in infrastructure and productive capacity in the transport, freight and logistics, and electricity generation sectors and is strongly supportive of sustained economic growth.

Government consumption broadly stable as share of GDP

General government consumption is expected to grow in the short term, and then decline moderately as a share of GDP over the forecast period. While the wage bill has increased as a per cent of GDP since 2002, it is expected to decline to 11,4 per cent over the three years ahead. Non-wage consumption increases over the forecast period, driven mainly by increasing demand for medical and education related equipment and supplies.

General government dissaving (defined as current expenditure less current revenue after adjusting for depreciation) widens from a low of 0,8 per cent of GDP in 2002 to 2,0 per cent in 2004. This is the result of strong growth in current expenditure, mainly in social security, during this period. However, faster growth in capital expenditure relative to current expenditure will lower dissaving to 1,1 per cent of GDP by 2007.

Stable tax burden

The general government tax-to-GDP ratio increases moderately from 25,3 per cent of GDP in 2003 to 25,5 per cent in 2004. Over the MTEF, the tax burden is expected to grow at a similar rate to GDP, and therefore remain stable.

The budget framework

The *budget framework* of government revenue and expenditure (after netting out intergovernmental transfers) can be presented at various levels of aggregation, consistent with the institutional structures of South Africa's public sector.

- The *main budget*, set out in table 3.2, consists of the receipts of the National Revenue Fund, and expenditure either voted by Parliament or allocated by statutory appropriation. South Africa's 'budget deficit' is the difference between revenue and expenditure on the main budget.
- The *consolidated national budget*, set out in table 3.5, presents the extent of expenditure that falls within the national sphere. It adds revenue and expenditure of the RDP Fund, those generated through foreign technical cooperation (table 3.6), and social security funds (table 3.7) to the main budget.
- The *consolidated expenditure of the national and provincial governments* (table 3.8) adds the provincial government accounts.

- The *consolidated general government account* (table 3.9) represents the full extent of the revenue and expenditure of all levels of government. This is done by aggregating the revenue and expenditure of the main budget, the social security funds, technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities.
- The *public sector borrowing requirement (PSBR)*, set out in table 3.10, represents the amount of public sector spending that must be financed through the national savings pool. It is derived by balancing the expenditure and revenue of the consolidated general government, non-financial public enterprises (such as Eskom and Transnet), extraordinary expenditure items, and proceeds from the restructuring of state owned enterprises.

The main budget

Strong revenue growth reduces budget deficit

As a result of the strong performance of the economy over the past year, it is expected that main budget revenue for the current year and the MTEF will come in appreciably higher than estimated in the 2004 Budget. Due to buoyant demand conditions, corporate profitability has recovered substantially since mid-2004, while vigorous consumer spending has boosted VAT receipts. Over the MTEF period, main budget revenue is expected to continue to perform strongly, due to robust growth and improved tax compliance and administration.

SACU transfers remain at about 1 per cent of GDP

The total revenue of the National Revenue Fund is derived from gross tax revenue and departmental receipts, less payments in terms of the Southern African Customs Union (SACU) Agreement to Namibia, Botswana, Swaziland, and Lesotho. As a result of higher customs duties, transfers to our SACU partners will be above the estimates made in the 2004 Budget, totalling R12,1 billion in 2005/06, R15,6 billion in 2006/07 and R16,2 billion in 2007/08. These payments amount to just under one percent of GDP, and include significant development assistance to SACU partner countries.

As a result of substantial increases in gross tax revenue, total revenue for the National Revenue Fund is expected to be R338 billion in the current year. Strong economic growth in 2004/05 leads to total revenue as a percentage of GDP increasing from 23,4 per cent in 2003/04 to 24,1 per cent in 2004/05. Over the MTEF period, it is expected that main budget revenue will remain broadly stable as a percentage of GDP.

Real growth in spending of 5,5 per cent a year

Real non-interest expenditure grows strongly at a rate of 5,5 per cent over the MTEF period, rising by 9,0 per cent in 2005, followed by 4,1 and 3,4 per cent in 2006/07 and 2007/08 respectively. These growth rates include unallocated amounts that will be allocated in subsequent budgets.

Table 3.2 Main budget framework, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07 Medium-term estimates	2007/08
Revenue (National Revenue Fund)							
Tax revenue (gross)	252 298	282 210	302 508	345 261	372 774	414 154	453 726
Departmental & other receipts and repayments	4 169	4 558	6 646	6 027	9 148	6 846	7 068
Less: SACU payments	-8 205	-8 259	-9 723	-13 328	-12 053	-15 573	-16 151
Total revenue	**248 262**	**278 508**	**299 431**	**337 960**	**369 869**	**405 427**	**444 643**
Percentage of GDP	*23,7%*	*23,3%*	*23,4%*	*24,1%*	*24,2%*	*24,2%*	*24,1%*
Expenditure							
State debt cost	47 581	46 808	46 313	48 901	53 125	56 603	59 381
Percentage of GDP	*4,5%*	*3,9%*	*3,6%*	*3,5%*	*3,5%*	*3,4%*	*3,2%*
Current payments[1]	46 960	52 064	56 661	64 279	72 193	78 579	84 873
Transfers and subsidies	163 853	188 041	220 835	251 538	283 846	308 906	332 484
Payments for capital assets[1]	4 510	4 616	4 853	5 395	6 655	8 305	10 156
Contingency reserve	–	–	–	–	2 000	4 000	8 000
Total expenditure	**262 905**	**291 529**	**328 662**	**370 113**	**417 819**	**456 393**	**494 894**
Percentage of GDP	*25,1%*	*24,4%*	*25,7%*	*26,4%*	*27,3%*	*27,3%*	*26,8%*
Deficit	**-14 642**	**-13 021**	**-29 231**	**-32 152**	**-47 950**	**-50 966**	**-50 251**
Percentage of GDP	*-1,4%*	*-1,1%*	*-2,3%*	*-2,3%*	*-3,1%*	*-3,0%*	*-2,7%*
Gross domestic product	*1 047 992*	*1 193 771*	*1 277 029*	*1 403 851*	*1 528 633*	*1 674 016*	*1 847 290*

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

Growth in 1st year mainly in social grants and higher remuneration

Growth in current expenditure is strong in all three years of the MTEF, but especially the first year as a result of growth in social welfare payments and the wage bill. Capital expenditure continues to grow over MTEF, with major projects targeted at transport and community related infrastructure. Transfers and subsidies include many of the large capital investment projects that will be undertaken by provincial and local government.

Debt service costs fall to 3,2 per cent of GDP

Debt service costs as a share of GDP continue their long-term decline. Lower interest rates and the stronger currency cause debt service costs to decline from 3,6 per cent of GDP in 2003/04 to 3,5 per cent in 2004/05 and to 3,2 per cent by the end of the MTEF period.

A contingency reserve is set aside for all three years of the MTEF. The reserve in the first year allows for the possibility of unforeseen adverse economic conditions or natural occurrences that would otherwise put pressure on the budget framework. In the outer years, the reserve is partly drawn down to fund new priorities. Over the MTEF period, the contingency reserve is R2,0 billion in the first year, R4,0 billion in the second year and R 8,0 billion in the third year.

Budget deficit of 3,1 per cent of GDP in 2005/06

As a result of the increases in revenue and the revisions to historical GDP data, the deficit as a per cent of GDP is expected to be 2,3 per cent in 2004/05, compared with the 3,1 per cent estimated in the 2004 Budget. However, strong growth in non-interest expenditure in 2005/06 results in the deficit increasing to 3,1 per cent, while more moderate real growth in expenditure results in the ratio declining to end the MTEF at 2,7 per cent of GDP.

Fiscal policy: the conventional, primary and current balances

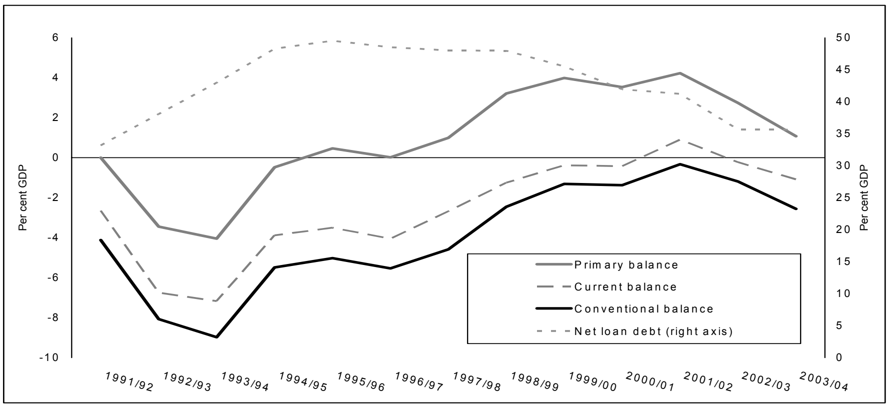
Following a period of fiscal consolidation between 1997 and 2000, South Africa's fiscal stance entered a more expansionary phase in 2001. While real non-interest expenditure has grown strongly over the past five years, the budget deficit remains moderate and sustainable. Net loan debt has fallen from a high of 49,5 per cent of GDP in 1995/96 to 35,6 per cent in 2003/04, while debt service costs have declined from 5,7 per cent of GDP in 1998/99 to 3,7 per cent in 2003/04. This has released substantial resources for reallocation to public services.

The three indicators in the chart below, present various measures of fiscal sustainability for national and provincial government.

The conventional deficit is the difference between revenue and expenditure. It shows the extent to which Government must borrow from domestic and international financial markets every year in order to meet its total spending commitments. Since 1993/94, the conventional balance improved from a deficit of 9,0 per cent of GDP.

The primary balance measures the difference between revenue and non-interest expenditure. It shows the extent to which revenue covers expenditure before taking into account finance costs. The table below shows that substantial progress has been made from a deficit of 4,0 per cent of GDP in 1992/93 to a primary surplus since 1995. In addition, since 1999/00, the primary and conventional balances have been converging, showing that debt service costs as a percentage of total expenditure have been declining.

The current balance measures the difference between current revenue and current expenditure. A negative number for this measure shows that Government is borrowing to finance current expenditure, while a positive number shows that borrowing is for capital purposes only. While considerable progress has been made in turning this balance from a low of negative 7,2 per cent of GDP in 1993/94, to a surplus of 0,9 per cent in 2001/02, the recent downward trend shows that we are again borrowing to finance current expenditure. As illustrated by the general government savings line in table 3.1, Government aims to reverse this trend and return this line to a balanced or surplus position.



Revisions to 2003/04 and 2004/05 main budget estimates

The main budget outcome for 2003/04 and the revised estimates for 2004/05 are presented in table 3.3. These are discussed further in chapters 4 and 6, while annexure B provides details of main budget revenue, expenditure and financing for these and earlier years.

Budget outcome for 2003/04 shows deficit of 2,3 per cent

Even though revenue in 2003/04 fell R5,0 billion below the target, the deficit outcome was R275 million lower than budgeted, mainly due to lower debt service costs. The revised deficit for 2004/05 is R9,8 billion lower than budgeted due to robust revenue growth and lower than expected debt service costs.

Table 3.3 Revised estimates of main budget revenue and expenditure, 2003/04 and 2004/05

	2003/04			2004/05			% change
R million	Budget estimate	Outcome	Deviation	Budget estimate	Revised estimate	Deviation	2003/04–2004/05
Revenue							
Direct taxes	182 039	176 286	-5 753	193 968	195 028	1 060	10,6%
Indirect taxes	127 986	126 221	-1 765	139 725	150 233	10 508	19,0%
Other revenue	4 156	6 646	2 490	6 590	6 027	-564	-9,3%
Less: SACU payments	-9 723	-9 723	–	-13 328	-13 328	–	37,1%
Total revenue	**304 459**	**299 431**	**-5 028**	**326 956**	**337 960**	**11 004**	**12,9%**
Expenditure							
State debt cost	50 986	46 313	-4 673	50 432	48 901	-1 531	5,6%
Current payments[1]	57 380	56 661	-719	64 123	64 279	155	13,4%
Transfers and subsidies	218 431	220 835	2 404	246 155	251 538	5 383	13,9%
Payments for capital assets[1]	4 169	4 853	684	5 694	5 395	-298	11,2%
Contingency reserve	3 000	–	-3 000	2 500	–	-2 500	0,0%
Total expenditure	**333 965**	**328 662**	**-5 303**	**368 904**	**370 113**	**1 209**	**12,6%**
Increase in non-interest allocated expenditure			2 369			5 240	
Deficit	**-29 506**	**-29 231**	**275**	**-41 948**	**-32 152**	**9 795**	

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

Real growth in spending over 9 per cent in 2003/04 and 2004/05

Non-interest expenditure in 2003/04 totalled R282,3 billion, R631 million lower than the estimate published in the 2003 Budget. Revised non-interest expenditure for 2004/05 is projected to be R321,2 billion, R2,7 billion higher than the estimate in the 2004 Budget. This is due to additional social welfare allocations, a higher wage bill and drought relief payments. Non-interest expenditure grew in real terms by 9,3 per cent in 2003/04 and is projected to grow by 9,2 per cent in 2004/05.

Lower debt service costs

As a result of the strengthening of the rand over the period and declining international and domestic interest rates, realised debt service costs came in R4,7 billion lower than expected in 2003/04 and are expected to come in R1,5 billion below budget in 2004/05. Debt service costs as a per cent of GDP continued to decline in both 2003/04 and 2004/05, signalling the continued sustainability of fiscal policy.

Declining debt service costs and under spending in 2003/04 resulted in total expenditure of R5,3 billion less than the Budget 2003 forecast. The revised estimate of expenditure for 2004/05 is R1,2 billion higher than the 2004 Budget estimate.

Changes to medium term forward estimates since the 2004 Budget

The 2005 Budget adjusts the forward estimates from the 2004 Budget for 2005/06 and 2006/07 to take account of the changes to the economic environment, and adds projections for 2007/08.

The main changes to the budget framework over the MTEF period are set out in table 3.4 and summarised below:

- In keeping with the revised economic forecasts, revenue projections for indirect taxes increase strongly
- Debt service costs are reduced as a result of the favourable interest rate outlook and stronger currency
- Non-interest expenditure increases by R74,4 billion over the MTEF
- Deficit projections rise by R3,6 billion in 2005/06 and R5,9 billion in 2006/07.

Table 3.4 Main budget medium-term estimates, 2005/06 – 2007/08

	2005/06			2006/07			2007/08
R million	2004 Forward estimate	2005 Budget	Change to baseline	2004 Forward estimate	2005 Budget	Change to baseline	2005 Budget
Revenue							
Direct taxes	214 501	206 333	-8 168	231 984	232 472	488	254 186
Indirect taxes	149 948	166 441	16 494	166 624	181 682	15 058	199 540
Other revenue	7 023	9 148	2 125	7 342	6 846	-496	7 068
Less: SACU payments	-11 206	-12 053	-847	-11 948	-15 573	-3 625	-16 151
Total revenue	**360 266**	**369 869**	**9 603**	**394 002**	**405 427**	**11 425**	**444 643**
Percentage of GDP	*23,6%*	*24,2%*		*23,5%*	*24,2%*		*24,1%*
Expenditure							
State debt cost	53 986	53 125	- 861	57 945	56 603	-1 342	59 381
Current payments[1]	68 922	72 193	3 271	74 171	78 579	4 408	84 873
Transfers and subsidies	271 527	283 846	12 319	291 969	308 906	16 937	332 484
Payments for capital assets[1]	6 219	6 655	436	6 973	8 305	1 333	10 156
Contingency reserve	4 000	2 000	-2 000	8 000	4 000	-4 000	8 000
Total expenditure	**404 654**	**417 819**	**13 166**	**439 058**	**456 393**	**17 335**	**494 894**
Percentage of GDP	*26,5%*	*27,3%*		*26,2%*	*27,3%*		*26,8%*
Deficit	**-44 388**	**-47 950**	**-3 562**	**-45 056**	**-50 966**	**-5 910**	**-50 251**

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

The consolidated national government budget

The consolidated national budget supplements the finances of the National Revenue Fund, set out in the main budget framework, with receipts and expenditure of the RDP Fund, international development assistance grants, and the accounts of the social security funds. The consolidated national budget framework is set out in table 3.5.

Surpluses on the UIF and compensation funds

Due to significant surpluses on the Unemployment Insurance Fund and Compensation Funds, the deficit of the consolidated national government budget is lower than that of the main budget and rises from 2,0 per cent of GDP in 2004/05 to 2,8 per cent in the first and second year of the MTEF. By 2007/08, the consolidated national budget deficit falls to 2,5 per cent of GDP. More precise breakdowns of revenue and expenditure generated through international development cooperation agreements and the social security funds are set out in tables 3.6 and 3.7 respectively.

Infrastructure expenditure: estimates and trends

The table below reflects the rising trend in public sector capital formation, driven by the finalisation of investment plans by big public enterprises, growth in public private partnerships (PPP's) and the stepping up of infrastructure allocations to all three spheres of Government. The 2005 Budget allocates an additional R14,1 billion to infrastructure projects over the next three years.

2005 MTEF Capital expenditure estimates

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised estimate		Medium-term estimates	
National departments[1]	7 738	8 647	9 623	10 989	12 833	13 106	14 597
Provincial departments	9 975	12 976	17 923	19 462	22 418	24 918	27 343
Municipalities	11 700	13 100	16 687	16 938	19 009	22 296	24 445
Public private partnerships[2]	863	1 637	2 574	1 461	4 173	5 073	5 680
Extra-Budgetary Public Entities	2 101	2 854	3 053	3 235	3 483	3 762	4 063
Non-financial public enterprises	19 687	26 803	21 332	20 537	29 921	39 068	45 692
Total	**52 064**	**66 017**	**71 192**	**72 622**	**91 837**	**108 223**	**121 820**
percentage GDP	*5,0%*	*5,5%*	*5,6%*	*5,2%*	*6,0%*	*6,5%*	*6,6%*
GDP (R billion)	*1 048*	*1 194*	*1 277*	*1 404*	*1 529*	*1 674*	*1 847*

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

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

Increased allocations for municipal infrastructure over the next three years, particularly for sanitation, brings the total Municipal Infrastructure Grant (MIG) allocation to R21,2 billion. The MIG grant is increased to accelerate the eradication of Apartheid era backlogs in township roads, water, sanitation, street lighting, community centres etc., and to increase employment through labour intensive construction methods via the Expanded Public Works Programme (EPWP).

The provincial infrastructure grant, which funds provincial roads, schools and clinics, receives R13,2 billion over the next three years. The housing budget receives an additional R2 billion over the MTEF, bringing the total housing infrastructure budget over three years to R17,4 billion. In addition, a further R3 billion dedicated to Community Infrastructure is still to be allocated to departments over the MTEF.

To meet the country's growing transport needs, an additional R1,35 billion over the MTEF period is allocated for roads and passenger rail infrastructure, such as stations and coach refurbishment. Of this amount, R500 million was allocated for provincial and national roads each, bringing the Department of Transport infrastructure transfers to R4,9 billion. A further R3 billion dedicated to Transport Systems Infrastructure is still to be allocated to departments for both public transport and transport infrastructure for the 2010 soccer world cup.

An additional R850 million over the MTEF is allocated for water resource infrastructure such as pipelines and dams, bringing Water Affairs infrastructure spending estimates to R2,4 billion over the MTEF. Other large infrastructure budgets over the MTEF include the hospital revitalisation programme with Health infrastructure expenditure projected to be R4,3 billion and national Public Works infrastructure expenditure of R3,3 billion. Over the next three years, infrastructure plans in the criminal justice sector include prison facilities to alleviate overcrowding (R3 billion), police stations (R1,2 billion) and court facilities (R820 million). About R1,1 billion will be spent on the electrification programme in the 2005/06.

Major public enterprises have signalled expansion of their economic infrastructure. Transnet has finalised its investment plans and expects to spend about R30 billion on infrastructure, including port and port operations infrastructure, freight rolling stock, rail, and fuel pipelines over the next three years. Eskom's infrastructure plans amount to R56 billion over the three years, and include investments in power generation, transmission, and distribution. Total capital expenditure by non-financial public enterprises is estimated to be about R115 billion over the MTEF.

The delivery of infrastructure through public private partnerships (PPPs) slowed in 2004/05, mainly due to national road projects awaiting environmental approval. However, since the Medium Term Budget policy Statement more PPP projects are envisaged, resulting in increased forward estimates.

Overall public sector capital expenditure has increased at an average of 11,7 per cent a year between 2001/02 and 2004/05, and is expected to grow at an average of 18,8 per cent a year over the 2005 MTEF.

Table 3.5 Consolidated national budget framework, 2003/04 – 2007/08

	2003/04	2004/05		2005/06	2006/07	2007/08
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
National Revenue Fund (main budget)						
Revenue	**299 431**	**326 956**	**337 960**	**369 869**	**405 427**	**444 643**
Expenditure						
State debt cost	46 313	50 432	48 901	53 125	56 603	59 381
Percentage of GDP	*3,6%*	*3,8%*	*3,5%*	*3,5%*	*3,4%*	*3,2%*
Contingency reserve	–	2 500	–	2 000	4 000	8 000
Non-interest allocations[1]	282 349	315 972	321 212	362 694	395 790	427 513
Total expenditure	**328 662**	**368 904**	**370 113**	**417 819**	**456 393**	**494 894**
Percentage increase	*12,7%*	*11,2%*	*12,6%*	*12,9%*	*9,2%*	*8,4%*
Deficit	**-29 231**	**-41 948**	**-32 152**	**-47 950**	**-50 966**	**-50 251**
Percentage of GDP	*-2,3%*	*-3,1%*	*-2,3%*	*-3,1%*	*-3,0%*	*-2,7%*
RDP Fund and foreign technical co-operation						
Receipts and technical co-operation	1 688	1 500	1 550	1 500	1 500	1 500
Expenditure	1 690	1 300	1 350	1 300	1 300	1 300
Social security funds						
Revenue	13 579	13 916	15 158	16 430	17 788	19 110
Expenditure	9 169	11 092	11 047	12 060	13 432	14 429
Consolidated national budget[2]						
Revenue	**314 689**	**342 356**	**354 652**	**387 783**	**424 697**	**465 235**
Expenditure	**339 511**	**381 280**	**382 494**	**431 162**	**471 108**	**510 605**
Percentage of GDP	*26,6%*	*28,6%*	*27,2%*	*28,2%*	*28,1%*	*27,6%*
Percentage increase	*25,2%*	*11,6%*	*12,7%*	*12,7%*	*9,3%*	*8,4%*
Deficit	**-24 823**	**-38 923**	**-27 842**	**-43 379**	**-46 410**	**-45 370**
Percentage of GDP	*-1,9%*	*-2,9%*	*-2,0%*	*-2,8%*	*-2,8%*	*-2,5%*
Gross domestic product	*1 277 029*	*1 331 796*	*1 403 851*	*1 528 633*	*1 674 016*	*1 847 290*

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

2. Flows between funds are netted out.

Foreign technical cooperation receipts in 2004/05 of R1,6 billion

For 2004/05, total foreign assistance in support of various Government projects is expected to be R1,6 billion. Over the MTEF, it is estimated that these funds will total R1,5 billion a year. Foreign technical assistance remains an important part of Government's and the non-governmental community's efforts to address the various social and developmental challenges facing South Africa.

Table 3.6 RDP Fund grants and foreign technical co-operation, 2001/02 – 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
R million		**Actual**		**Estimate**	**Medium-term estimates**		
RDP Fund							
Receipts	923	1 143	1 088	950	900	900	900
Disbursements	726	1 306	1 090	750	700	700	700
Surplus (+) / Deficit (-)	**197**	**- 163**	**- 2**	**200**	**200**	**200**	**200**
Technical co-operation (in kind)	500	600	600	600	600	600	600
Total foreign assistance	**1 423**	**1 743**	**1 688**	**1 550**	**1 500**	**1 500**	**1 500**

Social security funds

Composition of Social Security Funds and overall trends

Social security system includes contributory and non-contributory elements

Means-tested cash benefits funded from general revenues (i.e. non-contributory benefits) form the bulk of the South African social security system. The benefits to specific categories of people (the elderly, the disabled, poor families with children and foster children) are estimated to cost R55,4 billion in 2005/06 and are generally accessible only to those without a long-standing association with the formal labour market. These social assistance benefits are complemented by four social security funds that are financed through mandatory levies and taxes and provide social insurance type benefits to contributing workers and road users.

An improved financial position in the Unemployment Insurance Fund (UIF) and the stable position of the compensation funds result in increasing surpluses in the social security funds. The Road Accident Fund account reflects continuing deficits and rapid deterioration of reserves.

Table 3.7 Social security funds, 2001/02 – 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised estimate		Medium-term estimates	
Unemployment Insurance Fund							
Revenue	3 457	4 905	6 132	6 764	7 445	8 157	8 901
Expenditure	2 868	2 416	2 572	3 174	3 847	4 739	5 269
Compensation funds							
Revenue	3 114	3 534	3 553	3 891	4 078	4 271	4 334
Expenditure	2 115	2 797	2 184	2 418	2 585	2 881	2 962
Road Accident Fund							
Revenue	2 585	3 264	3 894	4 503	4 907	5 360	5 874
Expenditure	2 900	3 575	4 413	5 455	5 627	5 813	6 198
Total: Social security funds							
Tax revenue	6 918	9 657	12 137	13 576	14 580	15 678	16 689
Non-tax revenue	1 615	1 712	1 432	1 566	1 833	2 092	2 403
Grants received	623	334	10	16	17	18	18
Total revenue	**9 156**	**11 703**	**13 579**	**15 158**	**16 430**	**17 788**	**19 110**
Total expenditure	**7 883**	**8 789**	**9 169**	**11 047**	**12 060**	**13 432**	**14 429**
Surplus	**1 273**	**2 914**	**4 410**	**4 111**	**4 371**	**4 355**	**4 681**

Unemployment Insurance Fund

Healthy financial position of the UIF

The Unemployment Insurance Fund (UIF) provides short term income replacement to qualifying workers for unemployment (78 per cent of total claims in 2002/03), maternity (15 per cent), illness (3 per cent), and death (4 per cent). In the late 1990s, the UIF experienced large deficits. However, since 2001, steps were taken to improve the financial position of the Fund including collection by South African Revenue Service and increasing the ceiling for contributions. The recent inclusion of domestic, seasonal and farm workers has also boosted revenue. Between 2001/02 and 2004/05 revenue of the Fund has grown by an average of 25,1 per cent a year.

UIF reserves grow by about R3,5 billion a year

As a result of rapidly increasing revenues and fairly stable (and in some cases declining) claims, the Fund is running substantial surpluses of about R3,5 billion a year. These add to reserves to ensure the continued financial independence of the Fund and its ability to respond to cyclical movements in claims. Discussions are in progress with the actuaries of the Fund to assess an appropriate reserve level.

Compensation funds

The Workmen's Compensation Fund and the Mines and Works Compensation Fund compensate employees for loss of income resulting from occupational injuries, diseases or death. The funds are financed from assessed levies on employers and employees, and in recent years, revenues have exceeded expenditure by roughly R1,5 billion, leading to cash flow surpluses which are projected to continue.

Single health and safety authority envisaged

Due to the fragmented nature of responsibilities for health safety and compensation between various departments, Government has decided to consolidate these competencies. The relevant departments have prepared a Draft National Occupational Health and Safety Policy as well as consolidated draft legislation. A National Occupational Health and Safety Authority is envisaged, to take responsibility for the integrated national occupational health and safety system.

Road Accident Fund

The RAF compensates victims of motor vehicle accidents caused by third parties for bodily injuries, loss of income and for loss of financial support following the death of principle earners.

RAF still running significant actuarial deficits

The Fund receives a portion of the fuel levy imposed on petrol and diesel sales to fund its operations. Between 2001/02 and 2004/05, revenue increased from R2,6 billion to R4,5 billion – an annual average increase of 20,3 per cent. Despite rapid growth in revenue, expenditure has consistently outstripped revenue since 2001/02. As a result, the reserves of the RAF were exhausted during 2003/04. The levy will be increased by 5 cents per litre to 31,5 cents per litre from 6 April 2005 to accommodate inflationary increases in claim settlement and a substantial backlog in claims. Despite this increase, the Fund will have to take steps to reduce its expenditure in order to avoid running further deficits in the future.

Steps taken to curb expenditure

The RAF has taken action to limit fraudulent activities by introducing a claims validation process, promoting claims lodged directly with the RAF and not via lawyers, prosecuting those who lodge fraudulent claims (with 494 successful prosecutions during 2004/05) and verifying claims as they are lodged. The RAF Amendment Act will provide the Fund with a legislative mandate to further contain expenditure by limiting claims for general damages and those by non-residents. The long term transformation of the Fund, in line with the recommendations of the Road Accident Fund Commission, is being considered by an interdepartmental committee that will make recommendations to Cabinet in July 2005.

Consolidated government accounts and the PSBR

National and provincial consolidated expenditure

Table 3.8 summarises the consolidated expenditure of national and provincial government. The table is arranged by economic classification, which provides insight into how expenditure is distributed within the economy. Capital transfers to municipalities are recorded as transfers to municipalities and not as capital spending.

Economic risks and the fiscal framework

The fiscal framework which informs the various budgets in this chapter is based on assumptions and predictions about the future trajectory of the economy over the next three years. Economic forecasts using historical data and trends are based on fundamental economic relationships which are then projected forward. As with all economic modelling exercises, there are a number of factors that can influence the forecast positively or negatively.

The rate and structure of economic growth mainly feeds into the fiscal framework through revenue collections. The revenue projections are largely based on the income taxes and VAT collection trends. These collections are directly correlated with both production and consumption. Therefore, if the outcomes of these two factors are significantly different from those forecast at the time of the Budget, it is likely that revenue will be affected positively or negatively, resulting in a narrowing or widening of the deficit respectively.

The interest rate also directly affects the fiscal framework through debt service costs. Changes to domestic and international interest rates will affect the cost of government borrowing. Higher interest rates will increase the cost of governments borrowing, while lower interest rates will reduce the debt service costs. The cost of borrowing from international money markets is also affected by changes in the exchange rate, with a depreciation leading to a higher cost and an appreciation leading to a lower cost. These costs affect total expenditure, and therefore can affect the deficit positively or negatively.

Apart from direct economic effects, changes in the rate of economic growth and inflation can affect the framework by changing the fiscal-GDP ratios. An increase in nominal GDP will result in the ratios declining, while a lower nominal GDP will result in them rising.

The following examples illustrate how economic risks can affect the fiscal framework by changing the outcome of one economic factor, while holding the others constant:

- An increase in growth prospects for the international economy may result in increased demand for South African products. As a result company and personal income tax receipts from export sectors would increase, leading to revenue overruns and a decline in the deficit.
- An increase in the interest rate could result in disposable incomes declining and therefore reducing consumption in the domestic economy. As a result, revenue can be expected to decline and the deficit would widen.
- A depreciation in the exchange rate would result in the rand value of our overseas debt stock increasing. This can be expected to increase debt service costs and lead to an increase in the deficit.
- Inflation growing faster than forecast may lead to nominal economic growth increasing faster than expected. As a result, the deficit will decline as a per cent of GDP.

Table 3.8 Consolidated national and provincial expenditure, 2001/02 – 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised		Medium-term estimates	
R million				estimate			
Current payments							
Compensation of employees	100 241	110 049	119 830	131 642	145 498	156 938	167 952
Goods and services	33 887	39 968	45 787	53 867	59 727	66 354	72 884
Interest and rent on land	47 695	46 980	46 479	48 995	53 282	56 770	59 555
State debt cost	*47 581*	*46 808*	*46 313*	*48 901*	*53 125*	*56 603*	*59 381*
Financial transactions in assets and liabilities	58	82	41	8	–	–	–
Total current payments	**181 881**	**197 080**	**212 137**	**234 513**	**258 507**	**280 061**	**300 391**
Real growth [1]		*-1,3%*	*2,0%*	*6,1%*	*5,8%*	*2,9%*	*1,8%*
Transfers and subsidies[2]							
Municipalities	8 781	11 653	16 438	19 311	21 441	24 607	27 179
Departmental agencies and accounts	20 159	25 093	27 617	29 164	33 306	34 100	34 609
Universities and technikons	7 137	7 578	8 436	9 375	10 118	10 703	11 245
Public corporations and private enterprises	7 443	8 728	9 478	11 326	10 791	10 471	11 453
Foreign governments and international organisations	336	702	817	796	873	932	1 010
Non-profit institutions	3 130	3 903	5 015	4 926	5 738	6 277	6 355
Households	32 712	42 652	53 416	64 149	73 620	82 102	90 218
Total transfers and subsidies	**79 698**	**100 309**	**121 217**	**139 047**	**155 887**	**169 192**	**182 070**
Real growth [1]		*14,6%*	*14,5%*	*10,1%*	*7,6%*	*3,1%*	*2,2%*
Payments for capital assets							
Buildings and other fixed structures	7 029	8 431	9 760	11 545	12 883	15 695	18 028
Machinery and equipment	4 083	4 820	5 422	5 443	5 753	6 971	8 037
Cultivated assets	14	14	46	30	49	44	36
Software and other intangible assets	51	73	54	264	223	94	82
Land and subsoil assets	12	42	43	13	11	12	12
Total payments for capital assets	**11 189**	**13 381**	**15 325**	**17 295**	**18 920**	**22 815**	**26 194**
Real growth [1]		*8,9%*	*8,5%*	*8,3%*	*5,0%*	*14,5%*	*9,0%*
Unallocated	**–**	**–**	**–**	**–**	**2 000**	**4 000**	**8 000**
Consolidated expenditure	**272 768**	**310 769**	**348 678**	**390 854**	**435 314**	**476 069**	**516 655**
Consolidated non-interest expenditure	**225 187**	**263 961**	**302 365**	**341 953**	**382 189**	**419 466**	**457 274**
Percentage of GDP	*21,5%*	*22,1%*	*23,7%*	*24,4%*	*25,0%*	*25,1%*	*24,8%*
Real growth [1]		*6,7%*	*8,5%*	*8,5%*	*7,3%*	*4,3%*	*3,5%*

1. Deflated using the CPIX deflator.

2. Including capital transfers.

3. Including national contingency reserve.

Table 3.8 illustrates the following trends:

- Real non-interest expenditure grows at an average rate of 5,0 per cent over the MTEF period
- Capital expenditure at national and provincial level grows at average of 9,4 per cent in real terms

- Transfers to municipalities for both current and capital expenditure programmes, grow at an average of 6,8 per cent in real terms
- Transfers to households grow by 6,8 per cent in real terms, illustrating Government's continued commitment to provide targeted income support to the poor and vulnerable.

The consolidated general government account

The consolidated general government account for 2003/04 is set out in table 3.9. This table summarises the full extent of the revenue and expenditure at national, provincial, and local government levels, as well as extra-budgetary institutions and the social security funds. Flows between institutions are netted out.

Table 3.9 Consolidated accounts of general government, 2003/04[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Current receipts	298 716	13 569	6 379	8 440	67 961	**395 066**
Tax receipts (net of SACU)	*292 785*	*12 137*	*3 393*	*132*	*21 589*	***330 036***
Non-tax receipts	*5 931*	*1 432*	*2 986*	*8 308*	*46 372*	***65 030***
Sales of capital assets	715	–	215	671	48	**1 649**
Total own account receipts	**299 431**	**13 569**	**6 594**	**9 111**	**68 009**	**396 714**
Percentage of total	*75,5%*	*3,4%*	*1,7%*	*2,3%*	*17,1%*	***100,0%***
Transfers received[4]	1 688	10	161 522	35 591	15 249	**1 688**
Total receipts	**301 119**	**13 579**	**168 116**	**44 702**	**83 258**	**398 402**
Current payments	103 819	1 292	107 018	35 167	73 574	**320 870**
Compensation of employees	*38 162*	*712*	*80 955*	*14 253*	*21 646*	***155 729***
Goods and services	*19 245*	*580*	*25 926*	*19 331*	*47 744*	***112 826***
Interest	*46 341*	*–*	*–*	*375*	*1 931*	***48 647***
Other current payments	*71*	*-0*	*136*	*1 208*	*2 253*	***3 668***
Transfers and subsidies[5]	*220 835*	*7 859*	*54 035*	5 233	–	**75 589**
Payments for capital assets	*5 698*	*18*	*9 608*	3 053	16 800	**35 178**
Total payments	**328 662**	**9 169**	**170 661**	**43 453**	**90 374**	**431 637**
Percentage of total	*76,1%*	*2,1%*	*39,5%*	*10,1%*	*20,9%*	***100,0%***
Surplus (+) / Deficit (-)	**-27 543**	**4 410**	**-2 545**	**1 249**	**-7 116**	**-33 234**
Extraordinary payments	-7 443	–	–	–	–	**-7 443**
Extraordinary receipts	1 598	–	–	–	–	**1 598**
Financing requirement (-)	**-33 388**	**4 410**	**-2 545**	**1 249**	**-7 116**	**-39 080**
Percentage of GDP	*-2,6%*	*0,3%*	*-0,2%*	*0,1%*	*-0,6%*	***-3,1%***

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 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.

Eskom infrastructure investment

The table below reflects Eskom's 5-year capital expenditure plan of R110 billion, including R56 billion to be spent over the MTEF period. The plans primarily reflect increased investment in generation as a result of higher demand and the need to cater for increasing variations in peak demand, and are set to increase Eskom's generation capacity by 5300 megawatts to 41500 megawatts.

Eskom Holdings Capex

R million	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Generation	7 120	11 454	16 969	17 838	20 608	**73 989**
Transmission	1 576	2 731	2 597	2 867	1 985	**11 756**
Distribution	3 008	3 097	3 084	3 016	3 667	**15 872**
Corporate	285	372	368	443	472	**1 940**
Other	1 857	1 070	330	690	2 824	**6 771**
Total funded by Eskom	**13 846**	**18 724**	**23 348**	**24 854**	**29 556**	**110 328**

Major electricity generation projects include the recommissioning of previously mothballed plants such as Camden, Komati and Grootvlei, the upgrade of the existing plant at Matimba, and the building of a hydroelectric pumped storage scheme at Braamhoek. Other green fields projects include a fluidized bed combustion plant at Ellisras, combined cycle gas turbine plants at Saldanha and Coega, and an open cycle gas turbine plant, the location of which is still to be determined. A major hydroelectric project on the Inga River in the Democratic Republic of the Congo, in which Eskom is a partner, is still under consideration.

Transmission capacity will be expanded in Cape Peninsula, Richards Bay, Bloemfontein, Johannesburg, the platinum basin, supply lines to Coega, and at power stations re-integrated to service into the grid.

Capital expenditure on distribution consists mainly of lines, substations, and reticulation to end-users, as well as refurbishment and control systems. The estimates include Eskom's portion of the establishment of regional electricity distributors (REDs) and exclude distribution expenditure for Eskom's implementation of the National Electrification Programme, funded by Government. Other proposed projects include the construction of a R1,5 billion 68km rail line from Ermelo to Majuba power station for the transportation of coal and a R1,6 billion refurbishment of the Kriel power station.

Transnet infrastructure investment

Transnet recently finalised its 5-year investment plan in line with its new strategic direction, expecting to invest R49,5 billion, with R30,2 billion spent over the MTEF period.

R million	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	5 year plan
Spoornet	1 623	2 587	3 339	3 385	3 396	3 383	**16 090**
NPA	1 284	1 727	3 593	3 718	3 882	2 490	**15 411**
SAPO	623	895	1 445	1 012	979	758	**5 087**
Petronet	130	344	947	993	868	1 072	**4 223**
Total core business	**3 661**	**5 553**	**9 324**	**9 108**	**9 125**	**7 703**	**40 813**
SAA (non core)	1 051	853	506	2 307	507	507	**4 680**
Other non core	852	996	939	607	667	747	**3 957**
Transnet Group	**5 565**	**7 402**	**10 769**	**12 022**	**10 299**	**8 957**	**49 450**

Major rail investments are in wagons and locomotives (R7,9 bn), rail signalling and power supply (R6,7 bn), and upgrade of the Coallink line (R1,87 bn) and the Orex line from Sishen to Saldanha (R1,25 bn).

South African Port Operations (SAPO) investments include superstructure equipment for container and bulk goods terminals. Major projects include the new container terminal for Durban that will provide capacity for 560,000 containers (R748m); container expansion and replacement in Cape Town (R600m) which will provide 6 new gantry cranes, and the replacement of 26 straddle carriers, as well as upgrades of the bulk terminals at Richards Bay (R336m) and Saldanha (R920m). Durban has already been equipped with 60 additional straddle carriers and 3 gantry cranes.

Major National Ports Authority projects include the new Durban Pier 1 container terminal (R689m), enlarging the Durban Harbour entrance (R1,5 bn), completion of the Port of Ngqura at Coega (R1,6 bn) and the Cape Town container Terminal and berth expansion (R1,4 bn). The bulk of the Petronet investment of R4,2 bn is for work on the Durban – Johannesburg - Pretoria petroleum products pipeline, about 700 km long.

Funding options for the investments include divesting from non-core businesses, public private partnerships, concessioning, own revenue, borrowing, and strategic equity partners.

Consolidated general government deficit in 2003/04 of 3,1 per cent

In 2003/04, general government had R396,7 billion, or 31,1 per cent of GDP, in revenue. Of this, 75,5 per cent was collected by national government. General government expenditure in 2003/04 totalled R431,6 million, representing 33,8 per cent of GDP. Of this, 13,4 per cent and 7,1 per cent was at provincial and local government level respectively. The consolidated general government deficit is the sum of the deficits of all the spheres and extra-budgetary institutions and accounts. In 2003/04, the consolidated general government deficit was 3,1 per cent of GDP

The public sector borrowing requirement

State enterprise investments raise PSBR

The public sector borrowing requirement, set out in table 3.10, includes the consolidated general government deficit and the financing requirement of the non-financial public enterprises. Since 2001/02, the public sector borrowing requirement has increased as a proportion of GDP, mainly as a result of a higher financing requirement due to lower privatisation proceeds and an increases in the main budget deficit. Over the MTEF, it is expected that investments by the state enterprises will require significant additional borrowing. Although the increase in the PSBR over the MTEF represents a greater claim by the public sector on capital markets, the increase is driven by the investment expenditure in productive capacity and contributes to strengthening the long run growth of the economy. As a result, the PSBR is expected to increase from 2,4 per cent of GDP in 2003/04 to 3,8 per cent by 2007/08.

Table 3.10 Public sector borrowing requirement[1], 2001/02 – 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised estimate		Medium-term estimates	
Main budget							
Main budget deficit	14 642	13 021	29 231	32 152	47 950	50 966	50 251
Extraordinary payments	2 078	7 971	7 443	7 136	7 000	–	4 328
Extraordinary receipts	-4 159	-8 168	-1 598	-1 720	-1 529	-527	-712
Financing requirement	**12 561**	**12 825**	**35 076**	**37 569**	**53 421**	**50 438**	**53 867**
RDP Fund	-197	163	2	-200	-200	-200	-200
Social security funds	-1 273	-2 914	-4 410	-4 111	-4 371	-4 355	-4 681
Provinces	-3 659	3 023	2 545	2 441	-1 620	-1 071	-258
Extra-budgetary institutions	-955	-2 290	-1 249	-1 630	-1 596	-1 453	-1 206
Local authorities & local government enterprises	6 932	6 139	7 116	7 793	8 339	8 922	9 547
General government deficit	**13 408**	**16 945**	**39 080**	**41 862**	**53 973**	**52 281**	**57 069**
Percentage of GDP	*1,3%*	*1,4%*	*3,1%*	*3,0%*	*3,5%*	*3,1%*	*3,1%*
Non-financial public enterprises[2]	-2 555	-4 882	-8 581	-2 987	5 936	11 493	12 537
Public sector borrowing requirement	**10 853**	**12 063**	**30 499**	**38 875**	**59 909**	**63 774**	**69 606**
Percentage of GDP	*1,0%*	*1,0%*	*2,4%*	*2,8%*	*3,9%*	*3,8%*	*3,8%*
Gross domestic product	*1 047 992*	*1 193 771*	*1 277 029*	*1 403 851*	*1 528 633*	*1 674 016*	*1 847 290*

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

2. Public corporations and central government enterprises.

Saambou liability accrues in 2007/08

Extraordinary payments in 2005/06 show the final payment to the Gold and Foreign Exchange Contingency Reserve Account. There are no extraordinary payments expected in 2006/07. A contingent liability related to Saambou Bank will be realised in 2007/08.

No provision is made for the restructuring of state owned enterprises as the focus going forward will be on their profitability with a view to ensuring that they are able to deliver on infrastructure and service commitments that will contribute to economic development. Other changes to extraordinary receipts relate to the once off inflow of R1 billion from the Agricultural Debt Account in 2005/06.

Public Private Partnerships

Firmly entrenched in public finances

While capital budgets at all levels of government are showing strong real growth, Public Private Partnerships (PPPs) represent an additional mechanism through which public finance can service the needs of all South Africans. While not a substitute for government capital formation, PPP's offer an alternative means to addressing various infrastructure, housing, empowerment, small business development and public service needs through cooperation with the private sector.

PPP's are now fully covered by regulations of the Public Finance Management Act and the Municipal Finance Management Act. As such, they form a fundamental part of the public finance environment and offer valuable means through which national, provincial and local governments are able to deliver infrastructure and services in cooperation with the private sector.

Standardised codes for PPPs issued

The issuing of the new Public Private Partnership manual and the Standardised Public Private Partnership Provisions has provided a standardised guide to the regulations and processes involved in undertaking a PPP, including the important contribution of PPP projects to black economic empowerment. This has served to enhance transparency and accountability for both the public and private sector in terms of the PPP project lifecycle.

During the course of 2004, twelve new PPP projects were given treasury approval (TA1), with an aggregate net present value to government of just under R16 billion. These projects covered a broad range of areas from health to environmental services and infrastructure.