

4

Fiscal policy

The good health of the public finances leading up to the global financial crisis allowed government to respond to the economic downturn by maintaining expenditure on social priorities and investing in the country's infrastructure requirements, reducing the impact of the recession.

Fiscal policy guides decisions about revenue, spending and borrowing. Government expenditure has continued to grow in recent years, reaching 34.1 per cent of GDP in 2009/10. Much of this spending supports health care, education and social grants. In 2009/10, with tax revenue falling due to weaker economic conditions, a consolidated government deficit equivalent to 7.3 per cent of GDP is expected. The 2010 Budget maintains public spending levels, and revenue is expected to recover over the forecast period, bringing the projected budget deficit down to 4.1 per cent of GDP by 2012/13.

Higher deficits lead to rising debt-service costs that compete with productive expenditure. To ensure that a growing debt burden does not crowd out spending on development priorities, government will stabilise growth in interest costs through a careful, controlled reduction in the deficit, taking into account the health of the economy.

■ Overview

In the wake of the deepest global recession since the 1930s, the 2010 budget framework balances the short-term need for economic stimulus with the long-term imperative of fiscal sustainability.

Government balances the need for economic stimulus with fiscal sustainability

Our low-debt starting point has enabled government to respond to the effects of the downturn by significantly expanding borrowing, ensuring that spending on economic and social services can be maintained despite a decline in tax revenue. This countercyclical response has stood South Africa in good stead by limiting the human and economic costs of the recession. Unlike many countries that entered the crisis with already high

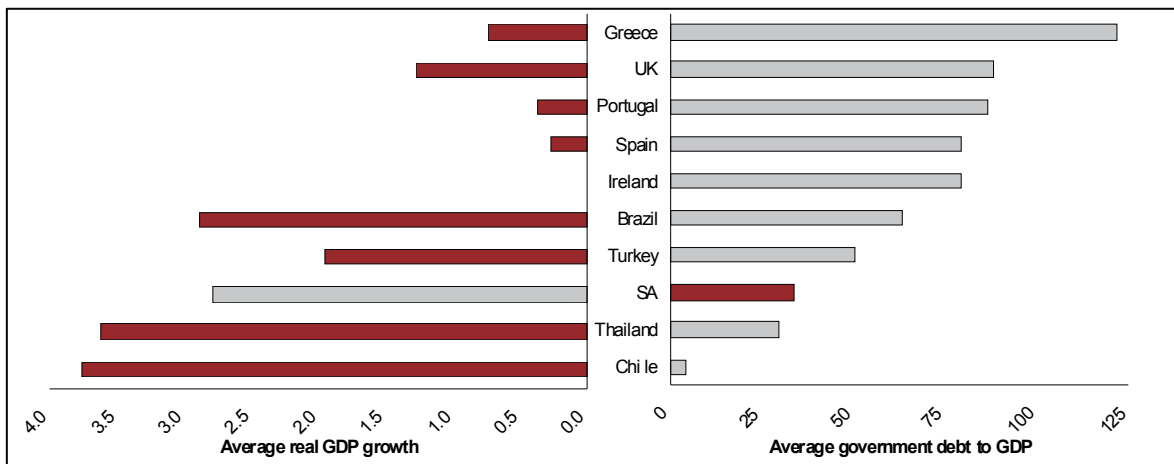
The deficit will be reduced in a deliberate and measured way

levels of debt, we do not have to cut spending or raise tax rates in the short term at the expense of social development and economic growth.

The cost of higher borrowing is, however, greater expenditure on interest. To ensure that a rising share of public expenditure is not absorbed by interest payments at the expense of social and economic priorities, the deficit will be reduced in a countercyclical manner.

Higher government borrowing is only a temporary solution to our economic challenges. While our debt stock remains low compared with many developed economies, it is in line with high-growth developing countries. As the world recovers from the recession, those countries with low levels of debt will be best placed to take advantage of growth opportunities. Those burdened with high debt levels will find it more difficult to invest and trade due to a substantial tax burden, high interest rates and perceived financial risks, leading to lower economic and employment growth.

Figure 4.1 GDP growth and government debt to GDP, 2009 – 2014



National Treasury forecasts for South Africa; January 2010 IMF World Economic Outlook for others.

'We must raise a hand, raise a finger! Do anything, but we must never allow corruption to undermine our hard-won gains.' –
Minister of Public Service Administration Richard Baloyi

Government's fiscal stance is to maintain an appropriate level of short-term stimulus to support economic recovery, while acting deliberately to reduce public debt to sustainable levels. In support of these objectives, key features of the 2010 Budget include the following:

- Consolidated government spending grows to 34.1 per cent of GDP in 2009/10, before declining to 32.1 per cent by 2012/13, with additional allocations to the main budget of R86.7 billion.
- Consolidated government budget revenue increases to 27.3 per cent of GDP in 2010/11, compared with 26.8 per cent in 2009/10.
- The consolidated government budget deficit improves over the medium term, from 7.3 per cent of GDP in 2009/10 to 4.1 per cent by 2012/13.
- Consolidated government debt-service costs increase from 2.4 per cent of GDP in 2009/10 to 3.2 per cent in 2012/13.
- The public sector borrowing requirement rises to 11.1 per cent of GDP in 2010/11 before moderating to 7.1 per cent by 2012/13.

The budget framework

Government is committed to budget transparency. Over time, the fiscal framework has been broadened to present a fuller picture of government finances and the effects of policy decisions. The fiscal framework is now presented at the consolidated government level, which includes all of government except for municipalities.

Presentation of fiscal framework underlines commitment to budget transparency

For a decade, strong growth in expenditure has resulted in a significant increase in government's share of the economy. In the past two years, expenditure growth has been particularly strong, with government's share of GDP rising from 28.5 per cent in 2007/08 to 34.1 per cent in 2009/10. This increase is partly a countercyclical response to the downturn, which serves to stimulate economic growth and maintain spending on public services at a time when businesses and households require fiscal support the most. In addition, once-off items such as the Eskom loan temporarily boosted expenditure.

Between 2002/03 and 2008/09, the increase in expenditure was generally more than matched by increases in budget revenue – largely due to buoyant economic conditions supporting tax collections. As a result, government borrowing to finance expenditure averaged 0.6 per cent of GDP.

Table 4.1 Consolidated government fiscal framework, 2006/07 – 2012/13

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
R million							
Revenue	541 224	627 669	689 672	657 552	738 404	827 742	922 278
<i>Percentage of GDP</i>	29.5%	30.2%	29.7%	26.8%	27.3%	27.9%	28.0%
Expenditure	518 447	593 269	713 890	835 324	906 964	977 361	1 058 622
<i>Percentage of GDP</i>	28.3%	28.5%	30.8%	34.1%	33.6%	32.9%	32.1%
Budget balance	22 777	34 400	-24 218	-177 773	-168 560	-149 619	-136 344
<i>Percentage of GDP</i>	1.2%	1.7%	-1.0%	-7.3%	-6.2%	-5.0%	-4.1%
<i>Gross domestic product</i>	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

Slowing economic growth over the past 18 months has resulted in a marked decline in budget revenue. In 2009/10 government expenditure is expected to reach 34.1 per cent of GDP, while budget revenue falls to 26.8 per cent, leaving a deficit of 7.3 per cent that must be financed through borrowing.

Over the next three years, growth in government expenditure will moderate, with spending as a share of GDP of 32.1 per cent in 2012/13. Budget revenue is expected to recover to 28 per cent of GDP by 2012/13, mainly as a result of higher levels of economic activity. Rising revenue and stable expenditure as a share of GDP will result in a smaller budget deficit of 4.1 per cent of GDP by 2012/13.

Expenditure moderates over the medium term as revenue begins to recover

The foundation of any fiscal policy is sufficient revenue to sustainably finance public expenditure. To achieve this, the deficit will need to continue to trend downwards beyond 2012/13. This will require spending growth to moderate as revenue continues to rise.

Revisions to 2008/09, 2009/10 and forward estimates for the consolidated government budget

The budget balance outcome in 2008/09 was a deficit R18.3 billion higher than was budgeted. This was mainly due to lower-than-projected tax revenue collections of R17 billion, partially offset by under-expenditure of R2.4 billion.

Table 4.2 Revised estimates of consolidated government revenue and expenditure, 2008/09 and 2009/10

R million	2008/09			2009/10			% change 2008/09 – 2009/10
	Budget estimate	Outcome	Deviation	Budget estimate	Revised estimate	Deviation	
Revenue							
Tax revenue	642 089	625 100	-16 988	659 304	590 425	-68 879	-5.5%
Non-tax revenue	12 185	12 616	431	11 602	8 983	-2 619	-28.8%
Less: SACU payments	-28 921	-28 921	–	-27 915	-27 915	–	-3.5%
Other ¹	84 978	80 876	-4 102	88 245	86 060	-2 185	6.4%
Budget revenue	710 331	689 672	-20 659	731 235	657 552	-73 683	-4.7%
<i>Percentage of GDP</i>	<i>31.1%</i>	<i>29.7%</i>		<i>29.6%</i>	<i>26.8%</i>		
Expenditure							
Current payments	413 502	415 969	2 468	472 376	480 408	8 032	15.5%
<i>of which:</i>							
<i>Debt service cost</i>	<i>51 236</i>	<i>54 394</i>	<i>3 158</i>	<i>55 268</i>	<i>57 600</i>	<i>2 332</i>	<i>5.9%</i>
Transfers and subsidies	231 776	237 534	5 759	264 611	268 580	3 969	13.1%
Payments for capital assets	54 966	49 353	-5 613	61 349	53 530	-7 819	8.5%
Payments for financial assets	10 000	11 033	1 033	30 000	32 806	2 806	197.3%
Contingency reserve	6 000	–	-6 000	6 000	–	-6 000	0.0%
Total expenditure	716 243	713 890	-2 353	834 336	835 324	989	17.0%
<i>Percentage of GDP</i>	<i>31.3%</i>	<i>30.8%</i>		<i>33.7%</i>	<i>34.1%</i>		
Budget balance²	-5 912	-24 218	-18 306	-103 100	-177 773	-74 672	
<i>Percentage of GDP</i>	<i>-0.3%</i>	<i>-1.0%</i>	<i>-0.8%</i>	<i>-4.2%</i>	<i>-7.3%</i>	<i>-3.0%</i>	
<i>Gross domestic product</i>	<i>2 286 906</i>	<i>2 320 117</i>		<i>2 474 214</i>	<i>2 449 858</i>		

1. Includes provinces, social security funds and selected entities.

2. A positive number reflects a surplus and a negative number a deficit.

In 2009/10, an expected decline in tax revenue is the main factor behind the shortfall in budget revenue of R73.7 billion. This, combined with slightly higher expenditure, results in the budget deficit coming in R74.7 billion higher than budgeted.

The recession resulted in a substantial reduction in revenue

The 2010 Budget adjusts the forward estimates tabled in the 2009 Budget for 2010/11 and 2011/12 to take account of changes in the economic environment and policy priorities, and adds projections for 2012/13. Table 4.3 illustrates the substantial reduction in revenue projections, and upward adjustment to spending plans since February 2009.

Table 4.3 Consolidated government budget medium-term estimates, 2010/11 – 2012/13

R million	2010/11			2011/12			2012/13
	2009 Forward estimate	2010 Budget	Change to baseline	2009 Forward estimate	2010 Budget	Change to baseline	2010 Budget
Revenue							
Tax revenue	720 935	647 850	-73 085	793 667	721 477	-72 190	818 298
Non-tax revenue	14 375	10 380	-3 995	15 426	11 483	-3 943	12 379
Less: SACU payments	-26 237	-14 991	11 245	-27 867	-11 211	16 656	-22 781
Other ¹	94 915	95 165	250	103 441	105 993	2 552	114 382
Budget revenue	803 989	738 404	-65 585	884 667	827 742	-56 924	922 278
<i>Percentage of GDP</i>	29.9%	27.3%		30.0%	27.9%		28.0%
Expenditure							
Current payments	516 941	527 892	10 952	558 054	580 140	22 086	623 715
<i>of which:</i>							
<i>Debt service cost</i>	60 140	71 358	11 218	66 826	88 463	21 637	104 022
Transfers and subsidies	284 642	284 016	-626	304 398	315 049	10 651	337 335
Payments for capital assets	66 161	68 163	2 002	70 617	69 418	-1 200	73 567
Payments for financial assets	20 000	20 893	893	–	754	754	5
Contingency reserve	12 000	6 000	-6 000	20 000	12 000	-8 000	24 000
Total expenditure	899 744	906 964	7 220	953 069	977 361	24 292	1 058 622
<i>Percentage of GDP</i>	33.5%	33.6%		32.3%	32.9%		32.1%
Budget balance²	-95 755	-168 560	-72 806	-68 402	-149 619	-81 216	-136 344
<i>Percentage of GDP</i>	-3.5%	-6.2%	-2.7%	-2.3%	-5.0%	-2.7%	-4.1%
<i>Gross domestic product</i>	2 686 254	2 699 888		2 952 989	2 967 560		3 295 749

1. Includes provinces, social security funds and selected public entities.

2. A positive number reflects a surplus and a negative number a deficit.

Expenditure trends

Strong growth in expenditure over the past 10 years has helped to stimulate economic activity, supporting both growth and redistribution.

For a decade, government has strongly increased public spending

Table 4.4 Economic classification of consolidated government expenditure, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
Current payments	317 279	353 822	415 969	480 408	527 892	580 140	623 715
Compensation of employees	170 288	195 010	232 595	270 859	294 432	315 773	332 283
<i>Percentage of GDP</i>	9.3%	9.4%	10.0%	11.1%	10.9%	10.6%	10.1%
Goods and services	91 506	101 934	124 712	147 181	155 789	168 533	178 804
Interest ¹	55 486	56 878	58 663	62 368	77 671	95 834	112 628
<i>Percentage of GDP</i>	3.0%	2.7%	2.5%	2.5%	2.9%	3.2%	3.4%
Transfers and subsidies	171 241	204 347	237 534	268 580	284 016	315 049	337 335
<i>Percentage of GDP</i>	9.3%	9.8%	10.2%	11.0%	10.5%	10.6%	10.2%
Payments for capital assets	28 491	33 139	49 353	53 530	68 163	69 418	73 567
<i>Percentage of GDP</i>	1.6%	1.6%	2.1%	2.2%	2.5%	2.3%	2.2%
Payments for financial assets	1 435	1 960	11 033	32 806	20 893	754	5
Contingency reserve	–	–	–	–	6 000	12 000	24 000
Total payments	518 447	593 269	713 890	835 324	906 964	977 361	1 058 622
<i>Percentage of GDP</i>	28.3%	28.5%	30.8%	34.1%	33.6%	32.9%	32.1%
<i>Gross domestic product</i>	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

1. Includes state debt cost and rent on land.

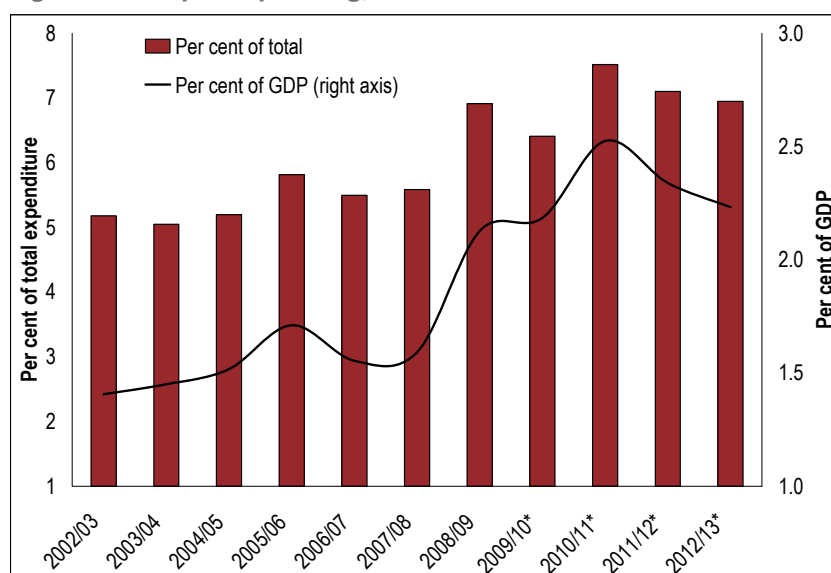
The composition of expenditure is an important element of fiscal policy, because different types of spending satisfy different needs within the economy. Table 4.4 below shows consolidated government expenditure by economic classification. A detailed breakdown appears in Annexure B.

Government capital expenditure

Infrastructure programme raises country's long-term growth potential

Expenditure on capital has grown as a proportion of total consolidated expenditure from 5.2 per cent in 2002/03 to 6.9 per cent in 2008/09. The public sector's capital investment programme raises the country's future growth potential by providing economic infrastructure required for trade and expanded economic activity, ultimately leading to higher employment and a lower cost of doing business. Social infrastructure programmes such as hospital revitalisation, school building and sanitation are crucial in the delivery of government services. Spending on capital averages 7.2 per cent of total expenditure over the next three years.

Figure 4.2 Capital spending, 2002/03 – 2012/13



* 2009/10 – 2012/13 are based on forecasts.

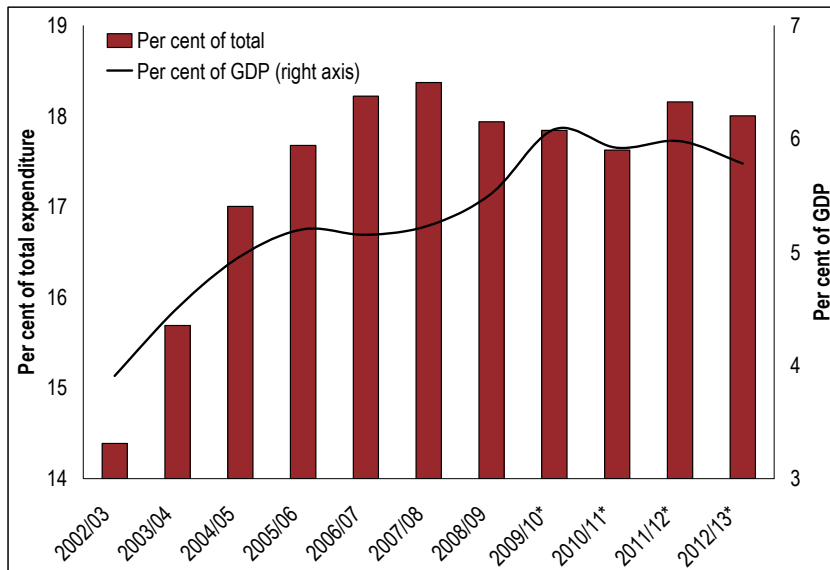
Transfers to households and non-profit institutions

Transfers to households (including direct welfare grants, the housing subsidy and indirect transfers through non-profit institutions) make up a significant share of public spending. Over the medium-term expenditure framework (MTEF), the extension of the *child support grant* to a child's 18th birthday results in transfers to households growing by an average of 2.5 per cent a year in real terms.

Growth in social transfers has contributed to redistributing wealth and alleviating poverty

Sustained real growth in transfers to households has successfully contributed to redistributing wealth and alleviating poverty. The continued extension of the social security net ensured that the most vulnerable were protected through the economic downturn and into the recovery. More detail about social grants can be found in Chapter 7.

Figure 4.3 Transfers to households and non-profit institutions, 2002/03 – 2012/13



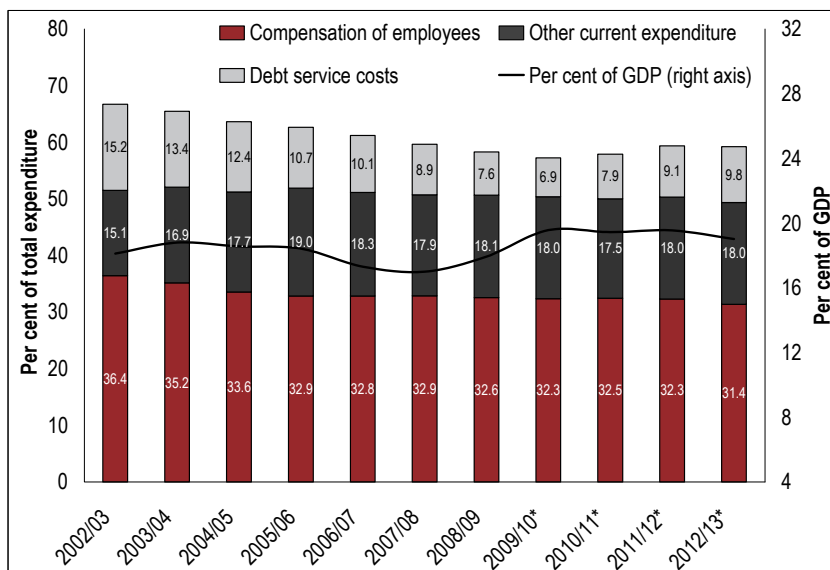
* 2009/10 – 2012/13 are based on forecasts.

Government current expenditure

Since 2002/03, falling debt-service costs resulted in current expenditure declining from 66.7 per cent of total expenditure to 57.5 per cent in 2009/10. Over the medium term, elevated deficits result in rising debt-service costs, which put upward pressure on current expenditure.

Rising debt-service costs will put upward pressure on current expenditure

Figure 4.4 Current expenditure, 2002/03 – 2012/13



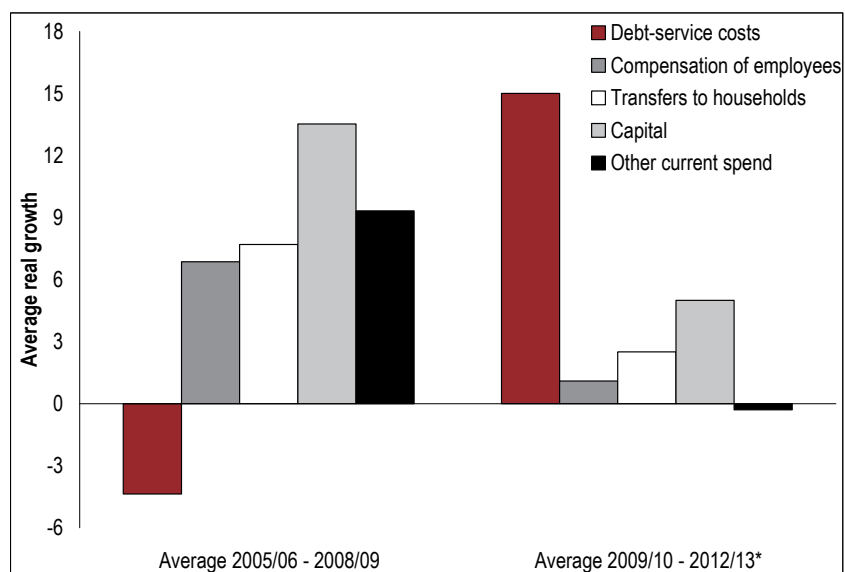
* 2009/10 – 2012/13 are based on forecasts.

In 2008/09 and 2009/10, growth in the wage bill was considerably higher than expected as a result of increased government employment, salary increases and the introduction of several occupation-specific dispensations. Rapid increases in compensation are structural increases in the level of government spending and should be financed through higher tax revenue,

Higher-than-expected growth in public-sector salaries over the past two years become structural spending increases

slower growth in government employment, cost savings and reprioritisation of other expenditure.

Figure 4.5 Real growth in areas of expenditure, 2005/06 – 2012/13



* 2009/10 – 2012/13 are based on forecasts.

Revenue outlook and trends

Sharply lower corporate income tax and VAT than projected in last year's budget

The 2009 recession has resulted in sharply lower corporate income and value-added tax (VAT). Gross tax revenue is expected to be R68.9 billion below the 2009 Budget forecast. This represents a major cyclical decline in the share of GDP collected as tax revenue, with 26.9 per cent collected in 2008/09, falling to 24.1 per cent in 2009/10. Over the MTEF, budget revenue is projected to recover in line with the economy. Estimates of tax revenue, however, remain well below the peak of 27.5 per cent of GDP in 2007/08, only reaching 24.8 per cent by 2012/13. These trends are discussed in detail in Chapter 5.

Table 4.5 Consolidated government revenue, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
Tax revenue	495 549	572 815	625 100	590 425	647 850	721 477	818 298
<i>Percentage of GDP</i>	27.0%	27.5%	26.9%	24.1%	24.0%	24.3%	24.8%
Non tax revenue ¹	10 843	11 672	12 616	8 983	10 380	11 483	12 379
<i>of which:</i>							
<i>Mineral royalties</i>	–	–	–	–	3 540	4 800	5 500
Estimate of SACU payments ²	-25 195	-24 713	-28 921	-27 915	-14 991	-11 211	-22 781
Provinces, social security funds and selected public entities	60 027	67 895	80 876	86 060	95 165	105 993	114 382
Budget revenue	541 224	627 669	689 672	657 552	738 404	827 742	922 278
<i>Percentage of GDP</i>	29.5%	30.2%	29.7%	26.8%	27.3%	27.9%	28.0%
Gross domestic product	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

1. Includes mineral and petroleum royalties, mining leases and departmental revenue.

2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the revenue sharing formula contained in the SACU agreement.

As a result of the slowdown in imports, Southern African Customs Union (SACU) transfers are adjusted downwards in 2010/11 and 2011/12 to recover overpayments over the two preceding years.

Adjustments to Southern African Customs Union transfers in 2010/11 and 2011/12

Botswana, Lesotho, Namibia and Swaziland (BLNS) and South Africa are members of SACU. The customs and excise revenue of each member state is collected in a common revenue pool, distribution of which is governed by a revenue-sharing formula.

Customs duty revenues are extremely volatile, performing above expectation when the economy is growing but under-shooting when the economy slows. As a result of this volatility, SACU members face a financing risk when imports to the region slow. Over the past 18 months, South Africa's import growth has slowed considerably.

The SACU agreement allows for adjustments when revenues under- or overshoot. Due to a substantial slowdown in customs revenue in 2008/09, the SACU transfer in 2010/11 has been revised down by R4.5 billion. Similar adjustments for 2009/10 will also be required, with the forecast BLNS share likely to be revised down from R21 billion to R11.2 billion in 2011/12. Both adjustments are expected to have a significant impact on the budgets of these neighbouring countries.

Estimated SACU payments, 2010/11 – 2012/13

R million	2010/11	2011/12	2012/13
Forecast share	19 479	21 130	22 781
<i>Actual adjustment</i>	-4 488	–	–
<i>Estimated adjustment</i>	–	-9 919	–
Estimated SACU payments	14 991	11 211	22 781

The main budget

The main budget is the largest share of the consolidated government framework and consists of the receipts and expenditure of the National Revenue Fund.

Table 4.6 National government fiscal framework, 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
Revenue	481 197	559 774	608 796	571 492	643 239	721 749	807 896
<i>Percentage of GDP</i>	26.2%	26.9%	26.2%	23.3%	23.8%	24.3%	24.5%
Expenditure	470 192	541 496	636 063	748 816	818 143	888 338	964 314
State debt cost	52 192	52 877	54 394	57 600	71 358	88 463	104 022
<i>Percentage of GDP</i>	2.8%	2.5%	2.3%	2.4%	2.6%	3.0%	3.2%
Non-interest expenditure	418 000	488 619	581 670	691 217	746 785	799 875	860 292
<i>of which:</i>							
Contingency reserve	–	–	–	–	6 000	12 000	24 000
<i>Percentage of GDP</i>	22.8%	23.5%	25.1%	28.2%	27.7%	27.0%	26.1%
Gross domestic product	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

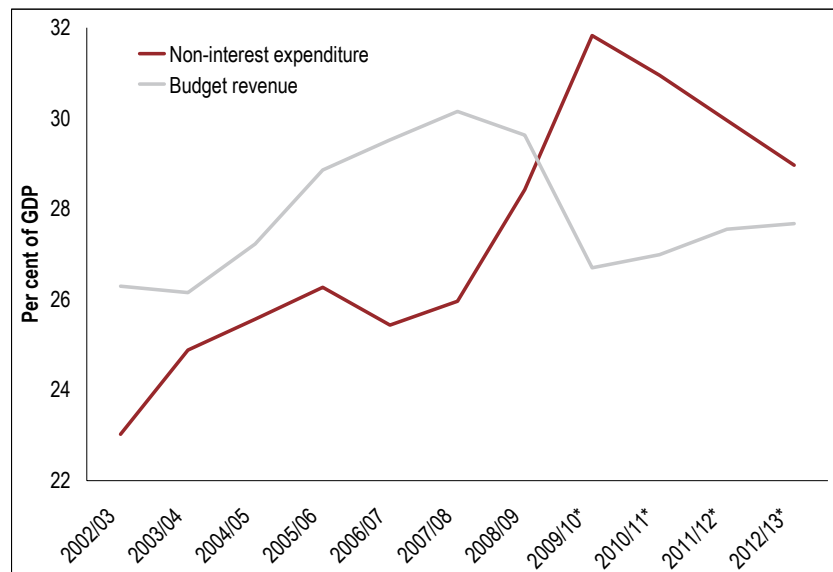
Fiscal stance will prevent the development of an unsustainable debt burden for future generations

Fiscal sustainability

A sustainable fiscus is one that is able to finance a given level of expenditure for an extended period of time. While the countercyclical response of the fiscus moderates the effect of the downturn on welfare and economic growth, its cost is a rising interest bill. To avoid penalising future generations with a debt burden that results in lower economic growth and falling expenditure on social priorities, government must manage the public finances along a trajectory that will return the fiscus to a sustainable position. Government will ensure that this does not take place at the expense of the economic recovery.

Figure 4.6 below shows the trajectory of the fiscus back to a primary surplus (revenue in excess of non-interest expenditure). The decline in expenditure to 32.1 per cent of GDP by 2012/13, combined with rising debt-service costs, means that non-interest expenditure will decline marginally over the forecast period. This, combined with rising budget revenue, will lead to a narrowing of the primary budget deficit over the next three years.

Figure 4.6 Revenue and non-interest expenditure, 2002/03 – 2012/13

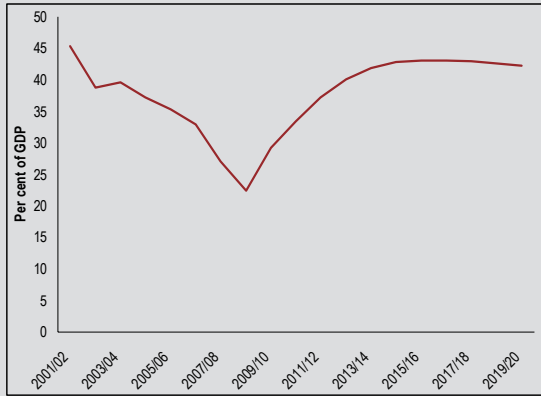


* 2009/10 – 2012/13 are based on forecasts.

Long-term modelling of the debt trajectory

The National Treasury has modelled South Africa's long-term debt trajectory. This projection takes into account a range of possible fiscal and economic developments, all of which incorporate some degree of volatility. The results of this modelling are presented below.

Long-term debt projection, 2001/02 – 2019/20

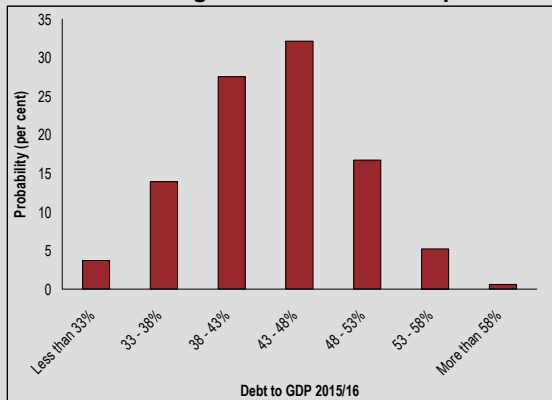


The level and timing of debt stabilisation will depend on the economic outcomes and fiscal choices that we make.

Our central forecast is for debt to rise to 44 per cent of GDP in 2015/16, after which it will begin to decline gradually.

The forecast is based on a long-term average GDP growth rate of about 3.5 per cent.

Could debt be higher or lower than 44 per cent of GDP in 2015/16?

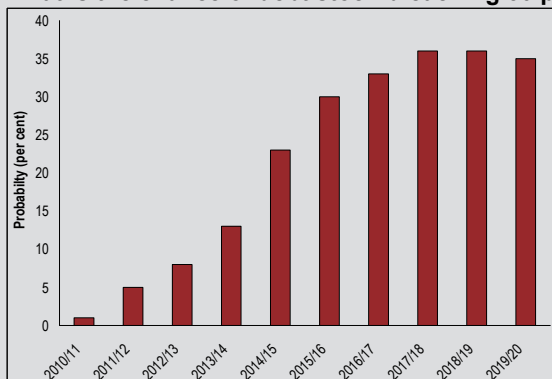


The central forecast indicates that there is a 33 per cent chance that debt will peak between 43 and 48 per cent of GDP in 2015/16.

While there is a chance that debt could peak at lower levels, this would require the economy to perform better than forecast and a lower fiscal deficit than projected.

Likewise, higher deficits and lower economic growth could push debt above 48 per cent of GDP, although there is less than a 7 per cent chance of debt exceeding 53 per cent of GDP in 2015/16.

What is the chance of debt stock breaching 50 per cent of GDP over the long term?



The probability of debt stock breaching 50 per cent of GDP remains relatively low – peaking at 36 per cent in 2017/18.

While this illustrates the underlying strength of the fiscus, it does also highlight the risks that lower GDP growth and higher fiscal deficits pose to government finances.

As the deficit on the primary budget improves, the rate of increase in debt-service costs will decline. By 2012/13, the increase in debt service costs as a percentage of GDP is expected to slow to 0.2 per cent from 0.4 per cent in 2011/12.

Structural budget framework

The structural budget balance (also referred to as the cyclically adjusted budget balance) takes account of temporary or cyclical factors that may make the budget deficit (or surplus) appear stronger or weaker than it actually is.

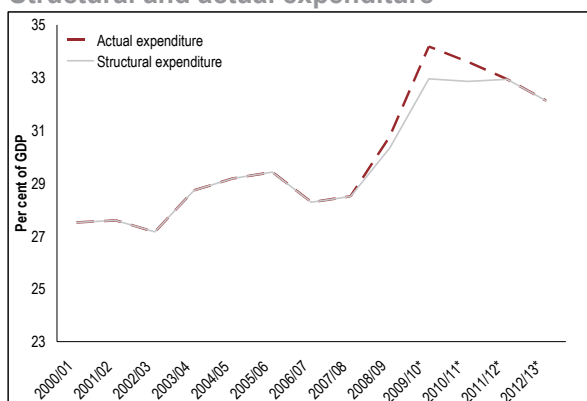
Structural balance strips out cyclical factors to present a more accurate picture of the budget

In arriving at the structural level of expenditure, the National Treasury excludes temporary expenditure that is either a result of the economic cycle or once-off policy interventions. The main category of expenditure that is related to the economic cycle is unemployment benefits. While these can be highly cyclical, they are not substantial enough to make a measurable impact on structural expenditure. The only substantial adjustment made is for the once-off capitalisation of Eskom (R10 billion in 2008/09, R30 billion in 2009/10 and R20 billion in 2010/11).

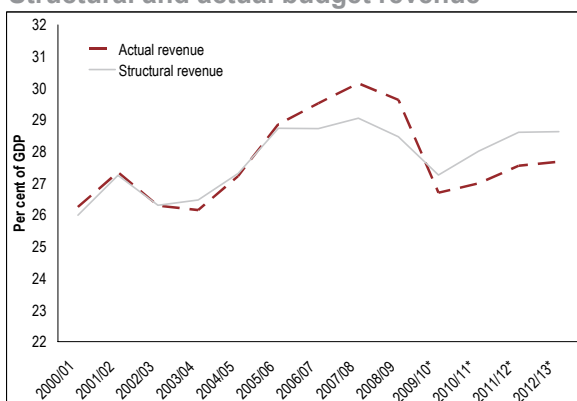
Unlike expenditure, South Africa's revenue performance is closely linked to the economic cycle, generally performing above potential when the economy is growing rapidly, and below potential when the economy is slowing. Adjustments are therefore made to reflect the level of revenue associated with potential long-term growth.

Figure 4.7 Components of the structural budget balance, 2000/01 – 2012/13

Structural and actual expenditure



Structural and actual budget revenue

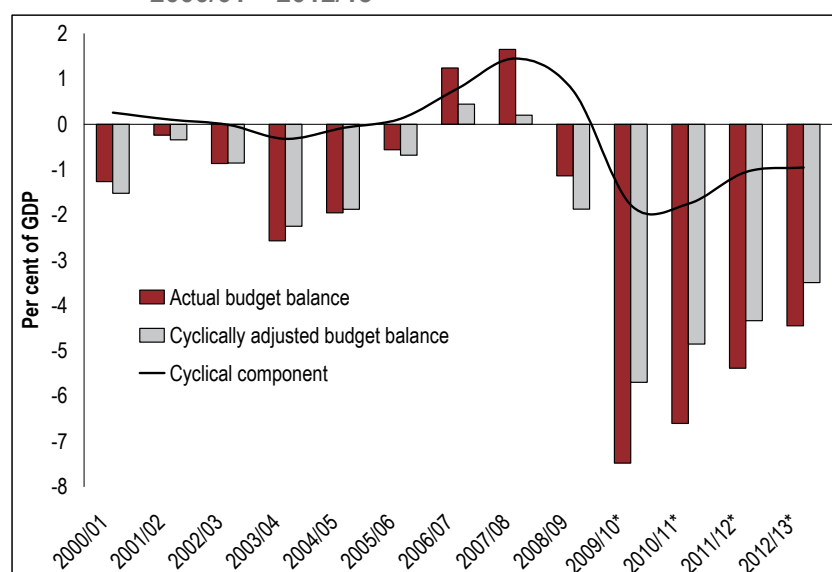


* 2009/10 – 2012/13 are based on forecasts.

Structural balance improves to a deficit of less than 4 per cent of GDP by the outer year

Falling structural budget revenue due to lower employment and investment, combined with a significant increase in the structural level of expenditure, result in the cyclically adjusted budget balance deteriorating from 0.2 per cent of GDP in 2007/08 to -5.5 per cent in 2009/10. The stabilisation of the structural level of expenditure at about 32 per cent of GDP by 2012/13, combined with a gradual improvement in structural revenue, result in the cyclically adjusted budget balance improving to a deficit of less than 4 per cent of GDP by the end of the forecast period.

Figure 4.8 Structural and actual budget balance, 2000/01 – 2012/13



* 2009/10 – 2012/13 are based on forecasts.

Outlook for the public sector

Public sector borrowing requirement

In financing the consolidated government deficit, national government borrowing is projected to reach R171.5 billion in 2009/10, declining gradually to R156.4 billion by 2012/13. As a result, national government net loan debt rises from 22.7 per cent of GDP in 2008/09 to 39.8 per cent of GDP by 2012/13. Chapter 6 provides a discussion of government's financing strategy.

Table 4.7 Public sector borrowing requirement¹, 2006/07 – 2012/13

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
R million							
National budget	-11 005	-18 278	27 268	177 324	174 904	166 588	156 417
Extraordinary payments	4 214	776	4 284	673	–	–	–
Extraordinary receipts	-3 438	-2 871	-8 203	-6 536	–	–	–
Borrowing requirement	-10 229	-20 373	23 348	171 461	174 904	166 588	156 417
Social security funds	-6 414	-8 614	-12 760	-5 373	-8 029	-8 203	-8 253
Provinces	-400	-1 065	8 912	1 869	-3 765	-3 656	-5 107
Extra-budgetary institutions	-4 958	-6 443	797	3 952	5 451	-5 110	-6 714
Local authorities	734	6 047	19 951	12 481	13 755	16 799	18 657
General government borrowing	-21 267	-30 448	40 249	184 390	182 315	166 418	155 001
Percentage of GDP	-1.2%	-1.5%	1.7%	7.5%	6.8%	5.6%	4.7%
Non-financial public enterprises	11 887	24 479	53 152	104 004	117 356	93 711	77 375
Percentage of GDP	0.6%	1.2%	2.3%	4.2%	4.3%	3.2%	2.3%
Public sector borrowing requirement	-9 380	-5 969	93 401	288 394	299 671	260 129	232 376
Percentage of GDP	-0.5%	-0.3%	4.0%	11.8%	11.1%	8.8%	7.1%
Gross domestic product	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

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

Capital expenditure programmes of public enterprises result in a higher level of borrowing

At a broader public sector level, borrowing by the non-financial public enterprises, such as Transnet and Eskom, is expected to continue to support their capital expenditure programmes. Both public enterprises and development finance institutions need to operate on a financially sustainable basis. Improving coordination, oversight and governance of these entities, as well as enhanced monitoring of their financial performance and development impact, is a policy priority.

The public sector borrowing requirement is expected to widen to 11.8 per cent of GDP in 2009/10. While the deficits of government and the non-financial public enterprises moderate, total borrowing of the public sector is projected to remain high by historical standards, declining to 7.1 per cent by 2012/13.

Trends in public-sector infrastructure expenditure

Over the next three years, the R846 billion public sector infrastructure programme emphasises higher economic productivity by connecting businesses and households to public services and markets.

Table 4.8 Public sector infrastructure expenditure and estimates,^{1,2} 2006/07 – 2012/13

R million	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Outcome			Revised estimate	Medium-term estimates		
National departments	4 631	5 712	6 318	6 382	6 847	7 758	10 703
Provincial departments	27 112	29 395	36 094	41 185	45 623	49 971	50 786
Municipalities	21 084	30 736	39 577	37 480	41 305	50 449	56 028
Extra-budgetary institutions	3 699	3 726	6 194	10 859	11 175	15 083	18 821
Public-private partnerships ³	1 343	3 857	4 942	13 751	9 939	11 389	6 109
Non-financial public enterprises ⁴	25 736	56 765	103 322	125 504	147 025	148 665	157 970
Total	83 605	130 191	196 447	235 161	261 914	283 315	300 417
<i>Percentage of GDP</i>	4.6%	6.3%	8.5%	9.6%	9.7%	9.5%	9.1%
<i>Gross domestic product</i>	1 833 191	2 081 626	2 320 117	2 449 858	2 699 888	2 967 560	3 295 749

1. Transfers between spheres have been netted out.
2. Includes maintenance of infrastructure assets.
3. PPPs reflect private sector contributions and SANRAL toll roads.
4. 2010/11 - 2012/13 are based on National Treasury estimates.

Infrastructure programme supports improvements to justice, education, health, basic services and housing

National government, together with provincial departments and municipalities, will continue to improve access to the justice system, bring education and health care closer to where it is needed, and strive for universal access to water, sanitation and electricity by 2014. Supported by strong growth in conditional grants for infrastructure, housing and hospital revitalisation, consolidated national and provincial infrastructure expenditure is expected to increase at an average annual rate of 8.9 per cent between 2009/10 and 2012/13.

Table 4.9 Major infrastructure projects

Project name	Total project cost R billion	Implementation agent	Project objective and completion target date
Energy			
Kusile power station	140.7	Eskom	Construction of a 4 800 MW coal-fired power station (to be completed in 2018).
Medupi power station	125.7	Eskom	Construction of 4 764 MW coal-fired power station- first unit (2012), last unit (2015).
Ingula pumped-storage scheme	16.6	Eskom	Construction of 1 368MW hydroelectric power station (2013).
Transport			
Gautrain rapid rail link	25.2	Gauteng Department of Roads, Transport and Public Works	Construction, operation of commuter rail link. OR Tambo - Sandton link (2010), Johannesburg - Pretoria (2011).
Gauteng freeway improvement scheme- phase 1	22.0	South African National Roads Agency Limited	Upgrade, lane additions and construction of 3 new highways. Phase 1 (2012), phase 2 and 3 (2020).
New multipurpose pipeline phase 1	12.6	Transnet	8.7 billion litres per year pipeline (2011). Based on demand, expansion to 12.2 billion litres (2019) and 26.2 billion litres (2031).
Iron-ore line	11.6	Transnet	Upgrade of the iron-ore line to 60 million tons per year (2013), expansion to 105 million tons per year (2015).
Ngqura container terminal	7.9	Transnet	Improving port capacity by an additional 800 000 20-foot equivalent units (2013).
Water			
Mokolo-Crocodile water augmentation project	14.7	Trans-Caledon Tunnel Authority	Phase 1 of project to deliver water (2012), phase 2 (2015).
Olifants River water resource development project - phase 2	13.7	Department of Water Affairs and the Trans-Caledon Tunnel Authority	Construction of dam (2013) and bulk distribution system (2016).
Housing			
Comubia housing development	5.1	The Housing Development Agency and eThekweni Metropolitan Municipality	19 313 mixed-income, mixed-density houses (2016/17).
N2 gateway	2.3	The Housing Development Agency and Western Cape Department of Housing	22 000 low-income houses (2013).
Hospitals			
Frere Hospital	2.5	Eastern Cape Department of Health	Upgrade and rehabilitation of a 550-bed regional hospital (2013).
Limpopo Academic Hospital	1.5	Limpopo Department of Health	A new 600-bed hospital. Construction to start in April 2011.
Cecilia Makiwane Hospital - phase 1	1.4	Eastern Cape Department of Health	Upgrade and rehabilitation of 650-bed regional hospital. Phase 1 (2013).
Natalspuit Hospital	1.7	Gauteng Department of Health	Replacement of an existing hospital (2011).

Infrastructure programmes by municipalities constitute 17.5 per cent of total infrastructure spending over the MTEF. The decline in local government infrastructure spending in 2009/10 relates primarily to the impact of the recession in the first half of 2009 on household budgets, putting pressure on the payment of municipal bills. As a result, municipalities' ability to finance infrastructure from own revenue is limited. Projects will be delayed to the outer years of the 2010 MTEF as municipal revenue recovers.

Construction of Eskom power plants makes up 36.5 per cent of the total capital programme

A significant proportion of the public-sector infrastructure investment programme will be undertaken by non-financial public enterprises through the building of power stations, upgrading of transport infrastructure and building capacity for the distribution of water. Eskom's construction of power plants makes up 36.5 per cent of the total expected infrastructure expenditure.

The transport sector plays an important role in connecting economic nodes, markets and households. As the economy grows, provision is made to increase capacity on the primary road network, the rail network, and at container terminals at Ngqura, Cape Town and Durban harbours.