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A new trajectory for national development

In brief

- The 2013 Budget is the first to be tabled within the framework of the National Development Plan (NDP). The NDP sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality – recognising that South Africa's urbanising, youthful population is a strength on which to build.
- While development is a long-term process, South Africa can achieve more in the short term if government, business, labour and civil society reach consensus on national priorities.
- The economic outlook is constrained by a difficult global environment and domestic restructuring challenges. Gross domestic product (GDP) growth of 2.7 per cent is expected in 2013, rising to 3.8 per cent in 2015.
- Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation and low interest rates will support improved economic performance. More rapid, inclusive growth requires steps to expand employment, provide greater policy certainty, improve education and training, accelerate infrastructure investment and strengthen regional linkages.
- The proposed medium-term-expenditure framework (MTEF) takes account of present fiscal constraints. A disciplined spending trajectory and improved GDP growth over the next three years will ensure the sustainability of the public finances.

Overview

The 2013 Budget is tabled at a challenging moment, with opportunities for change. While continued growth in a weak global environment demonstrates the resilience of the domestic economy, the pace of economic expansion is inadequate to address the country's needs. South Africa has to give greater impetus to the investment and structural reforms that will lead to faster growth, generate jobs, create new opportunities for emerging businesses, and yield the revenue needed to meet long-term economic development and social expenditure goals.

'We have all adopted the National Development Plan, which outlines the type of society we want to build, giving effect to the Constitution'
– President Zuma

Economic growth is expected to increase from 2.5 per cent in 2012 to 3.8 per cent in 2015. To grow more rapidly, and to address the social pressures that arise from a high degree of inequality, a long-term strategy for national development needs to be implemented effectively.

Our complex transformation challenge is about housing, living conditions, service delivery, unemployment and the cost of living

Social turbulence over the past year has highlighted both the urgency and complexity of the country's transformation challenge. Industrial relations disputes are not confined to workplace concerns – they are also about housing and living conditions. Community unrest reflects uneven service delivery and local government tensions. Protests against rising costs also signal frustration at the absence of jobs. Our challenge is to address not the symptoms, but the root causes of public dissatisfaction.

The National Planning Commission has proposed a development vision for 2030, and a plan for getting there. The Commission has cautioned that South Africa's development objectives cannot be achieved in a few years, but rapid progress is possible if consensus can be reached on priorities, key programmes, and the roles and responsibilities of government, business, labour and civil society.

National Development Plan: a new trajectory

'Alongside hard work and effort, capabilities and the opportunities that flow from development enable individuals to live the lives to which they aspire. A developmental state builds the capabilities of people to improve their own lives, while intervening to correct historical inequalities. Neither government nor the market can develop the necessary capabilities on their own.' – NDP 2030: Our Future, Make it Work

The NDP provides a broad strategic framework to put the economy and society on a new trajectory. It recognises that ours is a youthful, urbanising society, and that this presents opportunities for growth and development. It sets out a wide range of actions needed to boost growth, eliminate poverty and reduce inequality, beginning with an approach to change that focuses on enhanced capabilities and an active citizenry.

The NDP was prepared by an expert commission, and drew on extensive research and consultation through public forums with thousands of South Africans. It points out that while government will play a significant role, all sectors of society are called on to make the plan a reality.

The NDP also recognises that development has never been a linear process, one step following another in a predictable and orderly sequence. Instead, development requires a multidimensional framework of interacting initiatives, policies and investments that generate a virtuous cycle of progress, with actions in one area supporting advances in others.

Several strategic imperatives emerge strongly from the NDP, and have implications for public policy and budget priorities:

- South Africa's population is young. A million people leave school every year, but the economy has yet to adapt to the imperative of more rapid job creation.
- Urbanisation is gathering momentum, bringing greater demands on housing, services, schools and hospitals in towns and cities.
- The quality of education and training opportunities are critical determinants of long-term growth and equality of opportunity.
- More rapid economic growth requires a more diversified economy, and greater adaptability to changing market opportunities and technology.
- Links with other emerging markets and fast-growing African economies represent strong growth opportunities.
- While there are costs associated with adapting to a low-carbon future, such adjustments can lead to new industries and new jobs.

- Related to all of these challenges is the overwhelming imperative to build a more equal society, for a shared future.

These themes find practical expression in the 2013 Budget, and will continue to inform public policy and contribute to better planning and programme implementation in the period ahead.

Critical actions to promote growth and development

The NDP sets out 10 "critical actions" on which government policy can proceed in partnership with the private sector, trade unions and civil society:

- A social compact to reduce poverty and inequality, and raise employment and investment.
- A strategy to address poverty and its effects by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes.
- Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption.
- Boost private investment in labour-intensive areas, competitiveness and exports, with adjustments to lower the risk of hiring younger workers.
- An education accountability chain, with lines of responsibility from state to classroom.
- Phase in national health insurance, with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care.
- Public infrastructure investment to reach 10 per cent of GDP, financed through tariffs, public-private partnerships, taxes and loans and focused on transport, energy and water.
- Interventions to ensure environmental sustainability and resilience to future shocks.
- New spatial norms and standards – densifying cities, improving transport, locating jobs closer to where people live, upgrading informal settlements and fixing housing market gaps.
- Reduce crime by strengthening criminal justice and improving community environments.

Aligning the budget to the NDP

The 2013 Budget marks the beginning of a process through which government departments and agencies will align their planning and expenditure to the NDP. As the plan itself states, "the NDP will shape resource allocations over the next two decades, but it will not determine annual budgets. The best way to generate resources to implement the plan is to grow the economy faster."

'The best way to generate resources to implement the plan is to grow the economy faster'
– NDP 2030

There is vast potential to increase existing alignment between budget priorities and the NDP – for example, in government's intent to shift resources towards investment that grows the economy, broadens opportunities and enhances capabilities. Other areas of continuing focus include education, job creation and state capacity building – which have enjoyed priority in resource allocation over several years. Cross-cutting initiatives such as the New Growth Path also address these concerns.

Allocation of public resources should prioritise infrastructure investment, institution-building and human capital development

Over the longer term, the integration of the NDP into government's strategic and operational plans will strengthen alignment between NDP priorities and budgets, and improve coordination across complementary areas of policy and expenditure. The work of the Presidential Infrastructure Coordinating Commission (PICC) is already contributing to improved planning and budgeting for strategic infrastructure programmes. Initiatives are also under way to improve coordination in state capacity building, human capital development and economic policy implementation.

Some short-term NDP focus areas

Economy

- Reviewing the regulatory environment for small, medium and micro enterprises
- Speeding up land reform, expanding agricultural output and job creation
- Expanding public employment programmes
- Implementing employment incentives.

State capacity

- Clarifying delegations and strengthening performance accountability of heads of departments and state-owned entities
- Strengthening government accountability mechanisms
- Establishing graduate recruitment schemes for the public service and local government.

Education

- Improving and extending early childhood development programmes
- Introducing school inspectors
- Addressing deployment of excess teachers
- Securing internship placement for further education and training graduates.

The NDP, government planning and a capable state

Government is working to improve capacity for planning and implementation

Identifying an effective response to a public policy challenge is not just about allocating funds. While many of the objectives contained in the NDP have been a part of the strategic planning and budget priority landscape for many years, service delivery in certain areas has fallen short of expectations due to lack of effective planning, inadequate state capacity and the absence of clear lines of responsibility. A large part of implementing the NDP is therefore about proper planning, building public-sector capacity and enhanced accountability chains.

The next medium-term strategic framework will identify the NDP priority objectives and actions over the next five-year term of government. These priorities will be reflected in departmental strategic plans, with key actions set out in annual performance plans. Executive authorities and Parliament will hold departments and ministers accountable for meeting these objectives.

Directors-general have begun a process to align long-term departmental plans with the NDP

The Forum of South African Directors-General has begun a process to align the long-term plans of departments with the NDP, and to identify areas where policy change is required to ensure consistency and coherence.

Fiscal sustainability

National development is a long-term project that must be financed sustainably. The children born in 2013, in 2023 or 2033 should not be burdened with spending cuts or tax increases to pay for debt incurred in the present.

In line with this approach, the October 2012 *Medium Term Budget Policy Statement* noted that if the economic environment were to deteriorate, government would need to reassess its revenue and spending plans to ensure a narrowing of the budget deficit and a stabilisation of debt.

Over the past year the slow rate of economic growth has resulted in lower-than-anticipated tax revenue, leading to a widening of the budget deficit. To protect the sustainability of the fiscus, the 2013 Budget takes additional measures to control spending, reducing real expenditure growth to an average of 2.3 per cent over the next three years, compared with the 2.9 per cent signalled in October 2012. This results in the budget deficit declining from an expected 5.2 per cent of GDP in 2012/13 to 3.1 per cent by 2015/16. Debt will stabilise at a peak of about 40 per cent of GDP in 2015/16, declining in subsequent years.

2013 Budget takes additional steps to maintain firm control of spending

This fiscal approach requires government departments to do more with less, paying greater attention to the efficiency with which they spend public funds, and prioritising resource allocation to strengthen service delivery. Agencies that exercise oversight of public funds – such as Parliament, the Department of Performance Monitoring and Evaluation, the Auditor-General, the Accountant-General and the National Treasury – will need to strengthen capacity to ensure that government not only meets its financial targets, but also achieves the intended developmental outcomes.

Government at all levels needs to do more with less

Government needs a fair and equitable tax system that meets its growth and development objectives. With this goal in mind, during 2013 the Minister of Finance will commission a review of current tax policies to ensure that public spending is supported by an appropriate revenue base. Part of this review will evaluate the current mining royalties regime with regard to its ability to suitably serve public finance priorities.

Tax policy review to begin during 2013

Overview of the 2013 Budget Review

Economic outlook

Chapter 2 sets out the economic outlook on which government bases the budget.

Since 2008, economic activity has remained subdued in many advanced economies. The slowdown in trade and investment has also affected emerging economies such as China, India and Brazil. The South African economy has grown since the 2009 recession, but has not achieved the rate of expansion and broadening participation recorded from 2003 to 2008.

GDP growth is estimated to have been 2.5 per cent in 2012, and is projected to reach 2.7 per cent in 2013 and 3.8 per cent in 2015. Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation and low interest rates will be supportive of improved growth rates. The pace of economic recovery depends critically on the rate at which private investment and exports strengthen. As the policy environment becomes more stable, confidence returns and competitiveness improves, the pace of growth will accelerate.

Strong public-sector capital investment, new electricity plants, stable inflation and low interest rates will support higher growth

Table 1.1 Macroeconomic outlook – summary

Real growth Percentage	2012 Estimate	2013	2014 Forecast	2015
Household consumption	3.4	3.1	3.7	3.9
Gross fixed capital formation	6.4	5.7	5.9	6.5
Exports	1.1	3.9	6.7	7.2
Imports	7.2	5.9	7.2	7.3
Gross domestic product	**2.5**	**2.7**	**3.5**	**3.8**
Consumer price inflation (CPI)	5.7	5.6	5.5	5.4
Current account balance (% of GDP)	-6.1	-6.2	-6.3	-6.0

Improving the quality of education, accelerating capital investment and opening up the labour market will boost growth

Over the medium term, the NDP provides a framework to focus attention on resolving problems in education, accelerating infrastructure investment, opening the labour market to new entrants and strengthening the capacity of the state – steps that will begin to raise the growth momentum of the economy.

Fiscal policy

Chapter 3 discusses fiscal policy – the management of revenue, expenditure and debt – alongside changes to the budget framework.

Table 1.2 Consolidated government fiscal framework

R billion	2012/13 Revised estimate	2013/14	2014/15 Medium-term estimates	2015/16
Revenue	**887.8**	**985.7**	**1 091.1**	**1 199.8**
Percentage of GDP	*27.7%*	*28.0%*	*28.1%*	*28.1%*
Expenditure	**1 055.9**	**1 149.4**	**1 244.3**	**1 334.1**
Percentage of GDP	*32.9%*	*32.7%*	*32.1%*	*31.2%*
Budget balance	**-168.0**	**-163.7**	**-153.2**	**-134.4**
Percentage of GDP	*-5.2%*	*-4.6%*	*-3.9%*	*-3.1%*
Gross domestic product	*3 209.1*	*3 520.3*	*3 880.4*	*4 270.8*

Fiscal sustainability is supported by curbs in expenditure growth

South Africa's fiscal framework remains grounded in a sustainable, countercyclical approach to managing revenue and expenditure. Short-term weakness in the economy is projected to result in a deficit of 5.2 per cent of GDP in 2012/13. To ensure fiscal sustainability, government has curbed the growth in spending by reducing allocations and the contingency reserve. Revenue collection is expected to improve in line with economic growth, narrowing deficit to 3.1 per cent of GDP by 2015/16.

Continuing its efforts to improve the impact of spending, government will conduct expenditure reviews aimed at reducing waste and improving efficiency.

The National Treasury has drafted a long-term fiscal report that considers 15-25 year budgetary projections based on demographic trends and alternative economic scenarios.

Revenue trends and tax proposals

Revised revenue estimate for 2012/13 is R16.3 billion lower than 2012 estimate

Chapter 4 discusses revenue trends and tax proposals. The revised tax revenue estimate for 2012/13 is R16.3 billion lower than the estimate made in the 2012 Budget. Corporate and personal income taxes have not met budget projections. More rapid growth in revenue collection depends on an improved economic growth outlook.

Table 1.3 Summary of tax proposals

R billion	2012/13 Budget estimate	2012/13 Revised estimate	2013/14 Budget estimate
Tax revenue (gross)	826.4	810.2	900.4
Non-tax revenue	15.1	14.5	18.3
Less: SACU payments	-42.2	-42.2	-43.4
National budget revenue	**799.3**	**782.5**	
Tax revenue (before tax proposals)			**900.4**
Tax proposals			**-2.4**
(Net) personal income tax relief			-7.4
Business taxes			-0.9
Taxes on goods and services			5.8
Tax revenue (after tax proposals)			**898.0**
Budget revenue (after tax proposals)			**987.2**

Personal income tax relief and tax incentives for employment

The 2013 tax proposals include:

- Personal income tax relief of R7 billion.
- Employment incentives targeting special economic zones and young work seekers.
- Steps to encourage higher savings.
- Requirements that foreign businesses that sell digital goods in South Africa to register for VAT.
- Several measures to close tax loopholes.

Asset and liability management

Debt strategy aims to keep interest costs low

Chapter 5 discusses government's debt management and borrowing requirements. Government's debt strategy is intended to keep the cost of debt as low as possible, ensure access to global and domestic markets, diversify funding instruments and encourage the growth of South Africa's liquid capital market.

Table 1.4 Projected state debt and debt-service costs

R billion	2012/13	2013/14	2014/15	2015/16
Net loan debt	**1 165.1**	**1 357.3**	**1 544.5**	**1 719.8**
Percentage of GDP	*36.3%*	*38.6%*	*39.8%*	*40.3%*
Debt-service costs	**88.3**	**99.7**	**108.7**	**118.2**
Percentage of GDP	*2.8%*	*2.8%*	*2.8%*	*2.8%*

Government's gross borrowing requirement of R215.5 billion in 2013/14 will be financed mainly with domestic bonds. Net loan debt is projected to reach 38.6 per cent of GDP in 2013/14. Debt-service costs are expected to stabilise at 2.8 per cent of GDP in 2012/13. Total contingent liabilities, net loan debt and provisions will peak at 53.4 per cent of GDP in 2014/15.

State-owned companies plan R397 billion in infrastructure investments over next three years

State-owned companies plan to spend R397 billion on infrastructure over the next three years. Government continues to support these companies to ensure that they can borrow at reasonable cost. Those facing persistent financial difficulties will be urgently reviewed to establish sustainability.

Social security and the social wage

Chapter 6 reviews the role of the social security system in providing income support and helping to alleviate poverty.

Social wage contributes to reducing cost of living

The NDP recognises that reducing the cost of living is essential for broadening economic participation and eliminating poverty. Public spending on social services, income assistance for vulnerable households and improvements in contributory social insurance will enhance this goal.

Government spending on social development, health, education, housing and local amenities – the "social wage" – has more than doubled in real terms over the past decade and now accounts for almost 60 per cent of public expenditure. Social assistance provides a safety net for the most vulnerable and will contribute to the monthly incomes of over half of all households in 2013.

National health insurance reforms to be piloted over medium term

Further steps in retirement reform, improvements in contributory social insurance and piloting of national health insurance reforms will progress over the medium term.

Table 1.5 Consolidated government expenditure by function

R billion	2012/13 Revised estimate	2013/14 Budget estimate	% Average growth 2012/13 – 2015/16
General public services	53.8	56.7	6.5%
Defence, public order and safety	142.5	153.7	6.4%
Economic infrastructure	79.2	88.6	10.2%
Economic services and environmental protection	44.1	48.0	6.7%
Local government, housing and community amenities	119.0	132.1	10.1%
Health and social protection	251.3	268.5	6.8%
Education,sport and culture	220.9	232.5	6.2%
Employment and social security	41.7	49.2	13.5%
Science and technology	15.1	16.3	7.8%
Allocated expenditure	**967.6**	**1 045.6**	**7.6%**
Debt-service cost	88.3	99.7	10.2%
Contingency reserve	–	4.0	
Consolidated expenditure[1]	**1 055.9**	**1 149.4**	**8.1%**

1. Consisting of national, provincial, social security funds and selected public entities. Refer to Annexure W2 for a detailed list of entities included

Infrastructure

Chapter 7 discusses public-sector infrastructure investment. Budgeted spending for public-sector infrastructure totals R827 billion over the next three years.

A much larger set of projects is under consideration over the longer term. Decisions on which projects to implement will be guided by the NDP, accompanied by thorough assessments of feasibility and value for money. Government has a range of initiatives in place to address identified shortcomings in project management. The PICC has concentrated its efforts over the past year on improving planning and decision-making processes.

Infrastructure investment to be guided by NDP and feasibility assessment of projects

The first of Eskom's two new large, coal-fired power plants will begin producing electricity in 2014, significantly easing the country's power constraints. Transnet's pipeline, rail and port investments will gain further impetus in 2013. Construction and upgrading of dams, water transfer schemes, schools, hospitals, clinics and housing are under way.

Table 1.6 Public-sector infrastructure spending, 2011/12 – 2015/16

R million	2011/12 Outcome	2012/13 Budget	MTEF 2013/14 – 2015/16
National departments	6 599	10 802	39 600
Provincial departments	43 449	43 762	147 685
Local government	33 239	38 489	150 607
Extra-budgetary institutions[1] and public-private partnerships[2]	26 128	33 652	91 940
State-owned companies[3]	98 871	129 200	397 246
Total	**208 286**	**255 905**	**827 078**

1. *Includes SANRAL non-toll infrastructure investment and Trans-Caledon tunnel authority, which are defined as non-financial public enterprises in the Reserve Bank data*
2. *Public-private partnerships include project development funds, capital contribution and unitary payments*
3. *Excludes SANRAL capex funded through budget allocations from the fiscus Estimates provided to National Treasury by management of these companies*

Medium-term expenditure and division of revenue

Chapter 8 presents government's spending priorities over the medium term and the division of nationally raised revenue.

The 2013 Budget provides for a division of revenue, after providing for state debt costs and a contingency reserve, of R951 billion in 2013/14, rising to R1.1 trillion in 2015/16. National departments are allocated 47.6 per cent of available funds, provincial government 43.5 per cent and local government 8.9 per cent in 2013/14.

The proposed budget framework reflects government's continued commitment to investment in infrastructure, health, education and social welfare. Moderate growth in public spending is proposed. Taking into account the constrained fiscal environment, consolidated non-interest expenditure is projected to grow from R967.6 billion in 2012/13 to R1.2 trillion in 2015/16, increasing by 7.9 per cent a year. Debt-service costs will increase by 10.2 per cent a year to R118 billion in 2015/16.

Consolidated non-interest expenditure to reach R1.2 trillion in 2015/16

Table 1.7 Division of revenue

R billion	2012/13	2013/14	2014/15	2015/16
National allocations	413.1	452.5	489.5	521.7
Provincial allocations	388.5	414.2	441.7	474.4
Equitable share	*313.0*	*337.6*	*359.9*	*383.7*
Conditional grants	*75.5*	*76.6*	*81.8*	*90.7*
Local government allocations	77.0	84.7	91.6	101.5
Total allocations	**878.6**	**951.3**	**1 022.8**	**1 097.6**
Changes to baseline				
National allocations	0.7	6.3	10.6	24.8
Provincial allocations	4.0	3.1	4.7	17.3
Equitable share	*4.0*	*8.7*	*10.6*	*18.3*
Conditional grants	*0.1*	*-5.6*	*-5.9*	*-1.0*
Local government allocations	–	1.0	1.0	7.0
Total	**4.8**	**10.4**	**16.4**	**49.0**

Government at all levels has contributed to savings and reprioritisation to support policy priorities. To ensure greater value for money, expenditure-control systems and procurement will be strengthened.

Budget documentation

The 2013 *Budget Review* includes the following annexures:

- A: Report of the Minister of Finance to Parliament
- B: Statistical tables
- C: Miscellaneous tax amendments
- D: Summary of Budget
- E: Glossary

Three additional annexures are available on the National Treasury website:

- W1: Explanatory memorandum to the division of revenue
- W2: Structure of the government accounts
- W3: Gateway to Africa and other reforms

The *Budget Review* accompanies several other documents and submissions tabled in Parliament on Budget Day. These include:

- The Budget Speech
- The Division of Revenue Bill and the Appropriation Bill
- *Estimates of National Expenditure*
- *People's Guide to the Budget.*

These and other fiscal and financial publications are available at www.treasury.gov.za.

Conclusion

Challenging times require South Africans to unify and give effect to the sound plans that we have adopted. While the global outlook is not expected to improve markedly, there are many areas of opportunity. A sound fiscal framework supports the sustainable financing of government spending, while progressive alignment between departmental budgets and the objectives of the NDP will bolster government's contribution to development.