

# Budget Review

2014

**National Treasury**  
**Republic of South Africa**

26 February 2014



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To obtain additional copies of this document, please contact:

Communications Directorate  
National Treasury  
Private Bag X115  
Pretoria  
0001  
South Africa

Tel: +27 12 315 5526  
Fax: +27 12 315 5126

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“We know it well that none of us acting alone can achieve success. We must therefore act together as a united people, for national reconciliation, for nation building, for the birth of a new world. Let there be justice for all. Let there be peace for all. Let there be work, bread, water and salt for all. Let each know that for each the body, the mind and the soul have been freed to fulfil themselves.”

**UNION BUILDINGS, PRETORIA, 10 MAY 1994**

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



# Foreword

The 2014 Budget takes stock of our achievements and responds to the challenges that lie ahead.

Twenty years of freedom have transformed South African society. Our non-racial democracy is founded on the rule of law. We have strong institutions established by the Constitution and an independent monetary authority. Our public finances are sound and well managed, and our budgeting processes are recognised internationally for their transparency. South Africa is a wealthier and better-educated country than it was two decades ago. Millions of citizens who were previously disenfranchised and marginalised now have access to water, electricity, sanitation and other basic services. Six in 10 schools do not charge fees, and learners from less-privileged backgrounds will have better opportunities than their parents.

But after two decades, we still have a long way to go on our journey of reconstruction and development. South Africa has high levels of poverty, inequality and unemployment. Joblessness among young people is of great concern. In many parts of the country, public services are uneven or of poor quality. Our economy is not growing fast enough to meet the challenges we face.

The 2014 Budget addresses these challenges over the medium term in alignment with South Africa's long-term framework for economic growth and social development – the National Development Plan.

The medium-term expenditure framework balances continued growth in spending with fiscal consolidation. Spending on social and economic programmes continues to grow in real terms, but more slowly than before. To ensure that our public finances remain sustainable, and that our children are not burdened with the debts of their parents, the expenditure ceiling remains in place.

And what we have must be well spent.

Over the next three years, many of the country's large infrastructure projects will start to operate. New power stations will begin providing electricity for our factories, schools and households. New and upgraded rail infrastructure, roads and urban transport systems will get more goods to market, workers to work and learners to school. Large water scheme improvements will help to run our mines and farms, and ensure that communities have enough water.

Public works programmes will grow. The employment tax incentive will help young people enter the workforce. Urban planning initiatives will help our cities to become integrated places of work and social life. Innovative and competitive South African firms will be able to increase their exports as the world economy recovers. South Africa will benefit from strong economic growth in sub-Saharan Africa as we strengthen trade and investment links with our fellow African nations.

Consolidated budget expenditure for 2014/15 is R1.25 trillion. Government at all levels needs to improve the way it spends these funds to obtain value for money and to improve service delivery. The 2014 Budget emphasises containing costs and improving efficiency across government. To maintain the expenditure ceiling, additional allocations to priority areas and upward adjustments to the public-sector wage bill have been achieved through reprioritisation across departments.

I would like to acknowledge the hard work of the Ministers' Committee on the Budget, Cabinet and my colleagues across government, who are helping us to realise our fiscal objectives in a challenging environment. I extend my appreciation to Minister of Finance Gordhan and Deputy Minister Nene for their leadership, dynamism and resolve. And I acknowledge the dedication of the National Treasury staff to ensuring that this institution lives up to its constitutional mandate.



**Lungisa Fuzile**  
**Director-General: National Treasury**



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<b>W1</b>	Explanatory memorandum to the division of revenue
<b>W2</b>	Structure of the government accounts
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# HIGHLIGHTS OF THE 2014 BUDGET

## ECONOMIC OUTLOOK

- GDP growth projected at 2.7 per cent in 2014, 3.2 per cent in 2015 and 3.5 per cent in 2016, supported by investment in electricity and transport.
- Consumer price inflation to breach upper end of the target band in 2014, reaching 6.2 per cent, declining to 5.5 per cent by 2016.
- Current account deficit to average 5.7 per cent over next three years.
- Strong growth in sub-Saharan Africa to benefit expansion of non-mineral exports.
- Private sector to be the major contributor to job creation over medium term; government will continue to support employment through a wide range of direct and indirect initiatives.

## BUDGET FRAMEWORK

- Budget deficit of 4.0 per cent of GDP expected for 2013/14, narrowing to 2.8 per cent in 2016/17.
- Debt stock as percentage of GDP to stabilise at 44.3 per cent in 2016/17.
- Tax revenue for 2013/14 expected to be R1 billion higher than projected in 2013 Budget.
- Real growth in non-interest spending to average 1.9 per cent over next three years.
- National and provincial government expenditure on travel, catering, consultants and other administrative payments declines as a share of spending.
- Expenditure ceiling commits government to spending limits of R1.03 trillion in 2014/15, R1.11 trillion in 2015/16 and R1.18 trillion in 2016/17.

## SPENDING PROGRAMMES

Over the next three years, government will spend:

- R410 billion on social grants
- R15.2 billion on the economic competitiveness and support package
- R8.5 billion on the Community Work Programme
- R8.7 billion on settlement of land restitution claims
- R7 billion for subsistence and smallholder farmers
- R78 billion on university subsidies and R19.4 billion for the National Student Financial Aid Scheme
- R34.3 billion on school infrastructure
- R22.9 billion to upgrade commuter rail services
- R143.8 billion to support municipal infrastructure
- R42 billion on the HIV and AIDS conditional grant

## TAX PROPOSALS

- Personal income tax relief of R9.3 billion
- Adjustments to tax tables relating to retirement lump-sum payments
- Measures to encourage small enterprise development
- Clarity on valuation of company cars for fringe-benefit tax purposes
- Reforms to tax treatment of the risk business of long-term insurers
- Amending rules for VAT input tax to combat gold smuggling
- Measures to address acid mine drainage
- Adjustment of the proposed carbon tax and its alignment with desired emission-reduction outcomes identified by the Department of Environmental Affairs.

## BUDGET 2014

# KEY BUDGET STATISTICS

A full set of 2014 Budget data can be found in the statistical tables in annexure B. The data on this page may differ from the statistical annex due to classification, definition and rounding.

### BUDGET REVENUE, 2013/14

R billion	
<b>Tax revenue</b>	<b>899.0</b>
<i>of which:</i>	–
Personal income tax	308.9
Corporate income tax	177.0
Value-added tax	239.3
Taxes on international trade and transactions	44.8
<b>Non-tax revenue</b>	<b>30.5</b>
Less: SACU payments	-43.4
<b>Main budget revenue</b>	<b>886.2</b>
Provinces, social security funds and public entities	124.3
<b>Consolidated budget revenue</b>	<b>1 010.5</b>
As percentage of GDP	
Tax revenue	25.9%
Budget revenue	29.2%

## MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2010	2011	2012	2013	2014	2015	2016
	Actual			Estimate	Forecast		
Household consumption	4.4	4.9	3.5	2.7	2.8	3.2	3.4
Gross fixed capital formation	-2.1	4.2	4.4	3.2	4.2	5.3	6.0
Exports	9.0	6.8	0.4	4.8	5.6	6.3	7.0
Imports	11.0	10.0	6.0	7.3	5.3	6.1	7.0
<b>Real GDP growth</b>	<b>3.1</b>	<b>3.6</b>	<b>2.5</b>	<b>1.8</b>	<b>2.7</b>	<b>3.2</b>	<b>3.5</b>
CPI inflation	4.3	5.0	5.6	5.7	6.2	5.9	5.5
Current account balance (% of GDP)	-2.0	-2.3	-5.2	-6.1	-5.9	-5.8	-5.5

### CONSOLIDATED FISCAL FRAMEWORK

R billion/ percentage of GDP	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Estimate	Medium-term estimates		
<b>Revenue</b>	<b>762.9</b>	<b>842.3</b>	<b>909.3</b>	<b>1 010.5</b>	<b>1 099.2</b>	<b>1 201.3</b>	<b>1 324.7</b>
	27.7%	28.2%	28.4%	29.2%	29.0%	28.9%	29.1%
<b>Expenditure</b>	<b>879.9</b>	<b>953.1</b>	<b>1 045.2</b>	<b>1 149.3</b>	<b>1 252.3</b>	<b>1 351.6</b>	<b>1 451.6</b>
	32.0%	32.0%	32.7%	33.2%	33.0%	32.6%	31.9%
<b>Budget balance</b>	<b>-117.1</b>	<b>-110.8</b>	<b>-135.9</b>	<b>-138.8</b>	<b>-153.1</b>	<b>-150.3</b>	<b>-126.9</b>
	-4.3%	-3.7%	-4.3%	-4.0%	-4.0%	-3.6%	-2.8%

### DIVISION OF NATIONALLY RAISED REVENUE

R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Estimate	Medium-term estimates		
<b>Division of available funds</b>							
National departments	356.0	382.7	412.7	449.3	489.4	522.3	553.0
Provinces	322.8	362.5	388.2	414.9	444.4	477.6	508.3
Local government	60.9	68.3	76.4	83.7	90.8	100.0	105.2
<b>Non-interest allocations</b>	<b>739.8</b>	<b>813.5</b>	<b>877.4</b>	<b>947.9</b>	<b>1 024.7</b>	<b>1 099.9</b>	<b>1 166.4</b>
<b>Percentage shares</b>							
National departments	48.1%	47.0%	47.0%	47.4%	47.8%	47.5%	47.4%
Provinces	43.6%	44.6%	44.2%	43.8%	43.4%	43.4%	43.6%
Local government	8.2%	8.4%	8.7%	8.8%	8.9%	9.1%	9.0%

### CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2014/15

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	144.2	18.0	13.4	15.0		<b>190.7</b>
Post-school education	5.3	4.5	2.9	39.9		<b>52.5</b>
Health	92.8	39.3	9.2	4.4		<b>145.7</b>
Social protection	9.6	6.8	0.7	127.4		<b>144.5</b>
Employment and social security	4.6	7.3	0.7	44.7		<b>57.3</b>
Local government, housing and community amenities	11.0	11.8	53.4	61.3	2.9	<b>142.9</b>
Economic infrastructure	12.3	23.7	42.6	10.9	3.3	<b>92.8</b>
Economic services	15.5	12.4	8.2	13.5		<b>50.0</b>
Science and technology and environmental affairs	5.8	5.4	3.0	4.5		<b>18.7</b>
Defence, public order and safety	105.8	39.7	6.5	11.7		<b>163.6</b>
Arts, sport, recreation and culture	3.0	3.1	1.2	3.4		<b>10.6</b>
General public services	29.5	17.6	10.4	7.0		<b>65.1</b>
Debt-service costs					114.9	<b>114.9</b>
Contingency reserve						<b>3.0</b>
<b>Total</b>	<b>439.4</b>	<b>189.7</b>	<b>151.7</b>	<b>343.5</b>	<b>121.2</b>	<b>1 252.3</b>

**Note:** Payments for financial assets are not shown in the table, but are included in the row totals

Percentages reflect growth relative to 2013/14 estimated outcome

# CONSOLIDATED GOVERNMENT EXPENDITURE

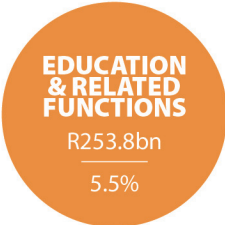
R1.25 TRILLION | 9.0%

# SOCIAL SERVICES

R744.2 BILLION | 9.3%



Debt-service costs	R114.9bn	13.5%
Executive, legislative & finance affairs	R31.8bn	7.5%
Other general public services	R19.0bn	3.6%
International relations & cooperation	R7.5bn	0.9%
Home affairs	R6.8bn	-6.1%



Basic education	R177.6bn	5.9%
University education	R29.9bn	6.5%
Vocational & continuing education training	R23.4bn	-0.3%
Education administration	R12.3bn	6.2%
Recreation and culture	R10.6bn	10%



Transport	R81.6bn	11.9%
Agriculture, forestry & fisheries; Rural development & land reform	R24.3bn	2.7%
General economic & commercial affairs; Mining, manufacturing & construction; other industries	R23.1bn	5.3%
Fuel & energy	R8.6bn	9.7%
Environmental protection	R2.6bn	12%
Communication	R2.6bn	-33.3%



District health services	R52.3bn	10.9%
Provincial hospital services	R26.7bn	5.5%
Central hospital services	R24.3bn	3.5%
Other health services	R19.4bn	11.6%
HIV/AIDS & TB	R15.3bn	16.3%
Health infrastructure	R7.7bn	-1.1%



Police services	R78.1bn	5.5%
Prisons	R19.7bn	5.2%
Law courts	R17.9bn	8.3%



Old age grant	R49.8bn	12.4%
Child support grant	R43.4bn	9.3%
Disability grant	R19.0bn	5.6%
Provincial welfare services	R15.4bn	21%
Policy oversight and grant & benefits administration	R8.1bn	2.7%
Other grants	R8.7bn	5.6%



Local government & community development	R80.3bn	8.6%
Housing development	R34.8bn	18.9%
Water supply	R27.8bn	15.7%

