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Building an inclusive economy for the next 20 years of freedom

In brief

- Over the past 20 years, South Africa has built a solid foundation on which to address its challenges.
- The country's fiscal and economic policy frameworks were tested by the global financial and economic crisis that began in 2008. Fiscal imbalances remain and growth is still below potential, but the economy has weathered the storm.
- Government has laid the basis for a new, more inclusive growth path. South Africa continues to face a difficult economic environment, but with bold decisions, the economy can grow more rapidly.
- The National Development Plan (NDP) increasingly guides the allocation of public resources. Building the platform for faster growth envisioned in the plan will enable the economy to sustain progress over the next 20 years of freedom.

Introduction

It has been two decades since South Africans attained common citizenship in a non-racial democracy. Political change and reconciliation in a united country were the first steps on a long journey of reconstruction and development. A great deal of progress has been made in transforming the lives of South Africans over the past 20 years. Yet the country continues to face high levels of poverty, unemployment and inequality. Plans to address these challenges are at the heart of the budget framework.

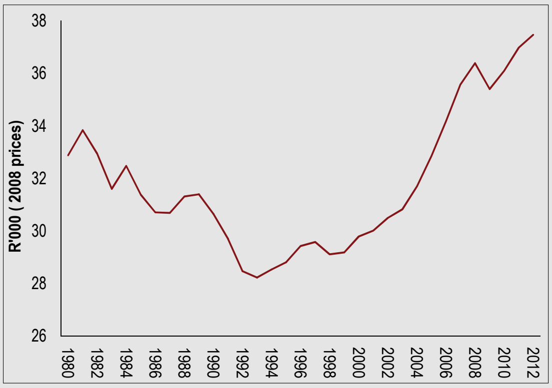
South Africa's constitutional order has proven to be a solid foundation on which to make progress

The constitutional order established in 1994 has proven to be a solid foundation on which to make progress:

- The average income of South Africans, which declined by 15 per cent in the last decade of apartheid rule, has increased by over 30 per cent since 1994. The economy has been growing moderately since 2010 and gross domestic product (GDP) per person will continue to rise as investment and economic expansion gather pace.

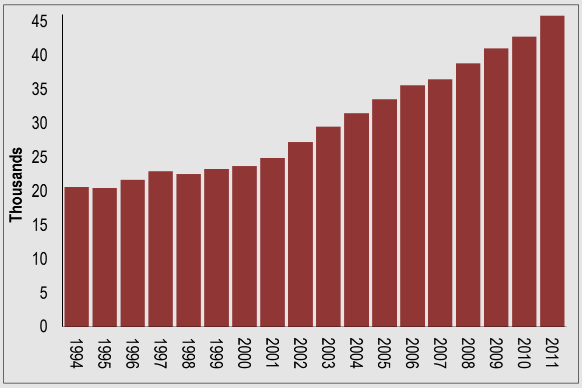
- The economy has created 5.9 million jobs since 1996.
- Near-universal school enrolment and the steady increase in average years of education have improved the life prospects of millions of South Africans. University enrolment has doubled.
- Access to basic services has grown rapidly.
- There has been a significant increase in black participation in the economy, most visible in the transformation of the middle class.

GDP per capita, constant rand, 1980 – 2012



Source: Reserve Bank

Science, technology and engineering graduates from South African universities

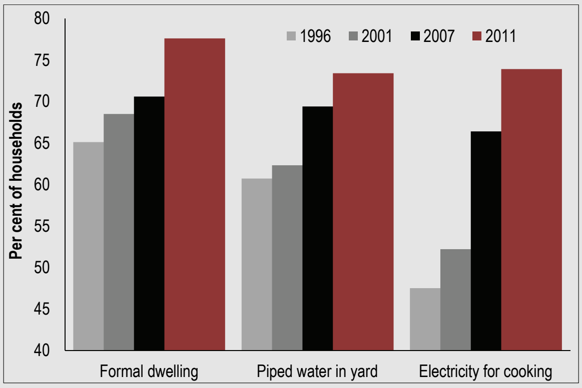


Source: DPME development indicators

Employment and work-seekers

Source: Statistics South Africa

Access to housing and services



Source: Statistics South Africa

South Africa's ability to sustain social and economic progress is supported by the sound institutional framework established by the Constitution and a vibrant civil society. The Auditor-General, the Reserve Bank, the Independent Electoral Commission, the Public Protector and the courts are effective and independent. Vigorous advocacy, community, labour and religious organisations, a robust free press and respected academic institutions support energetic public engagement on social and development challenges.

Policy-making continues to be transparent and rooted in the rule of law

Policy-making is transparent and rooted in the rule of law. This approach is exemplified by the manner in which public resources are raised and distributed across South Africa's population of 53 million people. Government's approach to fiscal governance is entrenched in the Constitution, which requires transparency, accountability, effective financial management and an equitable division of revenue between national, provincial and local government. The medium-term expenditure framework (MTEF) establishes a predictable budget process that is open to public scrutiny. The country has a progressive and efficient tax system. The stable macroeconomic platform has proven resilient and sufficiently flexible to adjust to a volatile global environment.

No room for complacency

20 years of progress, but profound challenges remain

Twenty years of democracy have brought enduring achievements for South Africa. Yet there is no room for complacency. The country continues to face profound challenges. Hard work and decisive action are required to diversify the economy and raise export competitiveness. Partnerships are needed to overcome entrenched structural unemployment. Broader economic opportunity, more effective social services and rapid job creation are required to overcome severe inequality of income and opportunity. The quality of learning and teaching in poor communities must be transformed. To overcome apartheid's spatial legacy, the provision of housing and social infrastructure needs to be improved, and planning frameworks across government strengthened.

Government is meeting with business, labour and communities to ensure their concerns are heard

Government recognises that service-delivery shortcomings and social marginalisation are widespread and have led to heightened tensions. While South Africa faces resource constraints, urgent concerns in communities across the country – from lack of housing to water service failures – require improved accountability, responsiveness and effective leadership. Where the labour relations environment has come under strain, more effective methods of cooperation are needed. Government is working to address these issues at the highest level, and is meeting with business, labour and communities to ensure that their concerns are heard.

Accelerating progress on the National Development Plan

The NDP is the country's framework for economic and social development

Government has adopted the NDP as the country's framework for economic and social transformation. The plan aims to accelerate growth to eliminate poverty and reduce inequality by 2030. Together with the New Growth Path and Industrial Policy Action Plan, the NDP lays the basis for economic transformation, stressing that change is required on many fronts to modernise the economy, address development challenges and improve the lives of South Africans.

Budget priorities include infrastructure, youth employment and improved service delivery

The NDP's integrated approach increasingly guides the allocation of public resources within a sustainable framework. Government's medium-term budget priorities include improvements to public infrastructure, actions to draw more young people into employment and improvements in the quality of services. The accompanying table contains examples of NDP priorities that are directly funded and supported over the medium term.

NDP CRITICAL ACTIONS*	MEDIUM-TERM INITIATIVES
PARTNERSHIP A social compact to reduce poverty and inequality, and raise employment and investment	Building on formal social accords and consultation related to the mining sector, social cohesion, industrial development and youth employment, government will continue to develop active partnerships with business, labour and civil society
POVERTY AND THE SOCIAL WAGE Address poverty and its impacts by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes	The Community Work Programme will be present in every municipality New bus rapid transit systems will be constructed in nine cities, while the existing networks in Johannesburg and Cape Town will be expanded There will be extensive support for smallholder farmers, rural employment programmes and land restitution
PUBLIC SERVICE Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption	Detailed expenditure reviews are under way across government The Chief Procurement Officer will step up monitoring of government tenders Indirect grants will improve spending on key service-delivery projects Capacity-building grants for municipalities will strengthen skills in local government
JOBS Boost private investment in labour-intensive areas, competitiveness and exports, with adjustments to lower the risk of hiring younger workers	The employment tax incentive, which lowers the cost of hiring young workers, can be expanded to special economic zones and specific sectors Industrial support programmes and manufacturing incentives will boost competitiveness and promote inclusive growth The Expanded Public Works Programme will aim to create 6 million jobs of short to medium duration over the next five years. Special economic zones to promote exports will expand Support for small, medium and micro enterprises will grow
EDUCATION An education accountability chain, with lines of responsibility from state to classroom	Annual national assessments will monitor progress in improving education outcomes The National Education Collaboration Trust fosters cooperation throughout the education system – from government to teachers, parents and students
HEALTH Phase in national health insurance (NHI), with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of private healthcare	More than R21 billion is allocated to build, refurbish and maintain health infrastructure Two NHI conditional grants will support contracting doctors and establishing new financial mechanisms for hospitals, and piloting health service innovations in 10 pilot districts The *health professions training and development grant* will boost the number of professionals in public health The Office of Health Standards Compliance will be launched in 2014/15
INFRASTRUCTURE Public infrastructure investment at 10 per cent of GDP, financed through tariffs, public-private partnerships, taxes and loans, and focused on transport, energy and water	Public-sector investment will total R847.3 billion, equivalent to 7 per cent of GDP each year The independent power producer programme is diversifying out of renewables into gas, hydroelectric, coal and cross-border projects Construction of Medupi and Kusile power stations is proceeding Transnet will upgrade its coal, iron ore and manganese lines, and 29 large bulk water schemes are under construction
ENVIRONMENT Interventions to ensure environmental sustainability and resilience to future shocks	Tax reforms will support the transition to a low-carbon economy Additional rounds of renewable energy procurement will take place More than 62 000 hectares of degraded land and ecosystems will be restored
DYNAMIC CITIES New spatial norms and standards – densifying cities, improving transport, locating jobs where people live, upgrading informal settlements and fixing housing market gaps	1 400 informal settlements will be upgraded The Cities Support Programme and a range of grants related to urban infrastructure and development will promote more integrated cities The *capital restructuring grant* for social housing will finance construction of 18 000 medium-density rental units close to transport, economic and social amenities
FIGHTING CRIME Reduce crime by strengthening criminal justice and improving community environments	Additional detectives will be appointed and a DNA database will be established Construction, rehabilitation, upgrade and maintenance of courts will continue Information technology enhancements will improve efficiency across the criminal justice cluster Procurement policies and supply-chain management systems will be reviewed to improve safeguards against corruption and maladministration

** Source: http://www.npconline.co.za/MediaLib/Downloads/Home/Tabs/NDP%202030-Overview.pdf*

The NDP advocates a new approach to addressing policy challenges that builds on expanded collaboration between the public and private sectors, labour and civil society. Recent examples of the kind of partnerships envisioned in the plan include:

Renewable energy, education and jobs partnerships point the way to greater collaboration

- The Renewable Energy Independent Power Producer Procurement Programme, which draws in private investment and encourages technological innovation to generate environmentally sustainable electricity.
- The National Education Collaboration Trust, which mobilises business, communities and government in a collective effort to improve infrastructure and teaching in the neediest schools.
- The Jobs Fund, which matches public-sector support with private-sector funding to support job creation.
- The Clothing and Textiles Competitiveness Programme, which combines production incentives and skills development with efforts to prevent illegal imports.
- The green economy and youth employment accords, through which government, business and labour commit to support clear objectives.

Renewable energy programme: investing in the future

The Renewable Energy Independent Power Producer Procurement Programme has raised private investment in solar, wind, hydroelectric and biomass-based technologies to generate electricity.

The programme was launched in August 2011. To date, there have been three bid submission windows. Out of 225 bids, 64 have been accepted for the procurement of nearly 4 000 MW of electricity. As expected, the competitive bidding process has led to progressive reductions in the contracted supply price, from more than R3 000/kWh in the first bid to less than R1 000/kWh in the third.

Investment worth R120.2 billion has been mobilised, one-third of which will be procured from local suppliers. Most power plants will be located in rural areas and about 20 000 jobs will be created in the construction phase, with another 35 000 jobs in plant operations. Most of this new employment will be in the Northern and Eastern Cape. Communities will also benefit from social investment obligations and equity participation.

Building a platform for faster, more inclusive growth

More than five years of global economic turmoil have tested South Africa's public finances, its economic policy framework and its regulatory environment. One million job losses and a marked fall in tax revenue constituted a real-world stress test of unexpected proportions.

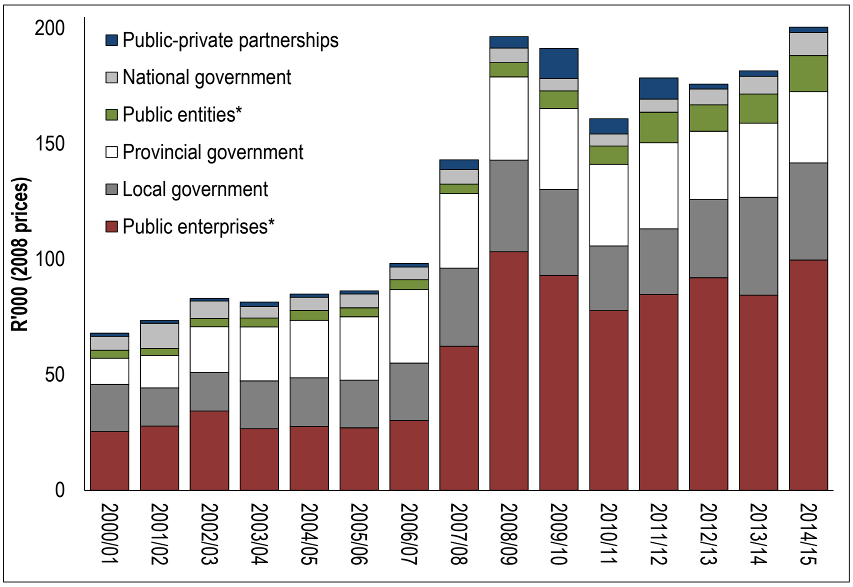
Government's macroeconomic framework has proven resilient and adaptable. Prudent and transparent fiscal management, inflation targeting and a flexible exchange rate in the context of open capital markets enabled the economy to continue growing moderately following the 2009 recession. Fiscal imbalances remain and economic growth is still below potential, but output and employment have returned to pre-crisis levels. South Africa's debt levels are manageable and the long-term fiscal outlook supports sustainable public finances. The R25 billion economic competitiveness and support package that government launched in 2011 helped vulnerable firms to weather the downturn, and will help to boost productivity in the years ahead.

Fiscal imbalances remain, but the public finances are sustainable and debt levels are manageable

Government's response to the crisis has also helped to build a platform for faster, more inclusive economic growth. This is reflected in increased public-sector investment in electricity, transport, water, roads, schools and

Government recognises the need to achieve faster, more inclusive growth hospitals. The annual volume of capital investment by public enterprises has increased by more than 260 per cent in real terms over the past 10 years. Local government's annual infrastructure spending has doubled in real terms since the late 1990s. The public sector has invested over R1 trillion in infrastructure since 2009/10.

Figure 1.1 Real public-sector investment spending, 2000/01 – 2014/15



** Public entities are financed by capital transfers from the fiscus; public enterprises are financed from a combination of own revenue, borrowings and private funding*

Source: National Treasury

Nearly 16 million South Africans now receive some form of social assistance

Government has significantly increased social expenditure, notably in the expansion of social assistance grants and the implementation of antiretroviral therapy to combat HIV, which has contributed to a recovery of life expectancy from 52 years a decade ago to 60 years today. About 15.8 million South Africans now receive some form of social assistance. Social services have grown, with public employment increasing by 56 000 in health, 40 000 in criminal justice and 15 000 in education over the last five years.

Third phase of Expanded Public Works Programme to launch April 2014

Policy innovations developed over the past five years, such as the Jobs Fund, are gaining traction. The third phase of the Expanded Public Works Programme will be launched in April of this year. Over the next five years, it aims to create 6 million jobs of short to medium duration, up from 4 million in the elapsing five-year period.

The shift towards a more labour-intensive growth path is supported by the employment tax incentive, which helps the private sector to create jobs. Tax revenue of R1 billion is foregone in the 2014 Budget to support this initiative, and government plans to expand the programme in the years ahead.

Tax and other incentives will support special economic zones

Government devotes significant resources to industrial development and transformation, helping to boost output and employment. Tax and other incentives to support special economic zones are being finalised. These zones will promote value-added exports and generate jobs in economically disadvantaged parts of the country. An action plan to support the NDP target of creating 1 million jobs in agriculture by 2030 is nearing completion. Government support for innovation and science is reflected in incentives for research and development, and investments such as the Square Kilometre Array.

Innovation is needed to compete in a fast-changing global economy

South Africa continues to face a challenging economic environment over the short term. Economic growth is expected to fall short of the NDP target of 5.4 per cent required to rapidly expand hiring and roll back unemployment. Over the period ahead, rapid progress depends on how well the country is able to innovate and respond competitively in a fast-changing global economy, with a particular focus on the African continent. Faster growth will require bold decisions and difficult trade-offs.

Economic outlook strengthens over medium term

New power stations, public transport and other infrastructure to be rolled out over medium term

The economy is growing at a moderate pace but continues to perform below its potential. Over the medium term, higher growth will support stronger investment and job creation as major infrastructure projects release constraints to greater private-sector output. New power stations, including the Medupi plant, will become operational. Public transport and freight logistics infrastructure will improve significantly. The details of government's broadband development plan will soon be finalised.

Growing trade and investment links with other African countries

South Africa will draw strength from the rapid expansion of trade and investment on the African continent. Today, 29 per cent of South Africa's non-mineral exports go to Africa, up from 19 per cent a decade ago. By comparison, 28 per cent of exports go to the European Union. South African firms working in other African countries are competitive in fast-growing sectors, including mining, finance, telecommunications and retail. These and other investments promote growth and development across sub-Saharan Africa, while creating a platform for further export growth and improving the balance of payments over time. Government will increasingly align its policy frameworks to support economic integration with the African continent.

Exports will benefit from an improving economic performance in the United States and the return to growth in the European Union. Emerging markets, which are expanding at a slower pace than in recent years, continue to be key growth markets for South Africa. Gains associated with the improving global outlook will be particularly beneficial if the depreciation in the rand's exchange value is translated into permanent improvements in competitiveness.

Helping cities to generate dynamic growth by overcoming inequitable spatial patterns

South Africa's cities can generate dynamic economic growth. This requires improved planning, governance frameworks and infrastructure financing to overcome the inequitable spatial patterns that impose significant costs on poor households, the environment and the economy as a whole. Backed by a review of grant mechanisms and an increase in allocations to municipalities, the 2014 Budget supports investment in transport infrastructure and development corridors.

Adjusting to new economic conditions

To take advantage of a stronger global recovery, South Africa will have to adapt to changes in the world economy. Slowing growth in China, and its shift from investment-led growth to greater domestic consumption, is weighing down the prices of some of South Africa's key commodity exports. Faster recovery in the United States has the potential to improve global growth, but it is also leading to rising global interest rates. Recent US monetary policy adjustments have led to increased volatility in capital markets and capital inflows to South Africa have slowed.

Elevated current account deficit remains a concern until exports increase and investment flows strengthen

Prevailing global conditions limit the space available to the fiscus over the next several years. South Africa invests more than it saves and imports more than it exports, leading to a large current account deficit. The sharp depreciation in the rand's nominal exchange value creates the potential for more competitive exports, but the economy remains vulnerable to external funding pressures until exports increase and investment flows strengthen.

Flexible exchange rate acts as an effective shock absorber for external volatility

To date, South Africa's flexible exchange rate has acted as an effective shock absorber for global turbulence. Deep and liquid financial markets reduce the funding vulnerability of the fiscus. Well-regulated and well-managed financial institutions are able to respond to changing global conditions. Strong balance sheets and low levels of foreign currency denominated debt support the resilience of the financial system.

However, exchange rate depreciation means that imported capital goods required for public and private investment programmes will cost more. The inflation outlook has deteriorated and rising interest rates will increase the cost of borrowing for government and the private sector. A weaker terms-of-trade outlook may result in less buoyant tax collection even as bond yields rise, putting upward pressure on debt-service costs.

Government will maintain its expenditure ceiling, with no additional funds added to total spending

Aware of these risks, government is maintaining its expenditure ceiling. No additional funds have been added to the total expenditure announced in last year's Budget. Spending continues to grow in real terms, but much more slowly than in previous years. Inflation and a nominal spending ceiling will put real budgets under pressure over the medium term, requiring government departments to work more efficiently.

Over the MTEF period, government is preparing the ground for national health insurance, and expanding further education and training, and early childhood development. There is a strong connection between the rate of economic growth and the affordability of social programmes. Public spending must be financed from resources drawn from the economy, and faster economic growth increases government revenue. Nevertheless, structural increases in expenditure will need to be financed by corresponding increases in revenue. Over the period ahead, careful attention will be paid to the design of tax arrangements that may be required to fund these initiatives.

Tax Review Committee will issue its first reports during 2014

Last year, the Minister of Finance appointed the Tax Review Committee, chaired by Judge Dennis Davis. The committee has a broad mandate to investigate aspects of the tax system and make recommendations for possible reforms. The committee will issue its first reports during 2014.

Improving the quality of public services and cutting waste

The 2014 Budget aims to improve the quality of public services to achieve better outcomes within the current fiscal envelope. If resources are wasted or diverted, the potential outcomes of public interventions are diminished and so is the case for increased resource allocation. A series of related initiatives are focusing on these concerns:

Spending reviews and forensic investigations help to cut waste, increase efficiency

- Several spending reviews are under way, conducted jointly by the National Treasury and the Department of Performance Monitoring and Evaluation. The reviews aim to provide greater understanding of performance and value for money in areas such as housing, education and industrial policy.
- Similar spending reviews have been conducted in provincial government, and suggest a range of efficiency improvements that can enhance value for money.
- The Office of the Accountant-General is strengthening the control environment for government's financial systems. Over the last 12 months, it conducted 68 investigations into fraud, corruption and maladministration, resulting in 47 criminal investigations and 65 disciplinary hearings. Payments worth R503 million have been cancelled and R61 million has been surrendered back to the fiscus.
- As part of efforts to combat waste, government issued cost-containment instructions in January 2014. Budgets for consultants, travel, accommodation and venue hire have been curtailed, and are expected to decline in real terms.

The 2014 Budget responds to the challenges and opportunities facing South Africa over the period ahead. The sections that follow summarise the main elements of the budget.

Overview of the 2014 Budget

Economic outlook

Chapter 2 presents the economic outlook. GDP growth, which declined from 2.5 per cent in 2012 to 1.8 per cent in 2013, is projected to increase to 2.7 per cent in 2014, reaching 3.5 per cent in 2016. Moderate employment growth is expected over the next three years.

GDP growth of 1.8 per cent in 2013, increasing to 3.5 per cent in 2016

Table 1.1 Macroeconomic outlook – summary

Real percentage growth (unless otherwise indicated)	2013 Estimate	2014	2015 Forecast	2016
Household consumption	2.7	2.8	3.2	3.4
Gross fixed capital formation	3.2	4.2	5.3	6.0
Exports	4.8	5.6	6.3	7.0
Imports	7.3	5.3	6.1	7.0
Gross domestic product	**1.8**	**2.7**	**3.2**	**3.5**
Consumer price inflation (CPI)	5.7	6.2	5.9	5.5
Current account balance (% of GDP)	-6.1	-5.9	-5.8	-5.5

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available it is denoted by "N/A"

The private sector will be the major contributor to job creation, while the public sector will continue to support growth through a range of initiatives. Public investment in infrastructure is expected to reduce bottlenecks in electricity and transport, and encourage private investment, while stronger employment growth will contribute to increased household consumption. South Africa should also benefit from the improved export opportunities presented by a stronger global and regional outlook.

Fiscal policy

Budget deficit narrows to 4.0 per cent in 2013/14

Chapter 3 sets out government's fiscal policy. Despite slower-than-expected GDP growth, the budget deficit is expected to narrow to 4.0 per cent in 2013/14, down from 4.3 per cent in 2012/13. The reduced deficit is the combined result of government's expenditure ceiling and strong revenue collections. Spending will be well contained over the MTEF period and the budget deficit is projected to narrow to 2.8 per cent of GDP by 2016/17.

Table 1.2 Consolidated government fiscal framework

R billion	2013/14 Revised estimate	2014/15	2015/16	2016/17
		Medium-term estimates		
Revenue	**1 010.5**	**1 099.2**	**1 201.3**	**1 324.7**
Percentage of GDP	*29.2%*	*29.0%*	*28.9%*	*29.1%*
Expenditure	**1 149.3**	**1 252.3**	**1 351.6**	**1 451.6**
Percentage of GDP	*33.2%*	*33.0%*	*32.6%*	*31.9%*
Budget balance	**-138.8**	**-153.1**	**-150.3**	**-126.9**
Percentage of GDP	*-4.0%*	*-4.0%*	*-3.6%*	*-2.8%*

Revenue trends and tax proposals

Tax revenue expected to recover to 25.9 per cent of GDP in 2013/14

Chapter 4 reviews revenue trends and sets out tax proposals. The tax policy framework has proven resilient in a period of global volatility.

Table 1.3 Summary of tax proposals

R billion	2013/14 Budget estimate	2013/14 Revised estimate	2014/15 Budget estimate
Tax revenue (gross)	898.0	899.0	999.2
Non-tax revenue	23.3	30.5	20.9
Less: SACU payments	-43.4	-43.4	-51.7
Main budget revenue	**878.0**	**886.2**	
Tax revenue (before tax proposals)			**999.2**
Tax proposals			**-5.6**
(Net) personal income tax relief			-9.3
Business taxes			-1.0
Taxes on goods and services			4.7
Tax revenue (after tax proposals)			**993.7**
Consolidated budget revenue (after tax proposals)			**1 099.2**

While nominal gross tax revenue declined during the 2009 recession, tax revenue is expected to recover to 25.9 per cent of GDP in 2013/14, supported by strong growth in corporate income tax and customs duties.

Tax proposals for the 2014 Budget continue to prioritise economic growth, job creation and generating sufficient revenue to finance government spending in line with the NDP.

Asset and liability management

Chapter 5 discusses the management of government's assets and liabilities. South Africa's borrowing strategy is sufficiently responsive to withstand long-term adjustments in global and domestic capital allocations and short-term market shocks.

Despite volatility in global capital flows, government's borrowing programme remains on track

Debt levels remain sustainable. South Africa's debt has a long maturity structure and its exposure to foreign currency liabilities remains low, reducing the impact of global volatility. The 2013/14 borrowing requirement will be R162.9 billion, decreasing to R151 billion in 2016/17. Financing this requirement will increase government's net loan debt from R1.4 trillion in 2013/14 to R2 trillion by 2016/17. The cost of servicing debt over the same period will increase from R101.3 billion to R139.2 billion.

Table 1.4 Projected state debt and debt-service costs

R billion	2013/14	2014/15	2015/16	2016/17
Net loan debt	**1 375.5**	**1 589.1**	**1 804.6**	**2 019.0**
Percentage of GDP	*39.7%*	*41.9%*	*43.5%*	*44.3%*
Debt-service costs	**101.3**	**114.9**	**126.6**	**139.2**
Percentage of GDP	*2.9%*	*3.0%*	*3.1%*	*3.1%*

Medium-term expenditure plans

Chapter 6 presents national government's medium-term spending priorities. Over the period ahead, government will continue to increase the breadth and the quality of services.

Table 1.5 Consolidated government expenditure by function

R billion	2013/14 Revised estimate	2014/15 Budget estimate	% Average growth 2013/14 – 2016/17
Defence, public order and safety	154.5	163.6	6.0%
Economic infrastructure	84.7	92.8	7.5%
Economic services	47.9	50.0	5.0%
Education and related functions	240.5	253.8	6.8%
Employment and social security	47.9	57.3	13.1%
General public services	62.6	65.1	5.8%
Health	134.3	145.7	7.1%
Local government, housing and community amenities	127.2	142.9	8.7%
Science and technology and environmental affairs	17.5	18.7	6.4%
Social protection	130.9	144.5	7.7%
Allocated expenditure	**1 048.0**	**1 134.4**	**7.3%**
Debt-service costs	101.3	114.9	11.2%
Contingency reserve	–	3.0	
Consolidated expenditure[1]	**1 149.3**	**1 252.3**	**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

Social spending – including social grants, education and health – will remain the largest component of government expenditure. There is strong growth in the allocations to public employment programmes, particularly the Community Work Programme. Investment in infrastructure, with a specific focus on water provision, also increases over the next three years. Reprioritisation has allowed government to shift funds to areas targeted for support.

The budget framework allows for average annual real growth in non-interest spending of 1.9 per cent over the 2014/15–2016/17 MTEF period.

Division of revenue

Helping provinces and municipalities expand investments in economic infrastructure and services

Over the medium term, the division of revenue is designed to help provinces and municipalities expand investment in economic infrastructure and services that directly support economic activity. Provincial governments are allocated 43.4 per cent of available funds, mainly for education, health and social welfare. Transfers to municipalities stabilise at about 9 per cent of the total division of revenue over the medium term, following more than a decade of strong growth. Local government's share of the division of revenue was only 3 per cent in 2000/01, but grew at an annual average rate of 24 per cent until 2013/14.

Table 1.6 Division of revenue

R billion	**2013/14**	**2014/15**	**2015/16**	**2016/17**
National allocations	449.3	489.4	522.3	553.0
Provincial allocations	414.9	444.4	477.6	508.3
Equitable share	*338.9*	*362.5*	*388.0*	*412.0*
Conditional grants	*76.0*	*82.0*	*89.7*	*96.2*
Local government allocations	83.7	90.8	100.0	105.2
Total allocations	**947.9**	**1 024.7**	**1 099.9**	**1 166.4**
Percentage shares				
National departments	47.4%	47.8%	47.5%	47.4%
Provincial	43.8%	43.4%	43.4%	43.6%
Local government allocations	*8.8%*	*8.9%*	*9.1%*	*9.0%*

Conclusion

Over two decades, South Africa has built a solid foundation on which to address its many challenges. The country's fiscal and economic policy frameworks were tested during the last five years by the global economic crisis. Fiscal imbalances remain and growth is still below potential, but the economy has weathered the storm.

Over the past five years, government has laid the basis for a new and more inclusive growth path. The NDP increasingly guides the allocation of public resources within a sustainable framework and provides focus for urgent improvements in the quality of government services.

With bold decisions, the economy can grow more rapidly. The platform for faster growth envisioned in the NDP will enable the economy to sustain and expand progress over the next 20 years of freedom.