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A resilient South Africa making hard choices in difficult times

South Africa faces exceptionally difficult global and domestic economic conditions over the next several years. All the choices before us are disagreeable, some more than others. Drawing on the country's resilience, it is necessary to make tough decisions.

The 2016 Budget proposals will return the public finances to a sustainable path. The Budget sets out tax increases and spending reductions to narrow the fiscal deficit and stabilise growth of public debt, while protecting core social and economic programmes.

Yet fiscal measures are not enough. To expand the social wage in a sustainable manner, create jobs and reduce poverty, South Africa needs much faster rates of inclusive economic growth. In today's conditions, doing so requires a sense of common purpose.

The 2016 Budget emphasises both public- and private-sector contributions to development. Over the period ahead, government is stepping up its partnerships with business, labour and civil society to realise the vision of the National Development Plan, and to carry out the reforms needed to transform the economy.

Overview

Deteriorating global conditions expose South Africa's internal constraints and external vulnerabilities

Since the tabling of the October 2015 *Medium Term Budget Policy Statement* (MTBPS), the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth.

Taking cognisance of deteriorating global conditions and a weaker domestic economic outlook, government proposes to revise the medium-term expenditure framework (MTEF). The 2016 Budget proposals will speed up the pace of fiscal consolidation, narrowing the budget deficit more quickly than proposed in October 2015. At the same time, government, working more closely with the private sector, trade unions and civil society, is taking determined steps to restore confidence in the economy, and address structural constraints to economic growth.

By protecting the public finances, South Africa can sustain its progress in social development

The measures proposed in this Budget will require South Africans to share the burden of a necessary adjustment. By acting now to protect the health of the public finances, the country can sustain the progress it has made in social development. By working together to enact economic reforms and co-invest in the future, we can set the stage for faster, inclusive, job-creating growth as conditions improve.

A protracted global slowdown

World economic growth at its lowest level since 2009

The world economy appears to be mired in a protracted period of slower growth owing to structural, rather than cyclical factors. Economic growth is at its lowest since 2009. Trade has slowed and financial market turbulence has intensified. A muted economic revival is apparent in developed economies, particularly the United States, but the recovery is precarious. High levels of debt and years of unprecedented monetary easing have narrowed the space for policy action to cushion economic fluctuations. Slowing productivity growth, rising inequality and ageing populations raise considerable longer-term challenges.

The US recovery has prompted a rise in that country's interest rates and a strengthening of the dollar. The corollary has been strong capital outflows from developing countries and exchange rate depreciation. The uncertain pace of China's economic reforms, and their impact on global trade and investment, continue to roil global markets. Major developing countries such as Russia and Brazil are in deep recession. A sustained oil-price shock is having serious repercussions for oil exporters such as Angola and Nigeria.

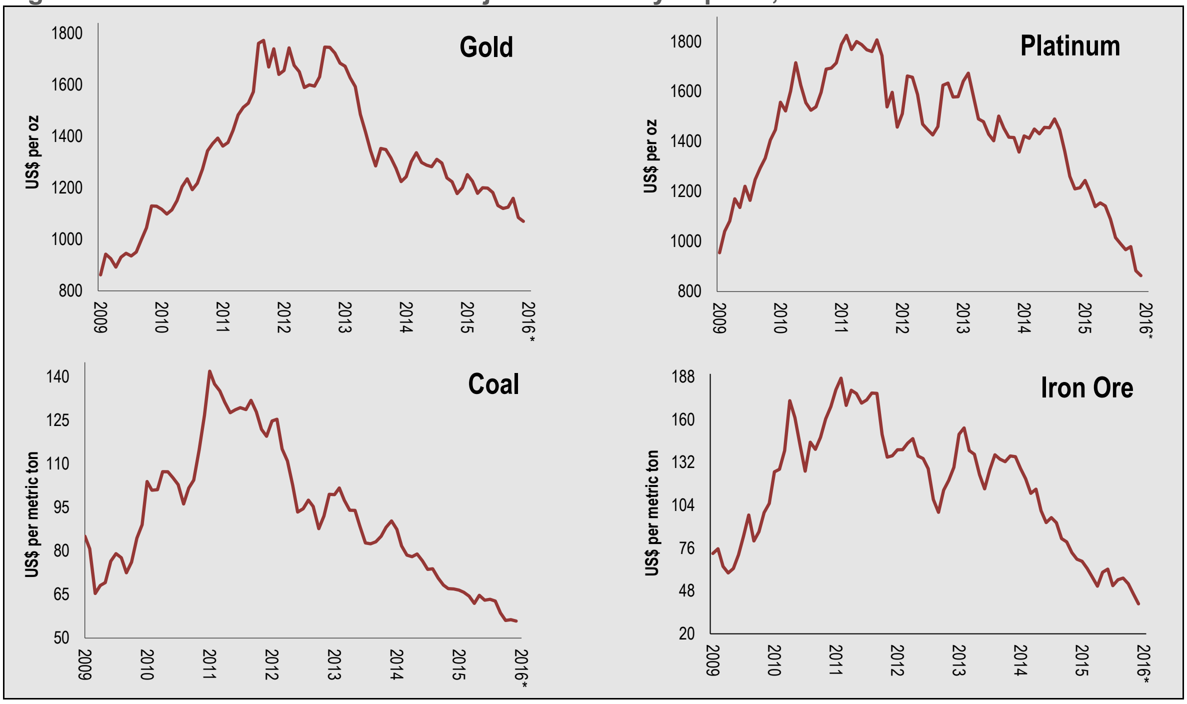
Commodity price weakness likely to continue

World commodity prices, which peaked in 2011, have since declined, largely in response to slowing gross domestic product (GDP) growth in China. Given high levels of excess capacity, it is unlikely that commodity price weakness will soon be reversed.

Durability of improved economic performance in African economies will be tested over period ahead

On the African continent, the combination of falling commodity prices, declining revenues and rising borrowing costs will create fiscal stress and test the durability of improved economic performance achieved in recent years. Some governments may be forced to turn to the International Monetary Fund (IMF) or other multilateral institutions for loans, and to adopt the conditions imposed by such agreements.

Figure 1.1 Prices of South Africa's major commodity exports, 2009 – 2016



Source: Bloomberg

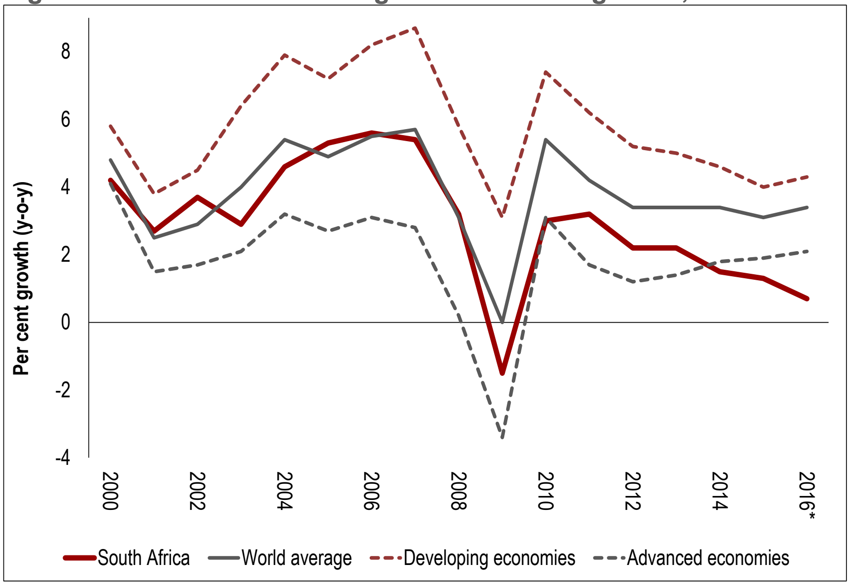
** 2016 only includes January*

Domestic outlook weakens

Domestic growth has continued to diverge from the world average

South Africa's GDP growth has now fallen behind the rate of population increase, resulting in declining per capita incomes. In other words, the average South African is becoming poorer. Lower rates of economic growth reduce government revenue, undermining the state's ability to sustain spending on core social and economic programmes. While global factors play a strong role, domestic growth has continued to diverge from the world average. As Figure 1.2 shows, South Africa's slowdown is expected to continue in 2016, even as growth picks up elsewhere.

Figure 1.2 South African and global economic growth, 2000 – 2016



Source: International Monetary Fund **Forecast*

Economic growth outlook revised down to 0.9 per cent for 2016

Global conditions have exposed South Africa's own economic weaknesses, with projected GDP growth revised down to 0.9 per cent for 2016. Low commodity prices, heightened financial market volatility, and diminished consumer and business confidence weigh on the outlook.

The most severe drought in 20 years has resulted in declining agricultural output and food price inflation, raising the prospect of increased hunger and poverty across Southern Africa. Constrained electricity supply continues to limit growth and deter fixed investment.

Current account deficit remained wide, despite rand weakness

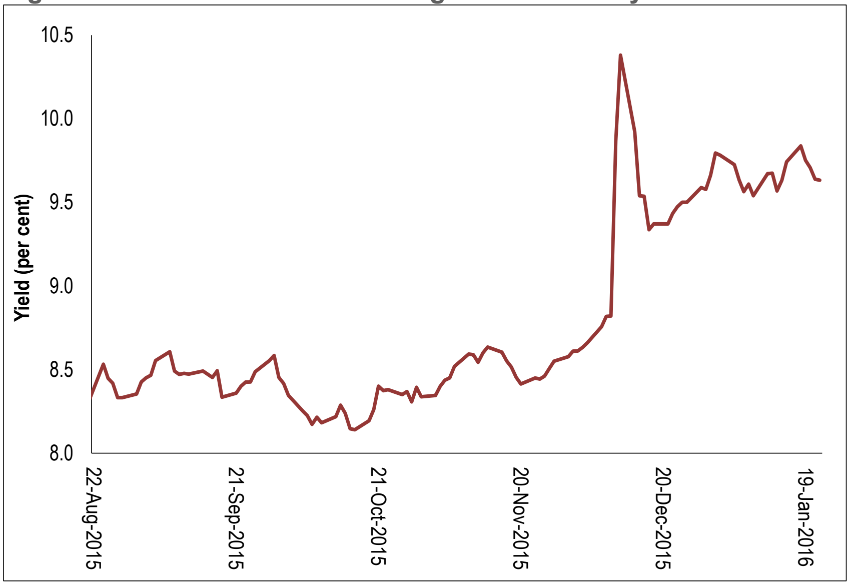
Over the past year the rand has depreciated by 30 per cent against the US dollar. Some agile industries have taken advantage of the weaker currency to boost exports, and depreciation has cushioned the blow of lower commodity prices. But the current account deficit has remained stubbornly wide even as growth has slowed, reflecting continued reliance on foreign savings to finance domestic investment. If inflation accelerates, the competitive advantage of currency weakness will be quickly eroded.

Risks on the rise

Government bond yields now trending on a higher plateau

In recent months, perceptions of risk associated with lending or investing in South Africa have increased. Deterioration in the credit-rating outlook towards the end of 2015 was followed by changes in the finance portfolio, catching investors off guard and raising concerns about fiscal probity. The yield on 10-year government bonds – an indicator of the cost of government borrowing – surged by nearly two percentage points. While declining soon after the mid-December spike, the borrowing rate is trending on a higher plateau, as shown in Figure 1.3. Debt-service costs have increased by R15.3 billion over the next two years.

Figure 1.3 Yield on South African government 10-year bond



Source: Bloomberg

Business confidence is now at its lowest point since the 2009 recession, reflected in slowing private investment. Consumer confidence is also at historically low levels and demand for durable goods is subdued.

Government acting to restore confidence in fiscal sustainability

South Africa's GDP growth rate is expected to recover gradually over the medium term as electricity availability improves and confidence returns. But without action to restore confidence in fiscal sustainability, the recovery risks being cut short as deteriorating conditions create a vicious cycle of lower growth, declining incomes, rising inflation, capital outflows, further currency depreciation, rising interest rates, and falling investment and consumption. This is the predicament that Brazil finds itself in today, after years of social and economic progress.

The 2016 Budget proposals are designed to avoid such an outcome. Some of these measures will entail short-term economic discomfort, but the alternatives are far worse. By stabilising the fiscal position and restoring the momentum of growth, South Africa can continue to build on the social progress it has achieved since 1994.

Fiscal consolidation and inclusive growth

Budget sets course of more rapid fiscal consolidation

In response to the deteriorating economic outlook and heightened risk of external shocks, the 2016 Budget sets a course of more rapid fiscal consolidation, narrowing the budget deficit more quickly than projected and stabilising the growth of public debt. These steps will restore the public finances to a sustainable path. South Africans will need to share in the burden of these adjustments. The bulk of tax increases will fall on better-off South Africans. Limits to government compensation budgets will require greater efficiency from public servants. Pro-poor spending and public investments in infrastructure will be maintained.

Government collaboration with business, labour and civil society will increase markedly over period ahead

At the same time, government recognises the limits of tax and spending adjustments. To meet its ambitious national development targets, South Africa needs a far higher rate of inclusive, job-creating economic growth. Rising confidence and investment by the private sector, which is the engine of economic growth, is needed to turn around the country's economic fortunes. With this objective in mind, government has stepped up its active engagement with business, labour and civil society. Over the next three years, such collaboration will increase markedly.

Taking decisive fiscal action

This year public debt will rise beyond R2 trillion. Debt-service costs are the fastest-growing item of expenditure and consume 12c of every rand of state revenue. To sustain the social wage and avoid sharp reversals in public spending, government proposes to adjust tax policy to boost revenue, moderate spending and reprioritise budgets. Government is committed to meeting its medium-term fiscal targets and will take additional steps to do so as conditions warrant.

Tax and spending adjustments

Tax proposals accelerate fiscal consolidation

A series of proposals will accelerate fiscal consolidation:

- Tax policy proposals add R18.1 billion to revenue in 2016/17. Measures to raise an additional R15 billion are planned in each of the two subsequent years. The details of these proposals will be set out in future budgets following consultation and review.
- The expenditure ceiling has been reduced by R10 billion in 2017/18 and R15 billion in 2018/19. The bulk of these reductions will be applied to compensation budgets.
- Effective 1 April 2016, appointments for non-critical vacant posts will be blocked on government's payroll system, pending the submission of revised human resource plans. In many cases, these departmental plans will reduce personnel headcounts in administrative and managerial posts, eliminate unnecessary positions and establish a sustainable level of authorised, funded posts. Positions for teachers, nurses, doctors, police officers and other critical posts will be excluded from the lock, which is aimed at administrative and managerial personnel.
- Building on the President's State of the Nation Address, national departments' budgets for non-essential goods and services have been cut by R5 billion over the medium term. Stronger cost-containment instructions will be issued shortly.

Modernising tender process will reduce costs and opportunities for corruption

These measures are complemented by the modernisation of government tender systems led by the Office of the Chief Procurement Officer. This process is intended to reduce both costs and opportunities for corruption. From 1 April 2016, all companies that wish to do business with government must be registered on the central supplier database. It will be compulsory to procure routine goods and services through the centrally negotiated contracts in place.

Reprioritisation and protecting the social wage

R31.8 billion reprioritised over next three years to new spending requirements

The 2016 Budget responds to new spending requirements within a reduced expenditure ceiling. An amount of R31.8 billion has been reprioritised over the next three years. This includes allocations of R16.3 billion for short-term funding challenges in higher education. A presidential commission has been appointed to consider options for funding higher education. Funds are also reprioritised for South Africa's subscription to the New Development Bank.

Government is also allocating funds to drought relief. Over the medium term, R1.1 billion has been reprioritised to interventions such as drilling boreholes, distributing animal feed, moving cattle herds and transporting potable water to hard-hit areas. Resources will be made available to support additional interventions as these are identified. Changes to the provincial and municipal disaster relief grants will also be proposed. Over the longer term, South Africans need to consider how the economy and households can adapt to the challenges of a water-stressed country.

The budget will contribute R880 billion to the social wage in 2016/17. The resources allocated for health, education, social protection, community infrastructure and housing subsidies for poor South Africans account for 60 per cent of spending and, on average, these budgets grow 1 per cent faster than inflation over the next three years.

Social grants are protected from inflation

Within its limited resource envelope, government has allocated new resources to several core programmes over the medium term:

- R11.5 billion to provide for inflation-linked adjustments to social grant values, and growth in the number of beneficiaries
- R984 million to expand coverage of HIV/AIDS treatment and prevention, with R740 million for the treatment of tuberculosis
- R813 million for a new *early childhood development conditional grant*
- R475 million for the Department of Small Business Development to support small business enterprises and cooperatives.

Faster economic growth needed to support new policy initiatives

Public spending is financed from resources drawn from the economy. Economic growth increases tax revenue, enabling government to fund a growing range of public services. Conversely, high rates of taxation can retard economic growth, especially if they are poorly designed or impose excessive costs on economic activity.

Over the last decade, expenditure on the social wage has doubled in real terms. Government is also committed to implementing the National Development Plan, which envisages a number of interventions in the years ahead, including national health insurance, an expanded system of higher and vocational education, stronger investment in early childhood development and comprehensive social security.

Given fiscal constraints, government will phase in these commitments. But weak economic growth limits the pace at which new policy initiatives can be realised. Ultimately, improvements in the quality of life for all South Africans, and increased commitment of public resources to fund social and economic priorities, depend on sustained improvements in per capita income.

Transformation and growth

Raising long-term growth depends on carrying out the reforms envisioned in National Development Plan

Economic growth is forecast to improve gradually, but government is committed to raising growth rates over the medium and long term. Success will depend on increased collaboration with business, labour and civil society to realise the goals of the National Development Plan. Key areas of intervention include:

- Maintaining public infrastructure investment. Over the next three years, government and state-owned companies have committed R865.4 billion for investments in housing, roads, rail, public transport, water, electricity and community infrastructure.
- Partnerships to expand co-investment in economic infrastructure, social facilities, innovation and skills development.
- Increasing electricity supply and improving reliability by mobilising private-sector co-investment in technologies that promise rapid results.
- Promoting a stable and cooperative labour relations environment.
- Encouraging development of energy-efficient, job-creating industries – such as tourism, agriculture and agro-processing – that can benefit from the weaker rand to boost exports.
- Lowering the cost of doing business, removing regulatory constraints – such as easing onerous visa restrictions – and acting swiftly to remove policy uncertainty.
- Stimulating economic activity. Public institutions with strong balance sheets, including development finance institutions and social security funds, will make greater use of their resources to back economic stimulus and job creation.
- Encouraging the growth of small business. The National Treasury and the Department of Small Business Development are working with the private sector to explore establishing a small business innovation fund.
- Transforming the urban landscape. Government has stepped up its support for partnerships between metropolitan municipalities and private investors to develop mixed-use, mixed-income precincts near transport networks and jobs.

Reforms to place economy on a higher growth trajectory

Over time, these reforms will place the economy on a higher growth trajectory. Transforming the economy also requires the active participation of state-owned companies, which need to be financially sound, well-managed and properly governed. Faster economic growth over the medium term will also require a shift from monopoly control towards well-regulated, competitive markets in which public companies play a strategic role. Government is implementing the recommendations of the Presidential Review Committee on State-owned Entities, which proposes to rationalise the number of entities, and mobilise equity and technical expertise from the private sector to strengthen financial and managerial capacity.

Strengths to build on

Economy has continued to demonstrate resilience despite unfavourable conditions

Since the inception of the global financial crisis in 2008, the South African economy has continued to demonstrate resilience despite unfavourable conditions. Macroeconomic policy is effective and robust, maintaining a prudent approach to managing national resources. Deep and liquid financial markets finance the current account. Most state debt is denominated in rands and the exchange rate is highly flexible.

Realising the vision of the Constitution depends on the active participation of all South Africans, a capable state, and accountable democratic institutions. South Africa has an active citizenry: public engagement on social and developmental challenges remains energetic and robust. The country's institutional framework – the courts, the Auditor-General and the Reserve Bank to name a few – is effective and independent. A free press helps to hold private and public institutions accountable.

Collection and distribution of public resources is transparent

Public resources are raised and distributed in a transparent manner and governed by law. In general, the financial execution of the budget is excellent, with accounting officers continuing to adhere to limits of parliamentary appropriations. Where they arise, corruption and malpractice are exposed. Improved rates of detection and prosecution are needed to strengthen deterrence.

The 2016 Budget contributes to South Africa's resilience by restoring the public finances to a sustainable path. Government, working in partnership with business, labour and civil society, will build on these strengths over the period ahead to revive the momentum of economic growth.

Energy programmes that deliver results

Government is stepping up initiatives that will alleviate the electricity supply constraint over the medium term.

- Co-investment with the private sector has already added 2 045MW of renewable energy to the electricity grid, and contracts have been awarded for projects that will add another 6 377MW over the medium term.
- Government is preparing a major expansion of the independent power producer (IPP) initiative to contribute base-load energy capacity. Later this year, the Minister of Energy will announce preferred bidders for 1 000MW of coal projects. Private investment of about R45 billion is anticipated and a second round of coal projects is expected to add 1 500MW to the grid.
- A gas-to-power IPP programme is also under preparation, with a view to contributing 3 126MW of electricity generation through investment in liquefied natural gas facilities and power plants in the ports of Richards Bay, Coega and Saldanha Bay. This initiative will draw on investment by state-owned companies and the private sector. It will also create opportunities for upstream investment.

Over the longer term, government has identified the need to expand production of nuclear power within South Africa's overall energy mix. Nuclear power involves substantial upfront costs, and government will only expand such capacity at a scale and pace that is affordable, after a thorough and transparent tender process.

Overview of the 2016 Budget

Economic outlook

GDP growth projected at 0.9 per cent for 2016

The National Treasury projects GDP growth of 0.9 per cent in 2016, improving gradually to 1.7 per cent in 2017 and 2.4 per cent in 2018.

Table 1.1 Macroeconomic outlook – summary

Real percentage growth	2015 Estimate	2016	2017 Forecast	2018
Household consumption	1.4	0.7	1.6	2.2
Gross fixed-capital formation	1.1	0.3	1.4	2.7
Exports	9.5	3.0	4.6	5.2
Imports	5.3	3.7	4.5	4.9
Real GDP growth	**1.3**	**0.9**	**1.7**	**2.4**
Consumer price inflation (CPI)	4.6	6.8	6.3	5.9
Current account balance (% of GDP)	-4.1	-4.0	-3.9	-3.9

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"
Source: National Treasury

Factors weighing on economic growth include low commodity prices, heightened financial market volatility, and diminished consumer and business confidence. Exchange rate depreciation is contributing to a higher inflation outlook during 2016. These factors are expected to ease over the medium term. An upturn in global trade and investment, improved policy certainty, recovering consumer and business confidence, and greater availability and reliability of electricity in the outer years should support stronger growth.

Low commodity prices and market volatility among factors weighing down growth

Fiscal policy

The 2016 Budget proposals respond actively to the changed circumstances since the tabling of the 2015 MTBPS. The budget deficit will narrow from 3.2 per cent in 2016/17 to 2.8 per cent in 2017/18 and 2.4 per cent the following year. In 2016/17, for the first time since the 2009 recession, government will achieve a consolidated primary surplus: revenue will exceed non-interest spending. Relative to projections contained in the 2015 MTBPS, these steps will lead to additional fiscal consolidation of R18.1 billion in 2016/17, R25 billion in 2017/18 and R30 billion in 2018/19.

2016 Budget reduces fiscal deficit to 2.4 per cent over the medium term

The main risks to the fiscal outlook are weaker-than-expected GDP growth, increases in inflation-linked expenditure and the weak balance sheets of several state-owned entities. Government is actively managing these risks.

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2015/16 Revised estimate	2016/17	2017/18	2018/19
		Medium-term estimates		
Revenue	**1 223.1**	**1 324.3**	**1 436.7**	**1 571.6**
	30.0%	*30.2%*	*30.2%*	*30.4%*
Expenditure	**1 380.9**	**1 463.3**	**1 572.1**	**1 695.2**
	33.9%	*33.3%*	*33.1%*	*32.8%*
Budget balance	**-157.9**	**-139.0**	**-135.3**	**-123.6**
	-3.9%	*-3.2%*	*-2.8%*	*-2.4%*

Source: National Treasury

Revenue trends and tax proposals

To ensure that the fiscal framework is sustainable over the MTEF period, the 2016 Budget proposals will increase the tax-to-GDP ratio from 26.3 per cent in 2015/16 to 27.8 per cent in 2018/19.

Revenue proposals increase tax-to-GDP ratio to 27.8 per cent in 2018/19

The tax proposals for 2016 are expected to add R18.1 billion to revenue during 2016/17. The main proposals include:

- Limited fiscal drag relief for individuals, focusing on lower- and middle-income earners, of R5.5 billion
- Increasing the general fuel levy by 30c/litre
- Increasing excise duties on alcoholic beverages and tobacco products
- Increases in transfer duty on property sales above R10 million
- Increases in the effective capital gains tax rates for individuals (from 13.7 percent to 16.4 percent) and for companies (from 18.6 per cent to 22.4 per cent)

- Strengthening environmental taxes, and implementing a tax on sugar-sweetened beverages in 2017.

Table 1.3 Summary of tax proposals

R million	2016/17 Budget estimate	
Budget revenue (before tax proposals)		**1 319 349**
Personal income tax	**-5 650**	
Adjustment in personal income tax structure	-5 500	
Adjustment to medical tax credits	-1 100	
Capital gains tax	950	
Business income tax	**1 000**	
Capital gains tax	1 000	
Taxes on property	**100**	
Transfer duty rate increase	100	
Indirect taxes	**9 084**	
Increase in general fuel levy	6 800	
Increase in excise duties on tobacco products	767	
Increase in alcoholic beverages	1 517	
Other	**456**	
Tax revenue (after tax proposals)		**1 174 788**
Budget revenue (after tax proposals)		**1 324 339**

Source: National Treasury

Medium-term expenditure plans

Government spending seeks to achieve the objectives contained in the National Development Plan (NDP) as expressed through the medium-term strategic framework over the period 2014 – 2019.

Consolidated government expenditure to grow by 7.1 per cent over next three years

Consolidated government expenditure is expected to grow by 7.1 per cent over the medium term, reaching R1.69 trillion in 2018/19. Average growth in spending on education, health and social protection expenditure continues to outpace inflation by 1.4 percent.

Table 1.4 Consolidated government expenditure by function

R billion	2015/16 Revised estimate	2016/17 Budget estimate	Average growth 2015/16–2018/19
Basic education	213.7	228.8	7.4%
Health	159.4	168.4	7.6%
Defence, public order and safety	171.5	181.5	5.9%
Post-school education and training	64.2	68.7	7.9%
Economic affairs	187.8	212.0	7.2%
Human settlements and municipal infrastructure	178.2	182.6	6.7%
Agriculture, rural development and land reform	25.2	26.4	4.9%
General public services	97.5	73.7	-5.4%
Social protection	154.4	167.5	8.1%
Allocated expenditure	**1 251.8**	**1 309.6**	**6.3%**
Debt-service costs	129.1	147.7	11.4%
Contingency reserve	–	6.0	
Consolidated expenditure[1]	**1 380.9**	**1 463.3**	**7.1%**

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

Source: National Treasury

Robust spending growth supports the expansion of public employment programmes, road maintenance, and investment in water and broadband infrastructure. The fastest-growing category of spending is debt-service costs.

Government has lowered the spending ceiling in the two outer years of the MTEF by R10 billion and R15 billion respectively. These reductions have been effected in compensation budgets across national and provincial government in a manner designed to minimise the impact on frontline service delivery personnel.

Spending ceiling lowered by R10 billion in 2017/18 and R15 billion in 2018/19

Division of revenue

Of the nationally raised funds available after providing for debt-service costs and the contingency reserve, 47.7 per cent is allocated to national government, 43.2 per cent to provincial government and 9.1 per cent to local government over the next three years.

Table 1.5 Division of revenue

R billion	2015/16	2016/17	2017/18	2018/19
National allocations	546.8	559.8	594.1	637.8
Provincial allocations	471.8	499.8	542.3	582.9
Equitable share	*386.5*	*410.7*	*441.8*	*474.9*
Conditional grants	*85.3*	*89.1*	*100.5*	*108.1*
Local government allocations	99.7	104.9	113.3	125.8
Total allocations	**1 118.2**	**1 164.6**	**1 249.8**	**1 346.5**
Percentage shares				
National	48.9%	48.1%	47.5%	47.4%
Provincial	42.2%	42.9%	43.4%	43.3%
Local government	*8.9%*	*9.0%*	*9.1%*	*9.3%*

Source: National Treasury

All provincial budgets will continue to grow in nominal terms over the MTEF period and most will grow in real terms. The slightly slower rate of growth in provincial transfers can be largely offset by improving efficiency, and reducing spending on non-core goods and services.

All provincial budgets grow in nominal terms, most in real terms over period ahead

Local government also faces tough fiscal choices in the period ahead as growth in transfers slows and the cost of providing services increases. Municipalities can offset these trends by improving their own revenue collection, increasing efficiency and obtaining greater value for money.

Government debt and contingent liabilities

Government's medium-term borrowing strategy reflects a prudent approach to managing debt in an environment of greater uncertainty. The strategy maintains a broad range of funding options in the domestic and global markets. It includes measures to manage refinancing risk by adjusting the composition and maturity of the debt portfolio.

Government borrowing strategy remains prudent in face of uncertainty

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19
Net loan debt	**1 804.4**	**2 003.4**	**2 194.8**	**2 382.4**
	44.3%	*45.7%*	*46.2%*	*46.2%*
Debt-service costs	**129.1**	**147.7**	**161.9**	**178.6**
	3.2%	*3.4%*	*3.4%*	*3.5%*

Source: National Treasury

Borrowing requirement in 2015/16 is marginally lower than projected

In 2015/16 the net borrowing requirement – the amount needed to finance the budget deficit – will total R172.8 billion, marginally lower than projected in the 2015 Budget. The borrowing requirement for 2016/17 is expected to amount to R156.3 billion, declining to R151.3 billion in 2018/19. Net debt stabilises at 46.2 per cent of GDP in 2017/18

Financial position of public-sector institutions

At a consolidated level, the financial position of public-sector institutions has strengthened. Improving net asset positions reflect capital investments by state-owned companies.

The financial risks posed by several state-owned companies remain significant. Any additional commitment of public resources to support these entities will depend on improved financial management business performance, and reforms to resolve ongoing problems with governance – including, where appropriate, through private-sector participation.

Conclusion

Proposals reduce budget deficit and stabilise debt while protecting social wage and capital investment

Deteriorating global economic conditions and structural weaknesses in the local economy pose significant risks over the period ahead. The 2016 Budget responds to these challenges, advancing tough but necessary proposals to reduce the budget deficit, stabilise public debt, and protect the social wage and infrastructure investment. These proposals will put the country on a path to higher, job-rich growth in the long term.