EXTRACT FROM THE 2017 BUDGET REVIEW

RISING GLOBAL UNCERTAINTY, AN OPPORTUNITY FOR CHANGE

South Africa faces difficult choices in a rapidly changing world. Economic growth, which has steadily weakened over the past five years, is likely to increase moderately over the medium term. Yet this rate of growth will not be sufficient to markedly reduce unemployment, poverty and inequality. Government’s measured fiscal consolidation is working to narrow the budget deficit and stabilise debt, building confidence in the economy. But substantial revenue under-collection in 2016/17 has imposed sharper limits on public spending. At the same time, the rise of aggressive unilateralism in advanced economies, and mounting uncertainty over the course of world trade, pose serious threats to the global outlook.

Table 1.1 Macroeconomic outlook – summary

<table>
<thead>
<tr>
<th>Real percentage growth</th>
<th>2016 Estimate</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption</td>
<td>0.9</td>
<td>1.3</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Gross fixed-capital formation</td>
<td>-3.6</td>
<td>1.5</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Exports</td>
<td>-1.2</td>
<td>1.9</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-3.6</td>
<td>2.0</td>
<td>4.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Real GDP growth</td>
<td>0.5</td>
<td>1.3</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Consumer price inflation (CPI)</td>
<td>6.4</td>
<td>6.4</td>
<td>5.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-4.0</td>
<td>-3.9</td>
<td>-3.7</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source: National Treasury

In the context of these pressures, the 2017 Budget sets out a series of proposals to raise additional revenue, sustain core expenditure, improve value for money spent, stabilise the public finances, and contribute to growth and transformation.

Rising global uncertainty

Between 2000 and 2008, South Africa’s economic fortunes rose on the strength of a commodity boom and robust domestic investment. The economy expanded rapidly and created jobs. Government developed an ambitious policy agenda, eventually articulated in the National Development Plan (NDP). When the global financial crisis broke in 2008, the healthy state of the public finances enabled government to intervene decisively to support the economy, while sustaining social programmes and continuing to invest in infrastructure.

But by 2011, the year that the NDP was published, the decade-long upswing in commodity prices had begun to turn, signalling deeper shifts in the global economy. The pace of Chinese industrialisation began to flag. World trade began to slow. A debt crisis broke out in Europe. Geopolitical tensions began to rise. Longer-term trends in developed countries – ageing populations, slowing productivity and widening inequality – became more pronounced. Imbalances in globalisation, stagnant incomes for the majority and distrust of elites took centre stage in global discourse.
Over the past year, these developments culminated in a series of political shifts in the US and Europe. They find expression in strident economic nationalism, disdain for multilateral institutions and demands to tighten national borders. The policy direction of the new US administration, the outcome of the UK’s vote to leave the European Union, and upcoming elections in France and Germany are contributing to global uncertainty, given that these developments directly involve four of the world’s largest economies.

Growth on the African continent has also fallen sharply. Despite sustained improvements in governance and economic management in many countries, a continued dependence on commodity exports makes African economies vulnerable to sudden reversals of fortune.

South Africa is a small, open economy reliant on trade and capital flows. Its development rests on a fair, rules-based global trading and financial system. The implications of recent international developments for South Africa’s economic trajectory need to be carefully considered. Over the medium term, pressure on the world economy is expected to increase. The resulting uncertainty is the single biggest risk to global economic recovery, with potentially serious consequences for South Africa.

An opportunity for change

South Africa can use this turning point in the world economy as an opportunity to strengthen economic and social transformation. The country has multiple strengths on which to build.

Government’s macroeconomic policies, which include inflation targeting and a flexible exchange rate, promote a stable platform for investment and provide a buffer against global volatility. Deep and liquid financial markets support both public- and private-sector borrowing. The country’s institutions – from the courts to the Reserve Bank – retain their independence and integrity.
Over the medium term, economic growth is forecast to improve moderately on the strength of several developments:

- The real exchange rate has depreciated, boosting competitiveness
- An uptick in commodity prices is expected to carry through into 2017
- The severe drought has eased in several farming regions
- Electricity supply has stabilised
- Improved labour relations are expected to boost job creation.

Despite the improving outlook, South Africa needs far higher rates of economic growth to reduce mass unemployment, poverty and inequality. In 2016, domestic investment contracted for the first time since 2010. Investment by private businesses declined by 5.9 per cent.

In the short term, the low level of private-sector investment is the main factor limiting economic growth. Reversing this pattern requires concentrated efforts to strengthen business and consumer confidence.

**Figure 1.2 Real growth in gross fixed-capital formation**

Government, working with business, labour and civil society, can act decisively to boost investment in the short term by:

- Finalising the Mineral Resources and Petroleum Development Amendment Bill, and legislation on land holdings and security of tenure. Certainty will promote investment in mining and agriculture.
- Concluding the transition from analogue to digital television signals, and allocating new spectrum to broadband services. Cheap and reliable internet will lower costs and create business opportunities for new entrants. It can also provide a platform to expand health and education services in remote areas.
- Expanding the independent power producer programme in renewables and gas. An expansion that provides certainty to investors can open up
substantial opportunities for black-owned firms, create thousands of jobs and boost power supply.

- Ensuring that the state performs its economic regulatory functions effectively. For example, speeding up the verification of black empowerment credentials and local content requirements would support transformation and local manufacturing.

- Reinforcing South Africa’s commitments to global standards in financial sector regulation. South Africa needs to maintain its position as an investment destination, supported by a sophisticated business and financial sector, and adherence to international standards.

- Safeguarding the country’s investment-grade credit rating. Maintaining a sustainable, realistic fiscal framework that promotes transformation, a stable labour relations environment and reliable electricity supply will go a long way to reduce risk perceptions.

- Addressing shortcomings in state infrastructure planning and execution. As discussed in Chapter 3, during 2017/18, government will establish a new financing facility for large infrastructure projects.

### The CEO Initiative

The CEO initiative, convened by the President in 2016, is a collaborative effort between the private sector and government to support growth and transformation. To date it has:

- Agreed to set up a Youth Employment Scheme (YES) to provide opportunities for 1 million young people to gain work experience to improve their job prospects.

- Raised R1.5 billion in contributions from the private sector for a small business fund to stimulate entrepreneurship and self-employment. Government has committed to step up funding for small business development to augment this initiative.

The initiative is identifying opportunities for partnerships in eight labour-intensive sectors, including agriculture, manufacturing and tourism. The joint efforts of labour, government and business saw the country successfully retain its investment-grade sovereign credit rating in 2016.

### Transformation for inclusive growth

To realise the vision of the Constitution, South Africa needs transformation that opens a path to inclusive economic growth and development. Growth without transformation would only reinforce the inequitable patterns of wealth inherited from the past. Transformation without economic growth would be narrow and unsustainable.

Government’s objective is not merely to transfer ownership of assets or opportunities to contract with the state: it is to change the structure of the economy. Broad-based transformation should promote growth, mobilise investment, create jobs and empower citizens. It must create new resources to support social change, including assets and livelihoods for the majority, and strengthen South Africa’s constitutional foundations.

The budget plays a central role in transformation by promoting redistribution and directing scarce resources towards catalytic investments in human and physical capital. But the budget depends on the economy to generate the resources to finance these investments, and South Africa has had several years of very low growth.

The 2017 Budget proposes several difficult trade-offs to safeguard citizens’ quality of life, improve the efficiency of spending and ensure that the public finances are sustainable.
The Budget Review

The Budget Review describes the economic outlook and policies to promote growth; the fiscal policy choices of government; the revenue proposals for 2017/18; national spending proposals; the division of revenue; the financing strategy; and the financial position of public-sector institutions.

Annexures present the Minister of Finance’s report to Parliament; tax expenditures and tax amendments; data on public sector infrastructure and public-private partnerships; and an update on financial-sector regulation and reform.

The full Budget Review, budget data and further information are available at [www.treasury.gov.za](http://www.treasury.gov.za)