

Budget Review

2017

National Treasury
Republic of South Africa

22 February 2017



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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 5944
Fax: +27 12 407 9055

The document is also available on the internet at: www.treasury.gov.za.

2017 BUDGET HIGHLIGHTS

ECONOMIC OUTLOOK

- GDP growth will gradually improve from 0.5 per cent in 2016 to 1.3 per cent in 2017 and 2 per cent in 2018, supported by improved global conditions and rising consumer and business confidence.
- Greater availability and reliability of electricity should also support stronger growth in 2018 and 2019.
- Consumer price inflation, after reaching 6.4 per cent in 2016, is expected to decline to 5.7 per cent by 2018.
- The current account deficit, after reaching 4 per cent in 2016, will come down to 3.7 per cent in 2018 and 3.8 per cent in 2019.
- Government will continue to enable investment through regulatory reforms and partnerships with independent power producers.
- Public-sector infrastructure bottlenecks will be addressed through reform and capacity building. During 2017/18, government will establish a new financing facility for large infrastructure projects.

BUDGET FRAMEWORK

- A budget deficit of 3.4 per cent of GDP is expected for 2016/17, narrowing to 2.6 per cent in 2019/20.
- Debt stock as a percentage of GDP is expected to stabilise at 48.2 per cent in 2020/21.
- The main budget non-interest expenditure ceiling has been lowered by R26 billion over the next two years.
- R28 billion in additional tax revenue will be raised in 2017/18. Measures to increase revenue by a proposed R15 billion in 2018/19 will be outlined in the 2018 Budget.
- R30 billion has been reprioritised through the budget process to ensure that core social expenditure is protected.
- Real growth in non-interest spending will average 1.9 per cent over the next three years. Apart from debt-service costs, post-school education is the fastest-growing category, followed by health and social protection.

SPENDING PROGRAMMES

Over the next three years, government will spend:

- R490.4 billion on social grants.
- R105.9 billion on transfers to universities, while the National Student Financial Aid Scheme will spend R54.3 billion.
- R751.9 billion on basic education, including R48.3 billion for direct subsidies to schools, R42.9 billion for infrastructure, and R12.7 billion for learner and teacher support materials.
- R114.8 billion on subsidised public housing.
- R94.4 billion on water resources and bulk infrastructure.
- R189 billion on transfers of the local government equitable share to provide basic services to poor households.
- R142.6 billion to support affordable public transport.
- R606 billion on health, with R59.5 billion on the HIV/AIDS conditional grant.

TAX PROPOSALS

In 2017/18:

- A new top marginal income tax bracket for individuals combined with partial relief for bracket creep will raise an additional R16.5 billion.
- R6.8 billion will be collected through a higher dividend withholding tax rate. Increases in fuel taxes and alcohol and tobacco excise duties will together increase revenue by R5.1 billion.
- As soon as the necessary legislation is approved, government will implement a tax on sugary beverages.
- A revised Carbon Tax Bill will be published for public consultation and tabling in Parliament by mid-2017.

2017 BUDGET

KEY BUDGET STATISTICS

A full set of 2017 Budget data can be found in the statistical tables at the back of the *Budget Review*. The data on this page may differ from the statistical annexure due to classification, definition and rounding.

BUDGET REVENUE 2017/18

R billion	
Tax revenue	1 265.5
<i>of which:</i>	
Personal income tax	482.1
Corporate income tax	218.7
Value-added tax	312.8
Taxes on international trade and transactions	53.6
Non-tax revenue	32.9
less: SACU payments	-56.0
Main budget revenue	1 242.4
Provinces, social security funds and public entities	171.7
Consolidated budget revenue	1 414.1
As percentage of GDP	
Tax revenue	26.7%
Main budget revenue	26.2%

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2013	2014	2015	2016	2017	2018	2019
	Actual			Estimate	Forecast		
Household consumption	2.0	0.7	1.7	0.9	1.3	2.0	2.3
Gross fixed capital formation	7.0	1.5	2.5	-3.6	1.5	1.6	2.8
Exports	3.6	3.3	4.1	-1.2	1.9	4.9	5.0
Imports	5.0	-0.5	5.3	-3.6	2.0	4.3	4.9
Real GDP growth	2.3	1.6	1.3	0.5	1.3	2.0	2.2
CPI inflation	5.8	6.1	4.6	6.4	6.4	5.7	5.6
Current account balance (% of GDP)	-5.9	-5.3	-4.3	-4.0	-3.9	-3.7	-3.8

CONSOLIDATED FISCAL FRAMEWORK

R billion/ % of GDP	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Outcome			Estimate	Medium-term estimates		
Revenue	1 008.0	1 098.9	1 222.0	1 297.3	1 414.1	1 535.2	1 668.5
	27.8%	28.4%	29.9%	29.4%	29.8%	29.9%	30.1%
Expenditure	1 143.4	1 233.5	1 364.2	1 445.2	1 563.1	1 677.1	1 814.3
	31.5%	31.9%	33.4%	32.8%	33.0%	32.7%	32.7%
Budget balance	-135.4	-134.6	-142.2	-147.9	-149.0	-141.9	-145.8
	-3.7%	-3.5%	-3.5%	-3.4%	-3.1%	-2.8%	-2.6%

DIVISION OF NATIONALLY RAISED REVENUE

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Outcome			Estimate	Medium-term estimates		
Division of available funds							
National	453.4	490.0	546.1	557.5	590.2	631.4	681.6
Provinces	410.6	439.5	471.4	500.4	538.2	578.6	621.0
Local government	82.6	87.6	98.3	103.3	112.5	121.5	132.3
Non-interest allocations	946.6	1 017.1	1 115.8	1 161.1	1 240.9	1 331.5	1 434.9
Percentage shares							
National	47.9%	48.2%	48.9%	48.0%	47.6%	47.4%	47.5%
Provinces	43.4%	43.2%	42.2%	43.1%	43.4%	43.5%	43.3%
Local government	8.7%	8.6%	8.8%	8.9%	9.1%	9.1%	9.2%

CONSOLIDATED SPENDING 2017/18

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	178.2	21.3	14.0	18.9	0.0	232.6
Post-school education and training	9.9	2.1	4.4	61.2	0.0	77.5
Health	117.3	53.0	11.2	5.9	0.0	187.5
Social protection	12.3	7.6	1.0	159.1		180.0
Employment, labour affairs and social security funds	6.3	10.0	1.1	58.2	0.3	75.9
Industrial development and trade	8.8	3.5	7.1	9.5	0.0	28.9
Science, technology, innovation and the environment	7.0	5.2	2.2	6.3	0.0	20.6
Economic infrastructure and network regulation	15.6	32.5	34.0	1.0	6.5	89.5
Defence and state security	27.8	12.0	2.0	12.2	0.0	54.0
Law courts and prisons	30.1	11.0	2.3	0.3	0.0	43.8
Police services	70.4	18.4	3.9	1.1	0.0	93.8
Home affairs	4.0	2.4	0.6	0.1	0.0	7.2
Human settlements and municipal infrastructure	16.9	12.3	80.5	85.8	0.0	195.8
Agriculture, rural development and land reform	11.9	6.7	4.3	3.6	0.0	26.5
Arts, sports, recreation and culture	3.8	3.2	1.3	2.1	0.0	10.4
General public services	30.2	20.4	3.6	11.1	0.1	70.7
Debt-service costs					162.4	162.4
Contingency reserve						6.0
Total	550.4	221.7	173.5	436.7	169.3	1 563.1

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

BUDGET 2017/18 EXPENDITURE

ISSUED BY: National Treasury
Tel: (012) 315 5757
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National Treasury
REPUBLIC OF SOUTH AFRICA

CONSOLIDATED GOVERNMENT EXPENDITURE

R1.56 TRILLION



R884 BILLION

SOCIAL SERVICES



ECONOMIC AFFAIRS & AGRICULTURE R241.6bn

Economic infrastructure and network regulation	R89.5bn
Employment, labour affairs and social security funds	R75.9bn
Industrial development and trade	R28.9bn
Agriculture, rural development and land reform	R26.5bn
Science, technology, innovation and the environment	R20.6bn



DEFENCE & PUBLIC SAFETY R198.7bn

Police services	R93.8bn
Defence and state security	R54.0bn
Law courts and prisons	R43.8bn
Home affairs	R7.2bn



GENERAL ADMIN R70.7bn

General public administration and fiscal affairs	R43.9bn
Executive and legislative organs	R14.3bn
External affairs and foreign aid	R12.4bn



DEBT-SERVICE COSTS R162.4bn



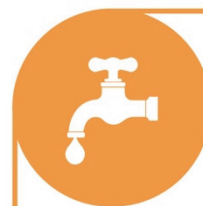
EDUCATION R320.5bn

Basic education	R216.7bn
University subsidies	R31.6bn
Skills development levy institutions	R21.1bn
Education administration	R15.8bn
National Student Financial Aid Scheme	R15.3bn
Technical and vocational education and training	R7.4bn



HEALTH R187.5bn

District health services	R83.6bn
Central hospital services	R35.9bn
Provincial hospital services	R32.3bn
Other health services	R25.8bn
Facilities management and maintenance	R9.9bn



LOCAL DEVELOPMENT AND INFRASTRUCTURE R195.8bn

Municipal equitable share and infrastructure grant	R72.9bn
Human settlements, water and electrification programmes	R52.8bn
Public transport	R44.1bn
Other human settlements and municipal infrastructure	R26.0bn



SOCIAL PROTECTION R180.0bn

Old-age grant	R64.5bn
Child-support grant	R56.3bn
Disability grant	R21.2bn
Provincial social development	R19.2bn
Other grants	R10.7bn
Policy oversight and grant administration	R8.3bn

Foreword

In economic and fiscal terms, South Africa has reached a crossroads. The good news is that the domestic economic slowdown appears to have bottomed out. After growing by only 0.5 per cent in 2016, the economy is projected to grow by 1.3 per cent in 2017 and 2 per cent in 2018.

We recognise that this level of growth is not sufficient to tackle poverty and unemployment. But with decisive action, executed with diligence and urgency, South Africa can speed the pace of economic growth and accelerate transformation. Growth and transformation go hand in hand. Transformation must enable black South Africans to fully share in expanded job and wealth creation, while boosting incomes for all citizens.

Yet we live in turbulent times. The global outlook is clouded by uncertainty about the policy trajectory of some of the world's largest economies and the consequences for world trade. Mounting pressures on the global trading system pose a serious risk to small, open economies such as ours. Moreover, we have to contend with the consequences of a R30.4 billion shortfall in revenue collection in 2016/17 – the largest underperformance relative to budget estimates since 2009/10.

The 2017 Budget reflects a balance between maintaining our spending commitments, particularly in higher education, health and social protection, and ensuring the long-term health of the public finances. We will safeguard expenditure that protects poor households. At the same time, we are carrying out a measured consolidation to narrow the budget deficit and contain the growth of public debt. To ensure that we can balance these objectives, government proposes to reduce spending ceilings by a total of R26 billion over the next two years. And we will need to raise an additional R28 billion in tax revenues.

There are substantial reductions in the budget baselines of national, provincial and local government. This requires departments and agencies responsible for deciding how money is spent to do so with greater rigour and care. Determined and thoughtful planning will ensure that government gets good value for the money it spends, and protects the poor and vulnerable.

The revenue proposals reinforce the progressive nature of the tax system, with most of the additional monies raised coming from the upper end of the income spectrum. The Budget proposes a new top personal income tax bracket of 45 per cent for taxable incomes above R1.5 million per year. The dividend withholding tax will be increased from 15 per cent to 20 per cent.

Government is constantly challenged by how to use its investments to promote economic growth, deepen transformation and revitalise private-sector investment. We will continue to partner with the private sector to build infrastructure, create jobs and develop skills. However, the balance sheets of several state entities with extensive responsibilities for infrastructure are now stretched to their limits, with government guarantees to them totalling R477.7 billion or 11.5 per cent of GDP. Government is implementing several reforms to stabilise and strengthen these entities.

I would like to thank Cabinet, Minister Gordhan, Deputy Minister Jonas, Parliament's finance portfolio committee and the Ministers' Committee on the Budget for their guidance. My colleagues throughout government deserve praise for their conscientiousness in a difficult budgeting environment. Finally, I would like to thank my hard-working colleagues in the National Treasury, who are resolute in their commitment to the constitutional obligations of this department – and to the people of South Africa.



Lungisa Fuzile
Director-General: National Treasury

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Two annexures are available on the National Treasury website (www.treasury.gov.za):

- W1** Explanatory memorandum to the division of revenue
- W2** Structure of the government accounts

