The Budget Review is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

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ECONOMIC OUTLOOK

- Real GDP growth in 2019 is expected to reach 1.5 per cent, improving moderately to 2.1 per cent in 2021.
- Over the period, improvements in business and consumer confidence, and more effective public infrastructure spending, will be partially offset by slower global growth.
- Government’s efforts to reform state-owned companies and the launch of the infrastructure fund are expected to increase growth and investment in the years ahead.
- Reforms to relieve policy uncertainty and blockages have begun to yield results that will support investment in mining, telecommunications and tourism.
- Improved state capacity and comprehensive structural reforms are needed for higher and more inclusive growth.

BUDGET FRAMEWORK

- Over the medium term, spending reductions amount to R50.3 billion, 54 per cent of which comes from compensation budget adjustments.
- Provisional allocations of R75.3 billion are budgeted over the 2019 medium-term expenditure framework (MTEF) period, mainly for Eskom’s reconfiguration plan.
- Since the 2018 Medium Term Budget Policy Statement the contingency reserve has been increased by R6 billion in 2019/20 to respond to requests for fiscal support from smaller state-owned companies. Additional support will be financed by selling non-core assets.
- The consolidated budget deficit is projected to narrow from 4.5 per cent of GDP in 2019/20 to 4 per cent in 2021/22.
- Gross debt is expected to stabilise at 60.2 per cent of GDP in 2023/24.
- Real growth in consolidated non-interest expenditure will average 2 per cent over the next three years.

SPENDING PROGRAMMES

- Total public spending over the MTEF period is expected to be R5.9 trillion.
- The bulk of spending is allocated to learning and culture, social development, health and community development.
- The expenditure ceiling is increased by R16 billion over the next three years, mainly due to provisional allocations for reconfiguring Eskom, which amount to R69 billion.
- Compensation of employees remains the largest category of spending, accounting for an average of 34.4 per cent of consolidated expenditure over the MTEF period. Measures are introduced to realise a R27 billion reduction in compensation.
- Funds amounting to R33.4 billion have been reprioritised over the MTEF period, mainly for service delivery and infrastructure.

TAX PROPOSALS

- No changes will be made to personal income tax brackets, while the tax-free threshold increases from R78 150 to R79 000. By not adjusting the income tax brackets for inflation, government will raise R12.8 billion.
- The carbon tax will be implemented on 1 June 2019.
- Below-inflation increases in fuel taxes together with the carbon tax on fuel will raise R1.3 billion.
- Increases in alcohol and tobacco excise duties will raise revenue of R1 billion.
- White bread flour, cake flour and sanitary pads will be zero-rated for VAT purposes from 1 April 2019.
- The eligible income bands for the employment tax incentive will be increased from 1 March 2019.
### MACROECONOMIC PERFORMANCE AND PROJECTIONS

<table>
<thead>
<tr>
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<tr>
<td>Household consumption</td>
<td>1.8</td>
<td>0.7</td>
<td>2.2</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Gross fixed-capital formation</td>
<td>3.4</td>
<td>-1.1</td>
<td>0.4</td>
<td>-0.2</td>
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<td>Exports</td>
<td>2.8</td>
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<td>2.0</td>
<td>2.3</td>
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<tr>
<td>Imports</td>
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<td>-3.8</td>
<td>1.6</td>
<td>3.8</td>
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<td>Real GDP growth</td>
<td>1.3</td>
<td>0.6</td>
<td>1.3</td>
<td>0.7</td>
<td>1.5</td>
<td>1.7</td>
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<td>CPI inflation</td>
<td>4.6</td>
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<td>5.3</td>
<td>4.7</td>
<td>5.2</td>
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<td>Current account balance (% of GDP)</td>
<td>-4.6</td>
<td>-2.8</td>
<td>-2.4</td>
<td>-3.5</td>
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### CONSOLIDATED FISCAL FRAMEWORK

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<td>Revenue</td>
<td>1 215.3</td>
<td>1 285.9</td>
<td>1 353.5</td>
<td>1 455.2</td>
<td>1 583.8</td>
<td>1 694.6</td>
<td>1 836.6</td>
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<td>Expenditure</td>
<td>-1 366.3</td>
<td>-1 443.0</td>
<td>-1 543.8</td>
<td>-1 665.4</td>
<td>-1 826.6</td>
<td>-1 948.6</td>
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<td>Budget balance</td>
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<td>-157.0</td>
<td>-190.3</td>
<td>-210.2</td>
<td>-242.7</td>
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<td>Gross domestic product</td>
<td>5 059.1</td>
<td>5 413.8</td>
<td>5 812.4</td>
<td>5 249.1</td>
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### DIVISION OF NATIONALLY RAISED REVENUE

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<td>National departments</td>
<td>546.1</td>
<td>555.7</td>
<td>592.7</td>
<td>638.2</td>
<td>684.7</td>
<td>731.3</td>
<td>777.7</td>
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<td>Provinces</td>
<td>471.4</td>
<td>500.4</td>
<td>538.6</td>
<td>572.2</td>
<td>612.3</td>
<td>657.2</td>
<td>701.0</td>
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<td>Local government</td>
<td>98.3</td>
<td>102.9</td>
<td>111.1</td>
<td>117.3</td>
<td>127.3</td>
<td>137.9</td>
<td>149.5</td>
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<tr>
<td>Non-interest allocation</td>
<td>1 115.8</td>
<td>1 159.0</td>
<td>1 242.3</td>
<td>1 327.6</td>
<td>1 443.5</td>
<td>1 539.5</td>
<td>1 647.1</td>
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### PERCENTAGE SHARES

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<tr>
<td>Local government</td>
<td>48.9%</td>
<td>48.0%</td>
<td>47.7%</td>
<td>48.1%</td>
<td>48.1%</td>
<td>48.0%</td>
<td>47.8%</td>
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<tr>
<td>Provinces</td>
<td>42.2%</td>
<td>43.2%</td>
<td>43.3%</td>
<td>43.1%</td>
<td>43.0%</td>
<td>43.0%</td>
<td>43.1%</td>
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### CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION 2019/20

<table>
<thead>
<tr>
<th>R billion</th>
<th>Compensation of employees</th>
<th>Goods and services</th>
<th>Capital spending and transfers</th>
<th>Current transfers and subsidies</th>
<th>Interest payments</th>
<th>Total</th>
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<tr>
<td>Basic education</td>
<td>204.4</td>
<td>26.2</td>
<td>12.0</td>
<td>19.7</td>
<td>0.0</td>
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<td>Post-school education and training</td>
<td>11.5</td>
<td>2.2</td>
<td>6.5</td>
<td>92.4</td>
<td>0.0</td>
<td>112.7</td>
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<tr>
<td>Arts, culture, sport and recreation</td>
<td>4.1</td>
<td>3.5</td>
<td>1.5</td>
<td>2.3</td>
<td>0.0</td>
<td>11.3</td>
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<tr>
<td>Health</td>
<td>140.8</td>
<td>64.7</td>
<td>11.1</td>
<td>6.1</td>
<td>0.0</td>
<td>222.6</td>
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<td>Social protection</td>
<td>14.7</td>
<td>8.3</td>
<td>0.8</td>
<td>183.2</td>
<td>0.0</td>
<td>207.1</td>
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<td>Social security funds</td>
<td>4.6</td>
<td>4.1</td>
<td>1.2</td>
<td>61.2</td>
<td>0.3</td>
<td>71.3</td>
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<td>Community development</td>
<td>17.3</td>
<td>12.3</td>
<td>7.8</td>
<td>100.1</td>
<td>0.0</td>
<td>205.5</td>
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<td>Industrialisation and exports</td>
<td>10.3</td>
<td>3.6</td>
<td>8.8</td>
<td>14.8</td>
<td>0.0</td>
<td>37.5</td>
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<td>Agriculture and rural development</td>
<td>13.0</td>
<td>8.8</td>
<td>6.4</td>
<td>2.5</td>
<td>0.0</td>
<td>30.7</td>
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<td>Job creation and labour affairs</td>
<td>3.5</td>
<td>10.5</td>
<td>0.8</td>
<td>8.4</td>
<td>0.0</td>
<td>23.2</td>
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<tr>
<td>Economic regulation and infrastructure</td>
<td>21.9</td>
<td>35.6</td>
<td>33.6</td>
<td>3.5</td>
<td>6.6</td>
<td>101.3</td>
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<tr>
<td>Innovation, science and technology</td>
<td>4.8</td>
<td>3.7</td>
<td>1.5</td>
<td>6.6</td>
<td>0.0</td>
<td>16.5</td>
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<tr>
<td>Defence and state security</td>
<td>26.4</td>
<td>12.0</td>
<td>1.3</td>
<td>10.3</td>
<td>0.0</td>
<td>50.0</td>
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<td>Police services</td>
<td>79.8</td>
<td>19.4</td>
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<td>1.3</td>
<td>0.0</td>
<td>104.2</td>
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<td>Law courts and prisons</td>
<td>33.9</td>
<td>12.0</td>
<td>2.0</td>
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<td>Home affairs</td>
<td>4.7</td>
<td>2.9</td>
<td>0.7</td>
<td>0.2</td>
<td>0.0</td>
<td>8.4</td>
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<tr>
<td>Executive and legislative organs</td>
<td>7.9</td>
<td>5.3</td>
<td>0.3</td>
<td>2.6</td>
<td>0.0</td>
<td>16.2</td>
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<td>Public administration and fiscal affairs</td>
<td>20.8</td>
<td>13.6</td>
<td>1.8</td>
<td>5.4</td>
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<td>41.6</td>
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<tr>
<td>External affairs</td>
<td>2.9</td>
<td>2.3</td>
<td>0.5</td>
<td>1.8</td>
<td>0.1</td>
<td>7.6</td>
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<tr>
<td>Payments for financial assets</td>
<td>29.8</td>
<td></td>
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<tr>
<td>Debt-service costs</td>
<td>202.2</td>
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<tr>
<td>Contingency reserve</td>
<td>13.0</td>
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<td></td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>627.1</strong></td>
<td><strong>251.0</strong></td>
<td><strong>173.4</strong></td>
<td><strong>522.7</strong></td>
<td><strong>209.4</strong></td>
<td><strong>1 826.6</strong></td>
</tr>
</tbody>
</table>

**Note:** Payments for financial assets are not shown in the table, but are included in the row totals.
R1.83 TRILLION

CONSOLIDATED
GOUVERNMENT
EXPENDITURE

R209.2 bn

R202.2 bn
DEBT-SERVICE COSTS

R65.3 bn
GENERAL PUBLIC SERVICES

R211.0 bn
PEACE AND SECURITY

R1.10 TRILLION
SOCIAL SERVICES

R386.4 bn
LEARNING AND CULTURE

R222.6 bn
HEALTH

R208.5 bn
COMMUNITY DEVELOPMENT

R278.4 bn
SOCIAL DEVELOPMENT

Basic education
R250.4 bn

University transfers
R37.0 bn

National Student Financial Aid Scheme
R33.3 bn

Skills development levy institutions
R21.7 bn

Education administration
R17.6 bn

Technical & vocational education and training
R12.7 bn

District health services
R98.2 bn

Central hospital services
R43.1 bn

Provincial hospital services
R36.7 bn

Other health services
R35.6 bn

Facilities management and maintenance
R8.8 bn

Municipal equitable share
R69.0 bn

Human settlements, water and electrification programmes
R56.4 bn

Public transport
R43.6 bn

Other human settlements and municipal infrastructure
R39.6 bn

Old-age grant
R77.0 bn

Social security funds
R71.3 bn

Child-support grant
R65.0 bn

Other grants
R33.2 bn

Provincial social development
R22.8 bn

Policy oversight and grant administration
R9.6 bn

Economic regulation and infrastructure
R101.3 bn

Industrialisation and exports
R37.5 bn

Agriculture and rural development
R30.7 bn

Job creation and labour affairs
R23.2 bn

Innovation, science and technology
R16.5 bn

Police services
R104.2 bn

Defence and state security
R50.0 bn

Law courts and prisons
R48.4 bn

Home affairs
R8.4 bn

Public administration and fiscal affairs
R41.6 bn

Executive and legislative organs
R16.2 bn

External affairs
R7.6 bn
Foreword

The 2019 Budget addresses immediate risks to the economy and the public finances, and outlines measures to build the capacity of the state and renew economic growth.

South Africa continues to confront a challenging economic environment in which global growth is slowing and trade tensions are mounting. The medium-term economic outlook has been revised down and tax revenues have significantly underperformed. In recent months it has become clear that Eskom requires urgent financial support and operational reforms.

To tackle the Eskom risk, government is restructuring the electricity sector. Relative to the 2018 Medium Term Budget Policy Statement (MTBPS), departments’ budget baselines have been reduced by R50.3 billion, with roughly half of this amount relating to compensation. These reductions are offset by provisional allocations of R75.3 billion over the next three years, mainly for Eskom’s reconfiguration. As a result, the expenditure ceiling is increased by R16 billion over the next three years.

Government remains committed to managing the budget deficit and containing public debt at sustainable levels. Changes to the medium-term expenditure framework result in the main budget deficit widening to 4.7 per cent of GDP in 2019/20 and then narrowing to 4.3 per cent of GDP by 2021/22. As a percentage of GDP, gross loan debt increases over the next three years and stabilises at 60.2 per cent in 2023/24, which is marginally above the 2018 MTBPS estimates.

Economic growth is projected to improve moderately from 1.5 per cent in 2019 to 2.1 per cent in 2021. In the longer term, the country requires higher and more inclusive growth to address unemployment and poverty. Government has begun implementing growth-enhancing reforms in line with the President’s economic stimulus and recovery plan. Additional steps to strengthen policy certainty, improve the effectiveness of infrastructure spending and rebuild public institutions will encourage private-sector investment and bolster confidence.

Despite new spending pressures and reductions, the Budget remains strongly redistributive. About 68 per cent of consolidated expenditure goes towards social commitments, including education, health, social grants and basic services. These services and transfers, provided by all spheres of government, enable South Africans to access opportunities and live with dignity.

Addressing the challenges we face, and accelerating reforms to encourage economic growth, will require difficult adjustments. In the past year, signs of a durable social compact between government, business and labour have emerged. This compact will be essential to addressing our challenges in a fair and fiscally responsible manner.

I would like to thank Cabinet, the Minister and Deputy Minister of Finance, Parliament’s Portfolio Committee on Finance, the Standing Committee on Appropriations, the Technical Committee on Finance, the Ministers’ Committee on the Budget, the Budget Council and my colleagues across government for their contributions to the Budget. I appreciate the hard work of the National Treasury team in preparing this Budget in line with our constitutional responsibilities.

Dondo Mogajane
Director-General: National Treasury
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Three 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
W3  Fiscal support for electricity market reform