3

Fiscal policy

Fiscal policy supports sustainable economic and social development through an appropriate balance between government expenditure, taxation and borrowing, while remaining sensitive to potential internal and external economic risks. Public infrastructure financing and development, broader access to the economy, and accelerating job creation and poverty reduction are key themes of the medium-term expenditure framework (MTEF).

The 2006 Medium Term Budget Policy Statement reinforces government's development agenda by providing for strong real growth in spending on public services, averaging 7 per cent a year in real terms. The MTEF proposes additional resources for public infrastructure and service delivery, including the 2010 FIFA World Cup, improvements to the criminal justice system, continued investment in the built environment and other transport and energy needs.

Against the backdrop of buoyant revenue and declining debt service costs, a budget surplus of 0,5 per cent of GDP is projected for 2007/08. As the capacity to spend on infrastructure improves, a moderate budget deficit of a similar magnitude is anticipated by the end of the MTEF period.

Overview

Fiscal stance produces broadly balanced revenue and expenditure growth

Economic growth will strengthen over the medium term. The fiscal stance will result in broadly balanced revenue and expenditure growth, while infrastructure and social services continue to be prioritised in spending plans. Improved government savings and enhanced industrial capacity will moderate external risks and strengthen growth.

Continued real growth in expenditure enables government to improve and expand its social and economic programmes. Substantial allocations are provided for investment in infrastructure that will contribute to increased capacity in support of long-term sustainable growth.

Robust economic conditions have resulted in higher-than-forecast revenue collections and a continued decline in debt service costs. This enables government to sustain the expansion in expenditure over the medium term.

Key features of the 2007 MTEF include:

- Non-interest expenditure grows by 7,0 per cent a year in real terms, with additional spending of R80 billion over the 2006 Budget forward estimates.
- Continued revenue buoyancy, supported by strong growth in domestic demand, high commodity prices and a property market boom.
- An improvement in the main budget balance from a deficit of 0,4 per cent of GDP in 2006/07 to an anticipated surplus of 0,5 per cent in 2007/08.
- A continued decline in debt service costs as a share of GDP from 3,0 per cent in 2006/07 to 2,2 per cent in 2009/10.
- Strong real growth in capital allocations in line with government's commitment to support economic growth and deliver a successful 2010 FIFA World Cup.

Improved budget balance complements monetary policy

The improved budget balance reflects a prolonged surge in revenue under favourable economic conditions, together with the lagged effects of deficit reduction on debt service costs. Together with the present moderate tightening of monetary policy, it provides a strong platform to increase investment going forward and to respond to adverse economic conditions, should they materialise.

Fiscal policy: goals, trends and targets

Key fiscal indicators are summarised in Table 3.1. These figures outline South Africa's fiscal performance since 2001 and indicate medium-term projections.

Public sector capital formation increases strongly

In support of accelerated and shared growth, public sector capital formation is expected to continue increasing strongly over the three-year spending period. General government investment is driven by the need for improved public transport, sustainable housing, and better education and health services. South Africa's commitments to the 2010 FIFA World Cup also require considerable investment in stadiums and supporting infrastructure that will continue to benefit future generations.

Capital investment programmes of the non-financial public enterprises continue to gather momentum. These investments, mainly in electricity generation, water resources and transport infrastructure, will complement private-sector investment, enhancing economic growth potential.

Table 3.1 Fiscal trends and projections

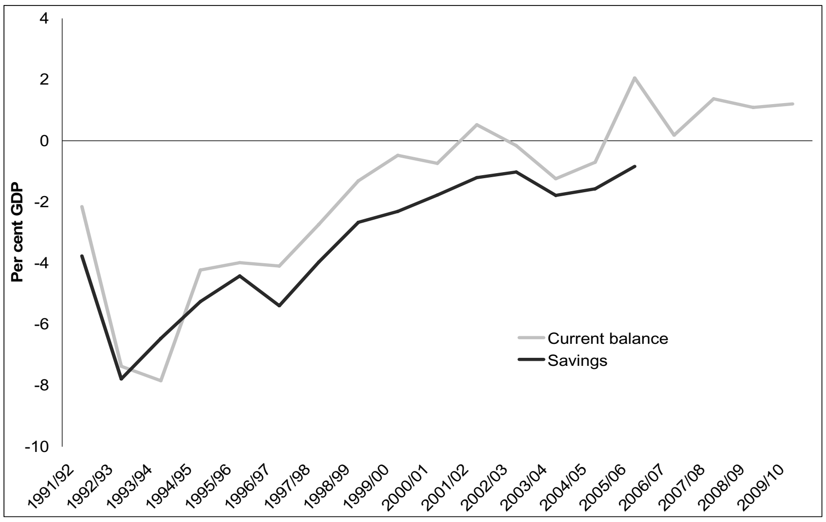
Calendar year	2001-2005		2005-2009
Average annual real growth			
Gross fixed capital formation			
General government[1]	6,5%		9,8%
Public corporations	14,2%		15,0%
Government consumption expenditure			
Wages	1,8%		3,0%
Non-wage	12,3%		6,6%
Fiscal year	**2000/01**	**2005/06**	**2009/10**
Percentage of GDP			
Interest on public debt	5,2%	3,8%	3,0%
General government savings	-1,2%	-0,8%	0,3%
Public sector borrowing requirement	0,5%	-0,7%	1,8%
General government tax revenue	25,6%	28,6%	28,1%

1. General government refers to the accounts of national government, provincial government and local government, the social security funds, extra-budgetary institutions, adjusted to net out flows between government institutions.

Increased staffing in health and criminal justice

Efforts to improve service delivery result in general government consumption expenditure continuing to grow in real terms. Increased staffing levels in health and the criminal justice sector, and related initiatives to improve the capacity of government departments and agencies, result in the wage bill growing by about 3,0 per cent a year in real terms over the period ahead.

Figure 3.1 Government savings, 1991/92 – 2009/10



Government savings continue to improve

Government savings have continued to improve since the early 1990s. The current balance, as indicated in Figure 3.1, shows revenue less current expenditure by consolidated government. Due to increases in capital expenditure relative to current expenditure, and the strong revenue performance, the current balance is now in surplus, contributing directly to the recovery in government savings. Continued strong growth in capital budgets and slower growth in social security transfers due to improved administrative controls will support this trend.

Revenue is expected to moderate as rate increases begin to curb spending

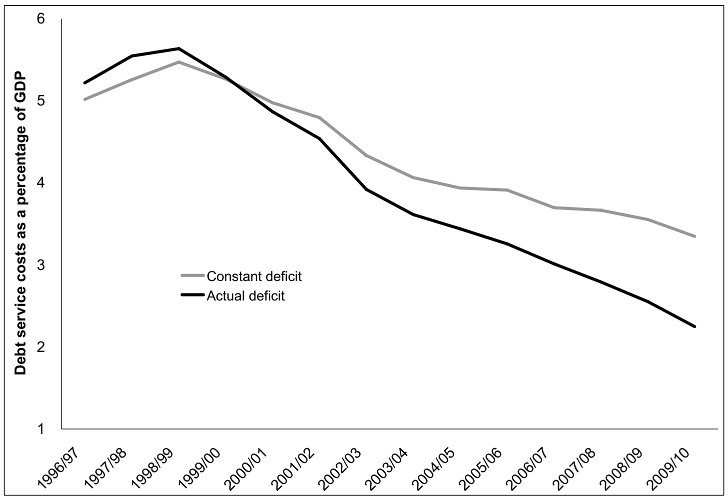
Despite a steady reduction in tax rates, increasing general government tax revenue since 2001/02 has been supported by strong growth in aggregate demand, fuelled by low interest rates, tax relief and relatively high commodity prices. The revenue trend is expected to moderate as interest rate increases begin to curb household spending on durable goods and commodity prices stabilise. A general government tax-to-GDP ratio of about 28 per cent is expected over the next four years.

Economic management and fiscal space

Budgeting is an inexact science, in which the momentum of commitments all too often overwhelms available information capabilities. Both tax and spending policies have long lead times, and imprudent choices can rapidly diminish government's room to manoeuvre. Sound fiscal policy is partly about constructing 'fiscal space' for future choices.

Sound macroeconomic and fiscal management has allowed government to expand expenditure programmes since 2001. Improved tax policy and administration has resulted in broadening of the tax base and a narrowing of the tax compliance gap, enabling government to raise revenue without having to raise tax rates. Fiscal policy often requires taking a long-term view. Steady reductions in the budget deficit since 1996 have contributed to a declining debt stock as a percentage of GDP, improved credit ratings, lower interest rates and falling debt service costs. In 1997, for every rand of revenue collected, 24 cents was spent on servicing state debt. By 2004, debt cost had fallen to 14 cents, and by 2009 it will be down to 8 cents. This has meant that fiscal space has become available for increased productive expenditure or government savings.

Debt service costs, 1996/97 – 2009/10



The graph illustrates how lower deficits have created fiscal space, which has supported the expansion of non-interest expenditure and improved government savings. The constant deficit to GDP line shows the likely trajectory of debt service costs if the deficit had been fixed at 3 per cent of GDP, while the actual deficit to GDP line shows the actual outcomes and current forecasts. Through sound fiscal management, government has managed to lower debt service costs by R10,2 billion in 2005/06 and an estimated saving of R25,6 billion by 2009/10. This translates to an accumulated saving of R102,6 billion over the period 1996/97 to 2009/10.

Outcomes of the 2005/06 main budget

The preliminary budget outcome for 2005/06, set out in Table 3.2, was in line with government's aims of accelerating spending on service delivery, with total expenditure rising by 13,1 per cent. As a result of the healthy economic performance, the main budget revenue outcome was higher than forecast. This combined with lower debt service costs, resulted in an improved budget balance.

Budget outcome in line with government's aims of accelerating spending on service delivery

Table 3.2 Main budget outcome, 2002/03 – 2005/06

R billion	2002/03	2003/04	2004/05	2005/06 2005 Budget estimate	2005/06 Preliminary outcome
Total revenue	**278,5**	**299,4**	**347,9**	**369,9**	**411,7**
Percentage of GDP	*23,2%*	*23,4%*	*24,5%*	*23,7%*	*26,3%*
Percentage increase	*12,2%*	*7,5%*	*16,2%*	*6,3%*	*18,4%*
Total expenditure	**291,5**	**328,7**	**368,5**	**417,8**	**416,7**
Percentage increase	*10,9%*	*12,8%*	*12,1%*	*13,4%*	*13,1%*
State debt cost	**46,8**	**46,3**	**48,9**	**53,1**	**50,9**
Percentage of GDP	*3,9%*	*3,6%*	*3,4%*	*3,4%*	*3,3%*
Budget balance[1]	**-13,0**	**-29,3**	**-20,7**	**-48,0**	**-5,0**
Percentage of GDP (-)	*-1,1%*	*-2,3%*	*-1,5%*	*-3,1%*	*-0,3%*

1. A positive number reflects a surplus and a negative number a deficit.

The main budget

The main budget is the largest part of the consolidated national budget. Taking into account changes provided for in the 2006 Adjustments Budget, the revised estimates for 2006/07 and the proposed MTEF framework are set out in Table 3.3.

Main budget revenue is again expected to outperform the budget estimate this year. Lower Southern African Customs Union (SACU) transfers also boost main budget revenue in 2007/08. Due to the lagged effect of the forecast moderation in domestic demand in 2007/08, growth in main budget revenue is expected to be less significant in 2008/09 and 2009/10.

Lower SACU revenues boost main budget revenue

The main budget framework allows for real average growth of 7,0 per cent a year in non-interest expenditure. Most of the additional resources are channelled towards preparation for the 2010 FIFA World Cup, improving the criminal justice system, stepping up investment in the built environment and enhancing capacity in the economy.

While non-interest expenditure continues to rise strongly, the healthy revenue performance results in the budget balance improving to a surplus of 0,5 per cent of GDP by 2007/08, before declining to a deficit of 0,4 per cent of GDP by the final year.

Budget balance improves to a surplus of 0,5 per cent of GDP in 2007/08

Contingency reserve allows for unforeseen adverse conditions

A contingency reserve is set aside for each of the next three years. The reserve allows for the possibility of unforeseen adverse economic conditions or natural occurrences that would otherwise put pressure on the budget framework.

Table 3.3 Main budget framework, 2005/06 – 2009/10

R billion	2005/06 Outcome	2006/07 Estimate	2007/08 Medium-term estimates	2008/09	2009/10
Total revenue	**411,7**	**466,4**	**543,0**	**586,4**	**633,5**
Percentage of GDP	*26,3%*	*26,7%*	*28,2%*	*27,7%*	*27,2%*
Budget balance[1]	**-5,0**	**-7,8**	**9,3**	**-3,8**	**-10,2**
Percentage of GDP	*-0,3%*	*-0,4%*	*0,5%*	*-0,2%*	*-0,4%*
Total expenditure	**416,7**	**474,2**	**533,7**	**590,2**	**643,7**
Percentage of GDP	*26,7%*	*27,2%*	*27,7%*	*27,8%*	*27,6%*
Debt service cost	50,9	52,6	53,8	54,1	52,4
Percentage of GDP	*3,3%*	*3,0%*	*2,8%*	*2,6%*	*2,2%*
Non-interest expenditure	365,8	421,6	479,9	536,1	591,3
Percentage of GDP	*23,4%*	*24,2%*	*24,9%*	*25,3%*	*25,4%*
real growth (non-interest expenditure)	*9,9%*	*9,7%*	*8,3%*	*7,1%*	*5,5%*
Contingency reserve	*–*	*–*	*2,2*	*6,0*	*10,0*
Gross domestic product	*1 562,8*	*1 745,8*	*1 928,3*	*2 119,9*	*2 330,5*

1. A positive number reflects a surplus and a negative number a deficit.

The consolidated national budget

The consolidated national budget consists of the finances of the main budget, the RDP Fund, international development assistance grants and the accounts of the social security funds.

Significant surpluses for Unemployment Insurance Fund and Compensation Funds

Due to significant positive balances on the Unemployment Insurance Fund (UIF) and Compensation Funds[1], the consolidated national budget surplus is higher than that of the main budget throughout the three-year period.

Both the UIF and Compensation Funds continue to run surpluses due to healthy revenue growth and a stable claims trend. These positive balances are forecast to continue over the medium term – supported by continued economic growth and related gains in employment – and offsetting the Road Accident Fund deficit. The consolidated budget balance shifts from a deficit of 0,2 per cent of GDP in 2006/07 to a surplus of 0,8 per cent in 2007/08.

[1] The Compensation Fund, under the Department of Labour, administers the Compensation for Occupational Injuries and Diseases Act (1993) as amended (1997). The Compensation Commissioner for Occupational Diseases, under the Department of Health, administers the Occupational Diseases in Mines and Works Act (1973).

Table 3.4 Consolidated national budget framework, 2005/06 – 2009/10

	2005/06	2006/07		2007/08	2008/09	2009/10
R billion	Outcome	Budget	Revised	Medium-term estimates		
National Revenue Fund (main budget)						
Revenue	**411,7**	**446,4**	**466,4**	**543,0**	**586,4**	**633,5**
Expenditure						
State debt cost	50,9	52,0	52,6	53,8	54,1	52,4
Percentage of GDP	*3,3%*	*3,0%*	*3,0%*	*2,8%*	*2,6%*	*2,2%*
Contingency reserve	–	2,5	–	2,2	6,0	10,0
Allocated expenditure[1]	365,8	418,2	421,6	477,7	530,1	581,3
Total expenditure	**416,7**	**472,7**	**474,2**	**533,7**	**590,2**	**643,7**
Percentage increase	*13,1%*	*13,4%*	*13,8%*	*12,9%*	*10,6%*	*9,1%*
Budget balance[2]	**-5,0**	**-26,4**	**-7,8**	**9,3**	**-3,8**	**-10,2**
Percentage of GDP	*-0,3%*	*-1,5%*	*-0,4%*	*0,5%*	*-0,2%*	*-0,4%*
RDP Fund and foreign technical co-operation						
Receipts and technical co-operation	1,6	1,6	1,6	1,6	1,6	1,6
Expenditure	1,3	1,4	1,4	1,4	1,4	1,4
Social security funds						
Revenue	19,7	19,3	19,1	20,6	22,5	24,5
Expenditure	12,2	14,3	14,9	15,6	17,4	19,7
Consolidated national budget[3]						
Revenue	**430,3**	**467,2**	**487,1**	**565,1**	**610,4**	**659,5**
Expenditure	**427,4**	**488,4**	**490,5**	**550,6**	**608,9**	**664,7**
Percentage of GDP	*27,3%*	*28,5%*	*28,1%*	*28,6%*	*28,7%*	*28,5%*
Percentage increase	*12,2%*	*13,3%*	*14,8%*	*12,8%*	*10,6%*	*9,2%*
Budget balance[2]	**2,9**	**-21,2**	**-3,4**	**14,5**	**1,5**	**-5,2**
Percentage of GDP	*0,2%*	*-1,2%*	*-0,2%*	*0,8%*	*0,1%*	*-0,2%*
Gross domestic product	*1 562,8*	*1 714,5*	*1 745,8*	*1 928,3*	*2 119,9*	*2 330,5*

1. Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.

2. A positive number reflects a surplus and a negative number a deficit.

3. Flows between funds are netted out.

The Road Accident Fund

The Road Accident Fund (RAF), funded out of a dedicated fuel levy on petrol and diesel sales, provides benefits to victims of road accidents wrongfully caused by third parties. Despite growth in revenue, the RAF has not been able to keep pace with the growing number of claims. Claims outstanding increased by 28 per cent to 443 399 during 2005/6 compared to the previous year. As a result, the contingent liability relating to the claims backlog has grown from about R15,4 billion in 2002/03 to an estimated R18,4 billion in 2005/06.

Additional claims have mounted along with the number of road accidents since 2002/03. At present, only 52 per cent of the RAF levy goes directly to accident victims, with the remainder going to legal and transaction costs arising from settlements. The RAF is implementing a turnaround strategy based on improving operational efficiency, reducing operational costs, and eliminating fraud and corruption. The RAF Amendment Act (2005) will reduce the fund’s future exposure, but the expected savings associated with general damages will only affect the fund’s financial liability between three and five years after the act is promulgated.

To ensure an equitable, affordable, and sustainable road accident compensation system, Cabinet approved a strategy for the restructuring of the RAF – as part of a wider reform of the social security system – for public consultation. The strategy proposes the introduction of a Road Accident Benefit Scheme as a no-fault system of compensation to ensure the progressive realisation of the right to health care and social security. Although the scheme will be more affordable, significant funding will be required to address outstanding claims liability and support restructuring once new legislation is in place.

Table 3.5 Social security funds[1], 2005/06 – 2009/10

	2005/06	2006/07		2007/08	2008/09	2009/10
R million	Preliminary outcome	Budget	Revised	Medium-term estimates		
Road Accident Fund						
Revenue	8 215	6 673	6 400	7 163	7 931	8 697
Expenditure	5 678	7 167	7 646	7 803	8 764	10 201
Budget balance[2]	2 537	-494	-1 246	-640	-833	-1 504
Compensation funds						
Revenue	3 658	4 265	4 388	4 264	4 544	4 853
Expenditure	2 858	3 062	3 183	3 175	3 362	3 560
Budget balance[2]	800	1 203	1 205	1 089	1 182	1 293
Unemployment Insurance Fund						
Revenue	7 853	8 336	8 336	9 140	9 996	10 945
Expenditure	3 647	4 060	4 060	4 614	5 244	5 960
Budget balance[2]	4 206	4 276	4 276	4 526	4 751	4 985
Total social security funds						
Revenue	19 726	19 274	19 124	20 567	22 471	24 495
Expenditure	12 183	14 288	14 889	15 592	17 370	19 721
Budget balance[2]	7 543	4 986	4 235	4 975	5 100	4 774

1. Social security numbers do not correspond exactly to SA Reserve Bank figures due to timing differences.

2. A positive number reflects a surplus and a negative number a deficit.

Public private partnerships

PPPs create opportunities for private investment in public infrastructure

Alongside capital budgets, which show healthy growth at all levels of government, public private partnerships (PPPs) are an additional mechanism to deliver public goods, services and infrastructure. PPPs create significant opportunities for private investment in public infrastructure, enhancing public service efficiency.

The PPP unit will sign agreements for six projects by the end of 2006/07

Agreements for six PPP projects will be finalised in 2006/07 and a further two in the first half of 2007/08 financial year. The six projects are the Gautrain rapid rail project, Settlers and Port Alfred hospitals in the Eastern Cape, a hospital renal unit in Polokwane, the Department of Education head office in Tshwane, the Lentegeur Rehabilitation hospital in the Western Cape and a pharmaceutical supply chain management project in the Eastern Cape.

These projects represent significant private investment in public infrastructure (R3,8 billion) and an opportunity to transfer operational risk over significant periods of time to private sector participants. Measured over the full concession periods of between 11 and 25 years, the projects include significant commitments to maintenance and operations systems that will ensure service standards are maintained and the assets remain in good condition.

Infrastructure expenditure: estimates and trends

The public sector infrastructure expenditure estimates include national, provincial and local government, non-financial public enterprises and extra-budgetary public entities, as well as private investment in PPPs. The table below summarises the consolidated infrastructure expenditure of the public sector, excluding machinery and equipment not related to infrastructure development, at all three levels of government. Only infrastructure expenditure is included, covering new construction, upgrading and maintenance on buildings and other fixed structures. Overall public sector infrastructure expenditure has increased at an annual average of 15,8 per cent between 2003/04 and 2006/07, while the R409,7 billion medium-term estimate represents an average annual growth rate of 14,2 per cent.

2007 MTEF infrastructure expenditure estimates

R million	2005/06	2006/07 Estimate	2007/08 Medium-term estimate	2008/09	2009/10
National departments [1,2]	5 178	5 636	6 386	7 075	8 189
Provincial departments [2]	22 741	27 414	34 554	40 340	42 910
Municipalities	21 084	22 238	25 537	30 870	32 637
Public private partnerships [3]	728	3 368	3 366	4 849	3 947
Extra-budgetary public entities	3 875	4 378	5 257	5 565	6 340
Non-financial public enterprises	26 424	38 322	44 681	50 324	56 929
Total	**80 030**	**101 356**	**119 781**	**139 023**	**150 952**
Percentage of GDP	*5,1%*	*5,8%*	*6,2%*	*6,6%*	*6,5%*
GDP	1 562 785	1 745 795	1 928 295	2 119 871	2 330 459

1. *Transfers between spheres have been netted out.*
2. *Includes maintenance of infrastructure assets.*
3. *Infrastructure expenditure on PPPs overseen by the Treasury PPP Unit, South African National Roads Agency, Department of Public Works and at municipal level.*

Additional funding over the next three years amounts to R28,0 billion, which further strengthens government infrastructure investment in electrification, roads, commuter rail, housing, bulk infrastructure and R&D. Proposed additional allocations include R12,1 billion for stadiums and related infrastructure in preparation for the 2010 FIFA World Cup.

Major funding proposals to economic infrastructure include additions to rail rolling stock and signaling equipment totaling R1,1 billion. These additional resources aim to provide further support to South Africa's commuter rail turnaround strategy. An additional R1,1 billion is set aside for roads infrastructure, while R1,0 billion is proposed for the national electrification programme. A further R2,7 billion is earmarked for integrated housing and human settlements to provide improved housing units.

Social infrastructure proposals include the hospital revitalisation programme, amounting to R1,0 billion over the three-year period. Further R4,2 billion is proposed for the provincial infrastructure grant, which funds school buildings, provincial roads, clinics and other infrastructure. The increase on the grant is mostly driven by the government's initiative to further support the expanded public works programme using labour-intensive methods on the maintenance of low-volume roads, stormwater drains and sidewalks. Bulk infrastructure is supported through allocation of R1,4 billion to the Department of Water Affairs and Forestry to fast-track delivery on water and sanitation projects.

Infrastructure development by public enterprises accounts for about 37,1 per cent of overall infrastructure estimates over the medium term. Revised nominal estimates over the next three years by both Eskom and Transnet are almost R108 billion combined. Major investments by these entities include power generation, the expansion of the rail freight network and the new multi-product pipeline.

Social infrastructure allocations are discussed at length in Chapter 5.

Further significant projects in the pipeline include the Department of Foreign Affairs head office in Tshwane, which with ancillary guest houses and conference facilities will require a R997 million investment by the private party, and the two gas turbine power generation plants to be installed at Coega in the Eastern Cape and in KwaZulu-Natal. These plants, costing R2,6 billion in total, are required to provide peaking capacity to the national grid. They will be the first major independent power producers in the country and are expected to come on line in 2009.

Spending estimates are expected to rise as more PPPs are approved

Table 3.6 shows the total value of 22 of the 50 projects under consideration for which comprehensive feasibility studies have been completed. Outer-year estimates are expected to rise as more projects are approved for PPP consideration. These numbers exclude national toll roads undertaken by the National Roads Agency.

Table 3.6 PPP project capital value by sector[1]

Sector	2007/08	2008/09	2009/10
R million	Medium-term estimates		
Health care	116	45	4
Transport	7 169	6 194	4 860
Other infrastructure	3	1 333	1 330
Serviced accommodation	641	2 050	942
Information technology	37	37	37
Total	**7 966**	**9 659**	**7 173**

1. Includes government capital contributions.

Public sector borrowing

Borrowing for capital purposes drives requirement

The public sector borrowing requirement, set out in Table 3.7, includes the consolidated general government deficit and the financing requirement of the non-financial public enterprises. The borrowing requirement presented here is driven by borrowing for capital purposes at all levels of the public sector.

In 2005/06, the public sector ran a surplus on a net basis due to the cash surpluses of the public corporations. As their borrowing programme steps up, these cash balances are likely to turn negative. However, the public sector borrowing requirement remains modest over the period ahead.

Extraordinary receipts in 2006/07 are estimated to increase by R1,1 billion

Extraordinary payments in 2006/07 reflect a partial payment of R3,8 billion in respect of government's Saambou Bank liability carried forward from 2005/06. Extraordinary receipts in 2006/07 are estimated to increase by R1,1 billion, mainly due to special dividends from Telkom. For each year of the MTEF, provision is made for R1,3 billion in premiums on loan issues and proceeds from the agricultural debt account.

Table 3.7 Public sector borrowing requirement, 2005/06 – 2009/10

R billion	2005/06 Outcome	2006/07 Budget	2006/07 Revised	2007/08	2008/09	2009/10
				Medium-term estimates		
Main budget balance[1]	**5,0**	**26,4**	**7,8**	**-9,3**	**3,8**	**10,2**
Extraordinary payments	4,6	–	3,8	0,4	–	–
Extraordinary receipts	-6,9	-1,7	-2,8	-1,3	-1,3	-1,3
Financing requirement	**2,7**	**24,7**	**8,8**	**-10,2**	**2,5**	**8,9**
Other government borrowing[2]	-2,1	3,8	4,3	6,6	7,4	8,2
General government borrowing	**0,6**	**28,5**	**13,1**	**-3,6**	**9,9**	**17,1**
Percentage of GDP	*0,0%*	*1,7%*	*0,8%*	*-0,2%*	*0,5%*	*0,7%*
Plus:						
Non-financial public enterprises	-12,3	12,0	7,9	13,8	20,9	23,8
Public sector borrowing requirement	**-11,7**	**40,5**	**21,0**	**10,2**	**30,8**	**40,9**
Percentage of GDP	*-0,7%*	*2,4%*	*1,2%*	*0,5%*	*1,5%*	*1,8%*

1. A negative number reflects a surplus and a positive number a deficit.

2. Social security funds, provinces, extra-budgetary institutions and local government.

Transnet and Eskom have taken steps to improve their balance sheets

Following the recent trend of increased capital expenditure by the non-financial public enterprises, it is expected that their investment requirements will accelerate, requiring increased access to capital markets. Both Transnet and Eskom have taken steps to improve their balance sheets to allow these entities to finance part of their capital programme from borrowings.

While the capital programme will have significant import content, it represents investment in productive capacity and contributes to strengthening the long-term growth and export potential of the economy.

Mainly due to the smaller main budget deficit, the public sector borrowing requirement over the next three years is expected to be lower than was projected in the 2006 Budget.

Debt trends

Net loan debt has fallen sharply since 2003/04

Table 3.8 reflects the net and gross debt of national government. Net loan debt has fallen sharply as a percent of GDP since 2003/04 from over 34,5 per cent to 28,3 per cent in 2006/07. Net debt is estimated to decrease to 22,0 per cent, reflecting both a significant saving to the fiscus and a widening of fiscal space. Foreign debt in 2006/07 rises as a share of GDP mainly due to the depreciation of the currency. However, both foreign and domestic debt decline over the forecast period as government continues to run strong primary surpluses.

Table 3.8 Total government debt, 2003/04 – 2009/10

As at 31 March	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R billion		**Outcome**		**Estimate**		**Medium-term estimates**	
Domestic debt	390,5	432,4	462,0	470,1	468,6	479,9	503,5
Foreign debt[1]	64,7	69,4	66,8	82,3	88,7	88,0	86,2
Gross loan debt	**455,2**	**501,8**	**528,8**	**552,4**	**557,3**	**567,9**	**589,7**
Less: National Revenue Fund bank balances	-12,7	-30,9	-58,2	-58,8	-62,8	-65,4	-77,8
Net loan debt[2]	**442,5**	**470,9**	**470,6**	**493,6**	**494,5**	**502,5**	**511,9**
As percentage of GDP :							
Net loan debt	*34,5*	*33,2*	*30,1*	*28,3*	*25,6*	*23,7*	*22,0*
Foreign debt	*5,0*	*4,9*	*4,3*	*4,7*	*4,6*	*4,2*	*3,7*
As percentage of gross loan debt:							
Foreign debt	*14,2*	*13,8*	*12,6*	*14,9*	*15,9*	*15,5*	*14,6*

1. Forward estimates are based on National Treasury's projections of exchange rates.

2. Net loan debt is calculated with due account of the bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and the tax and loans accounts with commercial banks).