3

Fiscal policy

Overview

Over the past decade, government has advanced a broad array of social and economic programmes as declining debt-service costs, healthy levels of tax revenue and sound policy choices supported significant increases in public expenditure. The proposed budget of R1.1 trillion in 2012/13 maintains the state's contribution to growth and social development, while taking steps to ensure fiscal sustainability.

Budget supports growth and social development, while ensuring fiscal sustainability

- In line with the countercyclical fiscal stance, the budget deficit remains substantial at 4.6 per cent of GDP in 2012/13, but narrows to 3 per cent in the outer year as economic activity accelerates.
- Over the medium term, slower growth in public spending, combined with rising revenue, will strengthen the sustainability of the fiscus. The stabilisation of public debt will arrest the growth of debt-service costs.
- Government will begin to shift the composition of spending from consumption towards capital investment. Moderating growth in the public-sector wage bill, and stabilising the growth in interest payments, will allow more funds to be spent on infrastructure and social spending.

Broadening South Africa's social and economic development in the decades to come requires a sustainable fiscal framework. Later this year, the National Treasury will publish a report on the long-term dynamics that will inform fiscal choices beyond the three-year period.

National Treasury to publish a report on long-term fiscal trends during 2012

Features of the fiscal outlook

During a period of global uncertainty, the 2012 Budget provides continued support for growth, investment and job creation, and maintains the value of the social wage. Key features of the fiscal outlook include:

- Real growth in non-interest expenditure averaging 2.6 per cent over the medium term, bringing spending in line with long-term revenue trends.
- Additional allocations of R55.9 billion over the next three years, including R9.5 billion for an economic support package.
- Tax revenue levels stabilising at about one-quarter of GDP.
- A reduction in the budget deficit from 4.8 per cent in 2011/12 to 3 per cent in 2014/15.
- A shift from consumption to capital spending so that, from 2014/15, new borrowing will support productive investment.

Fiscal position consolidates in line with improved economic performance

The fiscal position will consolidate in line with improved economic performance and rising revenue over the medium term. As the economy grows, government will build fiscal space to respond to future crises.

Fiscal trends and goals

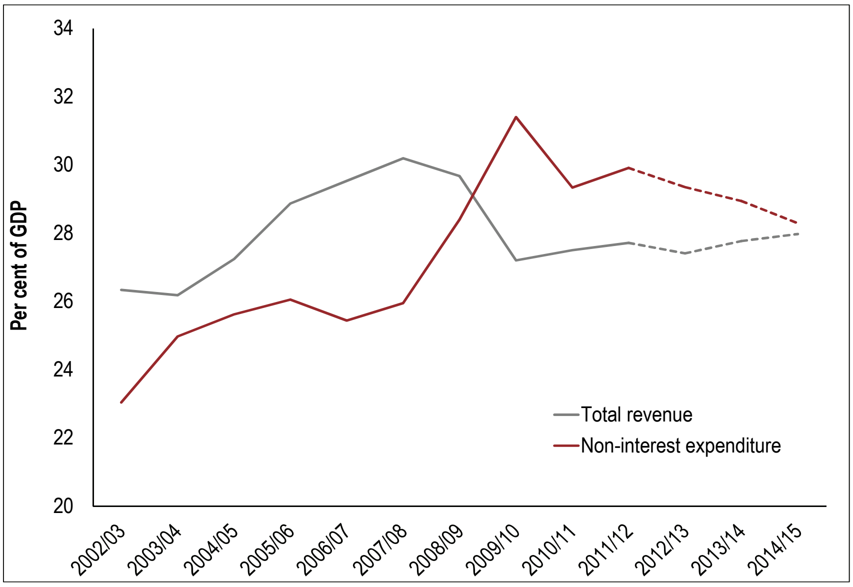
The fiscal guidelines set out in the 2011 Budget form the foundation of the fiscal stance. Applied consistently, the principles of countercyclicality, long-term debt sustainability and intergenerational equity will enable government to improve social conditions in a sustainable manner, and strengthen South Africa's fiscal sovereignty in a volatile global environment.

Stabilising growth in debt

By 2014/15, government will have added more than R1 trillion to its debt stock since 2008

Stable or declining debt stock as a percentage of GDP is a basic indicator of sustainability. Debt grows as a share of GDP when non-interest spending exceeds revenue (a primary deficit), and rising debt-service costs inevitably follow. The large primary deficits since 2009 have resulted in a considerable build-up of public debt. By 2014/15, government will have added more than R1 trillion to its stock of debt since 2008.

Figure 3.1 Primary balance of consolidated government, 2002/03 – 2014/15



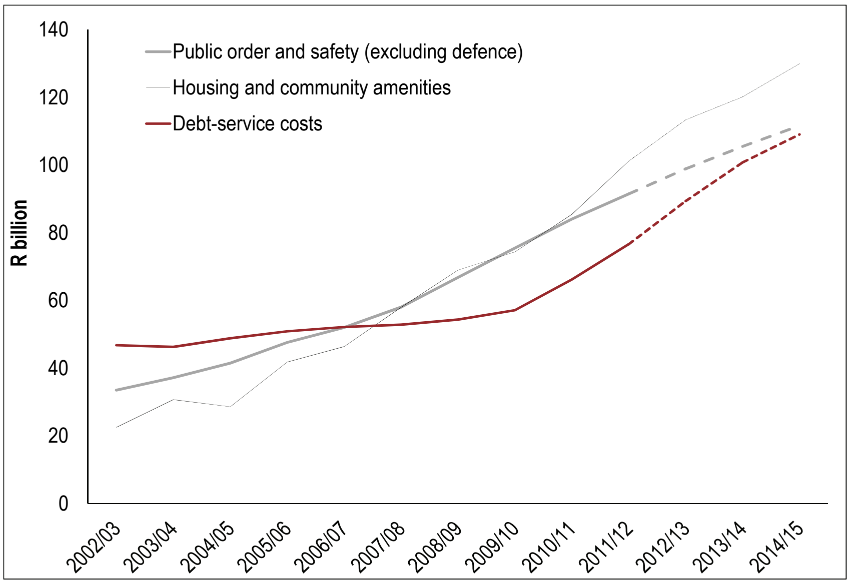
Over the next three years, growth in the economy will outpace growth in non-interest expenditure, and spending as a proportion of GDP will decline. Accelerating GDP growth will lead to stronger growth in revenues.

Government will narrow the primary deficit to 0.3 per cent of GDP by the outer year

By 2014/15 government is expected to narrow the primary deficit to 0.3 per cent of GDP, allowing debt to stabilise at about 38.5 per cent of GDP. Debt-service costs are expected to peak at 2.8 per cent of GDP in 2013/14, declining moderately to 2.7 per cent in 2014/15. The benefits of these trends will become apparent over the long term as declining debt-service costs allow a greater share of resources to be allocated for productive investment and social priorities.

Figure 3.2 illustrates the importance of these trends by comparing state debt-service costs with expenditure in two priority areas. Over the past three years, interest payments on government debt have grown more rapidly than spending in both housing and public order and safety.

Figure 3.2 Spending on debt-service costs compared with other priorities, 2002/03 – 2014/15



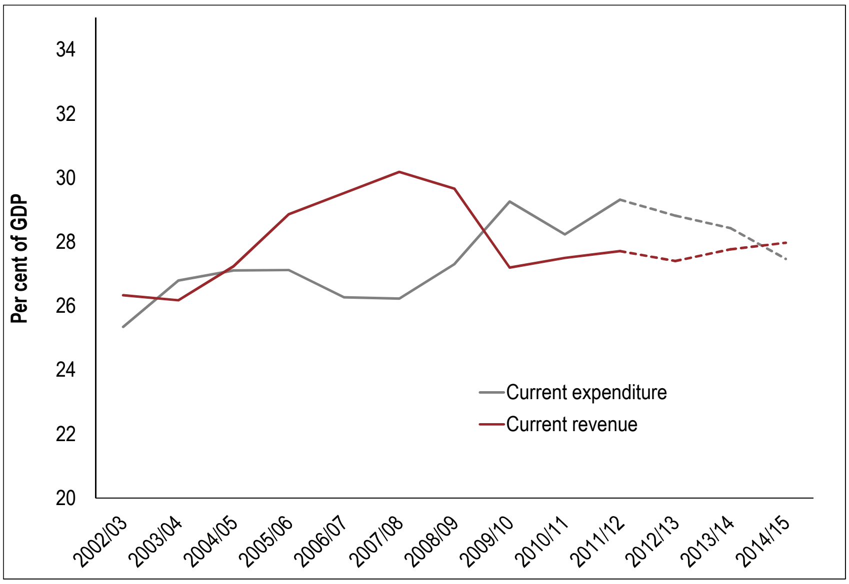
Shifting the composition of spending

Investment in infrastructure creates durable economic and social benefits

Since 2009, government has been running a sizeable current deficit – meaning that the state has been borrowing to finance spending on recurrent costs such as compensation of employees, and goods and services. Borrowing to finance recurrent spending creates debt obligations that must be paid by future taxpayers who do not share in the benefits of this spending. In contrast, debt incurred to build infrastructure creates durable economic and social benefits.

Over the next three years, government has prioritised closing the current balance. Figure 3.3 shows that this gap should close in 2014/15, with the result that new borrowing is expected to finance investment rather than consumption.

Figure 3.3 Current balance of consolidated government, 2002/03 – 2014/15

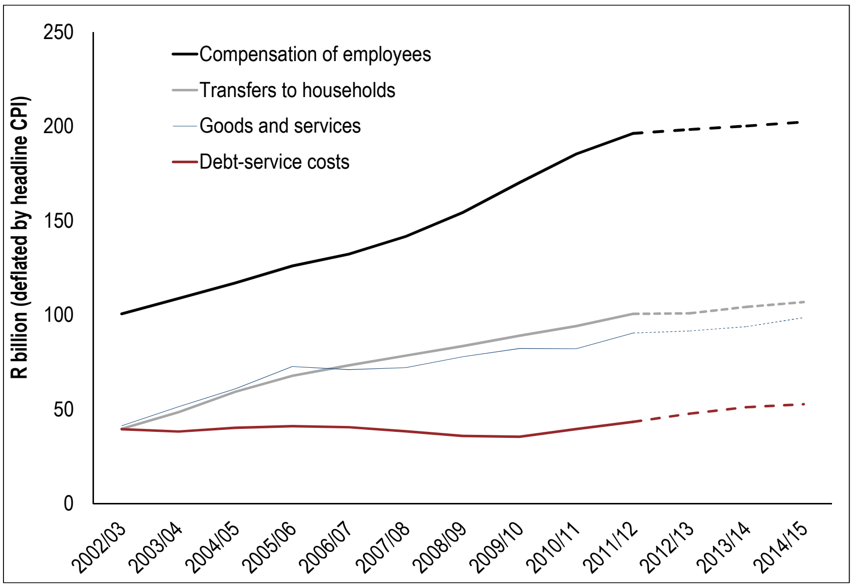


Fiscal policy will complement revenue growth by generating savings in goods and services, moderating growth of employee compensation and improving expenditure on capital budgets. Considerable savings are being realised in goods and services spending, with real growth in this category averaging 1.8 per cent over the medium term, compared with a projection of 3.3 per cent in the 2011 Budget. The 2012 Budget proposes total savings amounting to R27 billion in spending over the MTEF.

The public-sector wage bill is the largest component of current expenditure

Most of the improvement in the current balance needs to come from moderation in the growth of the public-sector wage bill. This is the largest component of current expenditure, and has grown considerably over the past 10 years, as shown in Figure 3.4.

Figure 3.4 Real growth in components of current expenditure, 2002/03 – 2014/15



Strong growth in compensation of employees is the result of expanded staffing in priority areas such as health care and policing; real wage increases for specific categories of professionals; improved benefits such as the Government Employees' Medical Scheme; and several years of across-the-board salary increases above the rate of inflation.

Compensation bill has resulted in fewer resources to fund investment and other priorities

While many of these improvements were necessary, compensation of employees grew from 35.7 per cent of non-interest spending in 2008/09 to 38.7 per cent in 2011/12. This has resulted in fewer resources available for social and economic infrastructure, and other priorities.

The shift in the composition of expenditure by the outer year will enable government to begin redirecting spending towards growth and job creation.

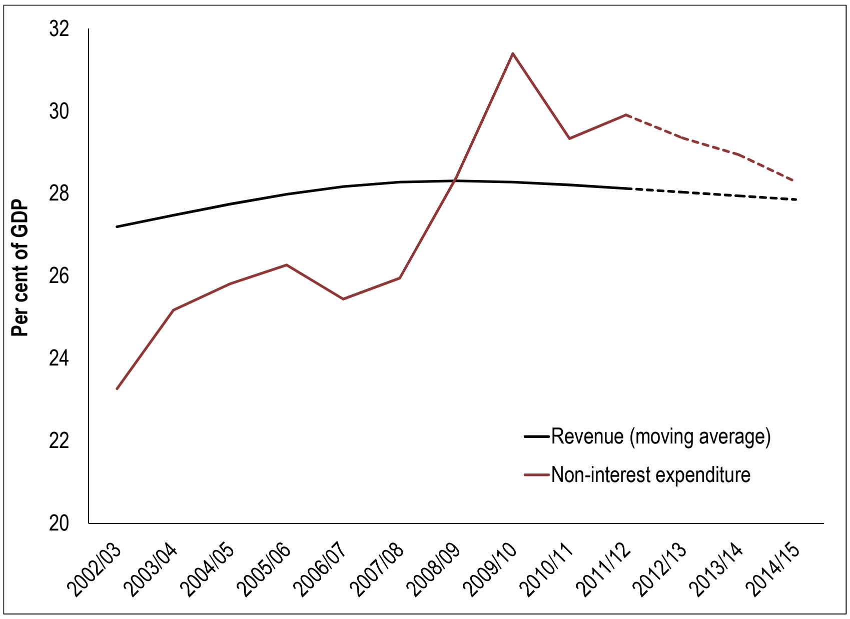
Long-term fiscal sustainability

Over the long term, government's ability to pay for infrastructure and social programmes requires a higher level of sustainable economic growth that generates adequate tax revenue.

Budget revenue to recover to 28 per cent of GDP over the medium term

The National Treasury expects budget revenue to recover to 28 per cent of GDP as the economy improves over the medium term. A sustainable fiscal path would see non-interest spending converging at about the same level. The 2012 Budget targets this objective, with non-interest expenditure expected to level off at 28.3 per cent of GDP in 2014/15. This implies a small primary deficit in the outer year of the forecast, and a structural budget deficit of about 3 per cent of GDP, which is consistent with the stabilisation of the government debt.

Figure 3.5 Non-interest expenditure and average revenue, 2002/03 – 2014/15



The budget framework

The budget framework for consolidated government is summarised in Table 3.1. The consolidated budget includes the national budget, social security funds, RDP funds, provincial budgets and extra-budgetary institutions such as the South African National Roads Agency and the Trans-Caledon Tunnel Authority.

Debt-service costs stabilise as percentage of GDP in the outer year

Average annual real revenue growth of 4.8 per cent is projected to outpace GDP growth of 3.7 per cent over the next three years, while expenditure will grow by an average of 2.9 per cent in real terms over this period. A large share of expenditure growth is absorbed by debt-service costs, which amount to R109 billion in 2014/15. An improvement in the deficit from 4.8 per cent of GDP to 3 per cent in 2014/15 will stabilise growth in debt-service costs as a percentage of GDP.

Table 3.1 Consolidated government budget framework, 2008/09 – 2014/15

R million	2008/09	2009/10 Outcome	2010/11	2011/12 Revised estimate	2012/13	2013/14 Medium-term estimates	2014/15	Average real growth 2011/12–2014/15
Revenue	**683 468**	**663 736**	**757 513**	**830 210**	**904 830**	**1 005 871**	**1 118 183**	4.8%
Percentage of GDP	*29.7%*	*27.2%*	*27.5%*	*27.7%*	*27.4%*	*27.8%*	*28.0%*	
Gross tax revenue	625 100	598 705	674 183	738 735	826 401	913 610	1 019 620	5.7%
Percentage of GDP	*27.1%*	*24.5%*	*24.5%*	*24.7%*	*25.0%*	*25.2%*	*25.5%*	
Expenditure	**708 489**	**823 323**	**874 172**	**972 547**	**1 058 321**	**1 149 125**	**1 239 699**	2.9%
Percentage of GDP	*30.8%*	*33.7%*	*31.7%*	*32.5%*	*32.1%*	*31.7%*	*31.0%*	
Non-interest expenditure	654 095	766 194	807 945	895 903	968 933	1 048 319	1 130 660	2.6%
Percentage of GDP	*28.4%*	*31.4%*	*29.3%*	*29.9%*	*29.3%*	*28.9%*	*28.3%*	
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039	6.7%
Percentage of GDP	*2.4%*	*2.3%*	*2.4%*	*2.6%*	*2.7%*	*2.8%*	*2.7%*	
Budget balance	**-25 020**	**-159 587**	**-116 659**	**-142 337**	**-153 491**	**-143 255**	**-121 516**	
Percentage of GDP	*-1.1%*	*-6.5%*	*-4.2%*	*-4.8%*	*-4.6%*	*-4.0%*	*-3.0%*	
Primary balance (% of GDP)	*1.3%*	*-4.2%*	*-1.8%*	*-2.2%*	*-1.9%*	*-1.2%*	*-0.3%*	

Revenue

Structural increases in revenue over the last 10 years were supported by robust economic growth during the mid-2000s, along with improved tax compliance and administration. Tax revenue has been recovering since 2010/11 and, over the medium term, is projected to increase from 24.7 to 25.5 per cent of GDP.

Budget revenue also includes non-tax revenue, and the income of social security funds, provinces, the RDP Fund and extra-budgetary institutions. Non-tax revenue, made up of departmental revenue and mineral royalties, will account for about 0.5 per cent of GDP. Social security fund revenue is boosted by increased contributions to the Unemployment Insurance Fund and Compensation Funds, while changes in the fuel levy increase the projected income for the Road Accident Fund (see Chapter 4). Provincial and extra-budgetary institution revenue is expected to remain in line with previously published estimates.

Transfers to SACU partners rises to R42.2 billion in 2012/13

A significant adjustment to revenue forecasts is made as a result of government's payments to its partners in the Southern African Customs Union (SACU). Transfers rise to an estimated R42.2 billion in 2012/13, up from R21.8 billion in 2011/12, owing to a strong projected recovery in imports and intra-SACU trade, and the adjustment payment for an overcollection in 2010/11. Reasons for the volatility in the SACU transfers are discussed in the accompanying box.

Towards a more developmental Southern African Customs Union agreement

South Africa is a member of SACU, together with Botswana, Lesotho, Namibia and Swaziland (BLNS). The five countries share a common external tariff, while intra-SACU trade is free of all tariffs.

Under the SACU revenue-sharing agreement, in place for six years, members deposit all customs and excise duties that they collect into a common fund. The formula to pay out from this fund is based on GDP, GDP per capita and the extent of trade with other SACU members. The structure of this arrangement has resulted in the BLNS countries becoming highly dependent on customs duties as the primary source of their budget revenue. SACU revenue accounts for less than 4 per cent of South Africa's budget revenue, but BLNS countries depend on SACU for 25 to 70 per cent of their total revenues.

SACU revenue has been highly volatile since 2008. This partly reflects changes in trade and customs duties during and after the recession. But it is also a function of the structure of the revenue-sharing formula, which relies on forecasts that require significant subsequent revisions.

SACU members are expected to agree on a new revenue-sharing agreement in 2012. Under the envisaged agreement, the revenue collected by SACU will be distributed equitably using a select number of socioeconomic indicators. Members' dependency on customs revenue will be reduced and projects that promote greater economic integration will be supported through the establishment of a development fund.

Taking into account all revenue sources and the adjustments for SACU transfers, consolidated government revenue will improve to 28 per cent of GDP.

Table 3.2 Consolidated government revenue, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R million		Outcome		Revised estimate		Medium-term estimates	
Tax revenue	**625 100**	**598 705**	**674 183**	**738 735**	**826 401**	**913 610**	**1 019 620**
Percentage of GDP	*27.1%*	*24.5%*	*24.5%*	*24.7%*	*25.0%*	*25.2%*	*25.5%*
Non-tax revenue[1]	12 616	8 889	13 460	17 579	15 091	17 929	19 016
of which:							
Mineral royalties	–	–	*3 555*	*5 500*	*6 510*	*7 490*	*8 620*
Estimate of SACU payments[2]	-28 921	-27 915	-14 991	-21 763	-42 151	-37 245	-41 416
Other adjustment[3]	–	–	-2 914	–	–	–	–
Provinces, social security funds and selected public entities	74 673	84 058	87 776	95 659	105 489	111 577	120 963
Budget revenue	**683 468**	**663 736**	**757 513**	**830 210**	**904 830**	**1 005 871**	**1 118 183**
Percentage of GDP	*29.7%*	*27.2%*	*27.5%*	*27.7%*	*27.4%*	*27.8%*	*28.0%*
GDP (R billion)	*2 303.6*	*2 440.2*	*2 754.3*	*2 995.5*	*3 301.4*	*3 622.2*	*3 997.0*

1. Includes mineral and petroleum royalties, mining leases and departmental revenue

2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the SACU agreement

3. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement

Expenditure

Education, health care and social protection continue to account for largest share of non-interest spending

The 2012 Budget proposals focus on developing infrastructure, supporting job creation and improving local government services. Education, health care and social protection continue to account for the largest share of government resources, with spending on these functional areas growing in average real terms by 1 per cent, 1.5 per cent and 3 per cent respectively.

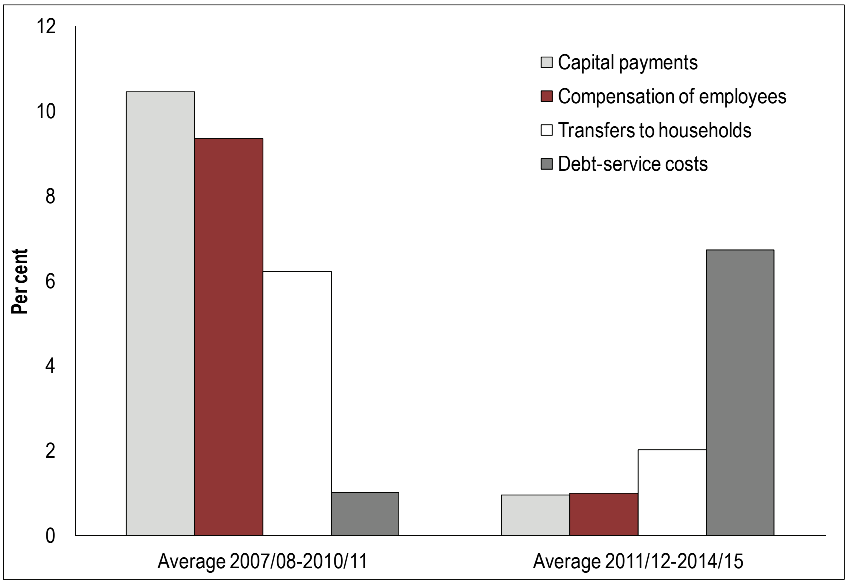
In addition to funds allocated in previous budgets, the budget proposes to add R8.6 billion to expenditure in 2012/13, R16.1 billion in 2013/14 and

R31.2 billion in 2014/15. Total additions to baseline over the MTEF amount to R55.9 billion.

Contingency reserve of R41.6 billion over the MTEF period

The budget framework includes a contingency reserve of R41.6 billion over the spending period – R5.8 billion in 2012/13, rising to R24 billion in 2014/15. The contingency reserve serves to finance any unforeseen and unavoidable expenditure that may arise during 2012/13, and is available to finance additional policy priorities in the outer two years.

Figure 3.6 Average real growth in expenditure, 2007/08 – 2014/15



The 2012 Budget makes allowance for a 5 per cent cost of living adjustment for all government employees, exclusive of pay progression. As a result, Figure 3.6 shows the average real growth of spending on wages declining from 9.4 per cent between 2007/08 and 2010/11, to 1 per cent over the MTEF period. This trend will begin the process of shifting the composition of expenditure, creating the opportunity for allocations towards capital investment.

Capital expenditure continues to underperform budgeted amounts, particularly at municipal level

Capital expenditure continues to underperform budgeted amounts. Since 2006/07, provincial capital expenditure has averaged about 86 per cent of budget allocations. Municipal performance on spending improved from 72.1 per cent in 2006/07 to 85.1 per cent in 2008/09, before declining to 82.9 per cent in 2009/10. Chapter 7 discusses public-sector infrastructure and the steps government is taking to expand planning and implementation capacity. At a broader level, the quality and efficiency of public services must be improved in line with spending plans, as detailed in Chapter 8.

A new format for the consolidated government account

From 2013, the consolidated government account will be presented in the format provided below. The new format is a more transparent and user-friendly presentation that clearly distinguishes between the government's operating activities, and its plans to invest in capital and infrastructure. A summary representation of the new format appears as Table 7 in Annexure B.

Consolidated revenue, expenditure and financing medium term estimates

R million	2012/13	2013/14	2014/15
	Medium-term estimates		
Operating account			
Current receipts	**904 745**	**1 006 060**	**1 118 332**
Current payments	**951 637**	**1 029 817**	**1 097 977**
Compensation of employees	371 170	394 413	417 962
Goods and services	171 339	184 933	197 220
Interest and rent on land	96 070	108 889	117 483
Transfers and subsidies	313 058	341 581	365 312
Current balance	**-46 892**	**-23 757**	**20 356**
% of GDP	*-1.4%*	*-0.7%*	*0.5%*
Capital account			
Capital receipts	188	203	228
Transfers and subsidies	28 029	31 222	34 301
Payments for capital assets	71 198	75 666	82 683
Capital financing requirement	**-99 038**	**-106 685**	**-116 756**
% of GDP	*3.0%*	*2.9%*	*2.9%*
Transactions in financial assets and liabilities	575	-572	-385
Contingency reserve	5 780	11 854	24 000
Budget balance	**-152 315**	**-141 755**	**-120 016**
% of GDP	*-4.6%*	*-3.9%*	*-3.0%*
Primary balance	**-62 927**	**-40 949**	**-10 976**
% of GDP	*-1.9%*	*-1.1%*	*0.3%*
Gross domestic product (GDP)	*3 301 374*	*3 622 155*	*3 997 026*

The balance on the operating account shows the outcome of government’s operating activities. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. In other words, the current balance demonstrates the sustainability of government operations: a long-term operating deficit is unsustainable, while a positive operating balance allows for investment in future productive capacity.

Capital investment activities are presented in the capital account. The capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will be in deficit for many years, owing to continuous investment in infrastructure and substantial capital outlays.

The new format separates out all transactions in financial assets and liabilities, which mainly includes loans extended to public corporations.

If cash generated from operations is insufficient to finance investment, government must borrow. The borrowing requirement, or budget balance, is calculated by adding the operating balance, capital financing requirement, financial transactions and any unallocated expenditure such as the contingency reserve.

Extraordinary receipts and payments are presently included in the financing requirement, but are not part of the budget framework. The introduction of the operating account and capital account makes extraordinary items obsolete; these will be included in the main transaction categories.

More detailed discussion of the government accounts is presented in Annexure W2, available at www.treasury.gov.za.

Revisions and forward estimates: consolidated government budget

The deficit in 2010/11 was R51.9 billion lower than budgeted. Spending outcomes were R32.8 billion below budget estimates, largely as a result of underspending on payments for capital assets. Tax revenue was

R26.3 billion higher than projected, with personal income tax, value-added tax and customs duties accounting for the bulk of the improvement.

Spending on employee compensation in 2011/12 is R8.1 billion above budgeted amount

The revised estimate for the deficit in 2011/12 is R12.5 billion narrower than budgeted. Spending is expected to be R6.7 billion lower than the budgeted figure. Underspending on capital spending is once again a significant contributor to this trend, albeit to a lesser degree than in previous years. The estimated outcome for compensation of employees is estimated to be R8.1 billion above the budgeted amount, as a result of the higher-than-expected salary adjustment. Revenue is also estimated to be R5.7 billion above the budgeted number, contributing to a lower overall deficit.

Table 3.3 Revised estimates of consolidated government revenue and expenditure, 2010/11 and 2011/12

R million	2010/11 Budget estimate	2010/11 Outcome	2010/11 Deviation	2011/12 Budget estimate	2011/12 Revised estimates	2011/12 Deviation
Revenue						
Tax revenue	647 850	674 183	26 333	741 620	738 735	-2 885
Non-tax revenue	10 380	13 460	3 080	10 001	17 579	7 579
Less: SACU payments	-14 991	-14 991	–	-21 763	-21 763	–
Other adjustment[1]		-2 914	-2 914	–	–	–
Other[2]	95 165	87 776	-7 389	94 609	95 659	1 050
Budget revenue	**738 404**	**757 513**	**19 109**	**824 467**	**830 210**	**5 744**
Percentage of GDP	*27.3%*	*27.5%*		*28.3%*	*27.7%*	
Expenditure						
Current payments	527 892	519 281	*-8 611*	587 702	588 979	1 277
of which:						
Compensation of employees	294 432	309 802	15 370	338 572	346 714	8 142
Debt-service cost	*71 358*	*66 227*	*-5 131*	*76 579*	*76 645*	66
Transfers and subsidies	284 016	279 267	-4 749	315 097	314 137	-960
Payments for capital assets	68 163	54 099	-14 064	71 608	68 662	-2 946
Payments for financial assets	20 893	21 525	632	767	770	3
Contingency reserve	6 000	–	-6 000	4 090	–	-4 090
Total expenditure	**906 964**	**874 172**	**-32 792**	**979 265**	**972 547**	**-6 718**
Percentage of GDP	*33.6%*	*31.7%*		*33.6%*	*32.5%*	
Budget balance[3]	**-168 560**	**-116 659**	**51 901**	**-154 799**	**-142 337**	**12 461**
Percentage of GDP	*-6.2%*	*-4.2%*	*2.0%*	*-5.3%*	*-4.8%*	*0.6%*

1. *Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement*
2. *Includes provinces, social security funds and selected entities*
3. *A positive number reflects a surplus and a negative number a deficit*

The 2012 Budget adjusts the forward estimates tabled in the 2011 Budget for 2012/13 and 2013/14 to take account of changes in the economic environment and policy priorities, and adds projections for 2014/15. Table 3.4 illustrates the changes to revenue and expenditure forecasts since February 2011.

A large change to the revenue baseline results from larger-than-expected transfers to SACU. Spending in 2012/13 and 2013/14 is lower than the forward estimates presented at the time of Budget 2011, but these are offset by downward revisions to revenue estimates. Budget deficits are consequently wider than the forward estimates in nominal terms.

Table 3.4 Consolidated government budget medium-term estimates, 2012/13 – 2014/15

	2012/13			2013/14			2014/15
R million	2011 Forward estimate	2012 Budget	Change to baseline	2011 Forward estimate	2012 Budget	Change to baseline	2012 Budget
Revenue							
Tax revenue	827 310	826 401	-909	927 960	913 610	-14 350	1 019 620
Non-tax revenue	11 540	15 091	3 551	12 351	17 929	5 578	19 016
Less: SACU payments	-32 432	-42 151	-9 719	-35 997	-37 245	-1 248	-41 416
Other[1]	102 296	105 489	3 193	112 873	111 577	-1 296	120 963
Budget revenue	**908 714**	**904 830**	**-3 884**	**1 017 187**	**1 005 871**	**-11 316**	**1 118 183**
Percentage of GDP	*28.4%*	*27.4%*		*28.8%*	*27.8%*		*28.0%*
Expenditure							
Current payments	635 953	638 579	2 626	684 638	688 236	3 597	732 665
of which:							
Compensation of employees	357 925	371 170	*13 245*	380 229	394 413	*14 184*	417 962
Debt-service cost	*90 808*	*89 388*	*-1 420*	*104 036*	*100 806*	*-3 230*	*109 039*
Transfers and subsidies	340 806	341 087	281	363 099	372 804	9 705	399 613
Payments for capital assets	73 410	71 198	-2 212	80 656	75 666	-4 991	82 683
Payments for financial assets	8	1 647	1 639	4	536	532	738
Contingency reserve	11 405	5 810	-5 595	23 375	11 884	-11 491	24 000
Total expenditure	**1 061 582**	**1 058 321**	**-3 261**	**1 151 773**	**1 149 125**	**-2 648**	**1 239 699**
Percentage of GDP	*33.2%*	*32.1%*		*32.6%*	*31.7%*		*31.0%*
Budget balance[2]	**-152 868**	**-153 491**	**-623**	**-134 586**	**-143 255**	**-8 669**	**-121 516**
Percentage of GDP	*-4.8%*	*-4.6%*	*0.2%*	*-3.8%*	*-4.0%*	*-0.1%*	*-3.0%*

1. *Includes provinces, social security funds and selected public entities*
2. *A positive number reflects a surplus and a negative number a deficit*

Public-sector borrowing requirement

The public-sector borrowing requirement represents the funds needed by the public sector to cover any deficit in financing its own activities. It includes consolidated government, municipalities and non-financial public institutions such as Eskom and Transnet. Growth of the public-sector borrowing requirement leads to a commensurate increase in the stock of public debt financed in domestic and international markets.

Decline in public-sector borrowing requirement reflects, in part, greater contributions from cash flows of state-owned entities

The public-sector borrowing requirement is forecast to decline from 7.1 per cent of GDP in 2011/12 to 5 per cent in 2014/15. This reflects a greater contribution from the internally generated cash flows of state corporations to fund their capital expenditure programmes, as well as lower municipal debt issuance.

At the main budget level, the net borrowing requirement is projected to decline from 5.1 per cent in 2011/12 to 3.5 per cent in 2014/15. Taking account of social security funds, provinces and extra-budgetary institutions, the consolidated borrowing requirement will decline from 4.6 per cent of GDP in 2011/12 to 3 per cent in 2014/15.

The municipal borrowing requirement averages 0.2 per cent of GDP over the MTEF. This is partly the result of reductions in projected infrastructure expenditure by local government, reflecting the completion of large projects related to the 2010 soccer World Cup and bus rapid transit systems, and rising levels of underspending. In addition, several large municipalities are close to their prudential debt limits, reducing their capacity to borrow.

Table 3.5 Public-sector borrowing requirement[1], 2008/09 – 2014/15

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
		Outcome		Revised estimate		Medium-term estimates	
National net government borrowing[2]	**23 238**	**161 755**	**133 232**	**152 743**	**168 849**	**158 036**	**140 858**
Social security funds	-12 362	-10 624	-11 797	-13 510	-13 091	-13 546	-14 201
Provinces	8 690	-108	-5 270	-2 522	-7 432	-7 293	-9 626
Public entities	1 534	2 801	-1 677	1 721	3 988	4 558	2 985
Consolidated government borrowing	**21 101**	**153 824**	**114 488**	**138 432**	**152 315**	**141 755**	**120 016**
Percentage of GDP	*0.9%*	*6.3%*	*4.2%*	*4.6%*	*4.6%*	*3.9%*	*3.0%*
Local authorities	9 971	11 119	8 441	7 268	5 925	6 043	6 669
General government borrowing	**31 072**	**164 943**	**122 929**	**145 700**	**158 240**	**147 798**	**126 684**
Percentage of GDP	*1.3%*	*6.8%*	*4.5%*	*4.9%*	*4.8%*	*4.1%*	*3.2%*
State-owned enterprises[3]	60 074	70 446	55 964	68 159	76 868	77 539	74 133
Percentage of GDP	*2.6%*	*2.9%*	*2.0%*	*2.3%*	*2.3%*	*2.1%*	*1.9%*
Public-sector borrowing requirement	**91 146**	**235 389**	**178 893**	**213 859**	**235 108**	**225 337**	**200 817**
Percentage of GDP	*4.0%*	*9.6%*	*6.5%*	*7.1%*	*7.1%*	*6.2%*	*5.0%*

1. A negative number reflects a surplus and a positive number a deficit
2. Taking account of extra budgetary receipts and payments
3. 2011/12-2014/15 are based on National Treasury estimates. Note SANRAL and TCTA are included in the consolidated borrowing requirement

Capital spending by Eskom and Transnet is supported by internal cash flows, equity and debt

The borrowing of non-financial public institutions is set to decline from 2.3 per cent of GDP in 2011/12 to 1.9 per cent of GDP by the end of the forecast period. The largest contribution to this deficit comes from capital infrastructure programmes of Eskom and Transnet. While their capital spending is expected to grow significantly over the next decade, financing will be supported by a combination of higher cash flows, equity and debt. Government does not envisage their borrowing to expand significantly over the next three years.

Conclusion

By consolidating the fiscal position, South Africa will be well placed for future opportunities

Meeting the country's social and economic goals requires sustainable increases in real expenditure over the decades to come. To achieve this goal, the principles of countercyclicality, debt sustainability and inter-generational equity will continue to anchor fiscal policy choices.

The 2012 Budget maintains countercyclical support, and presents a clear and realistic path towards the stabilisation of debt as a percentage of GDP. A moderately expansionary budget aims to support economic recovery and employment in the short term. Over the medium term, the fiscal position will consolidate in line with improved economic performance.