Budget Review

2015

National Treasury

Republic of South Africa

25 February 2015

ISBN: 978-0-621-43286-2
RP: 09/2015

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.

To obtain additional copies of this document, please contact:

Communications Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa

Tel: +27 12 395 6697
Fax: +27 12 407 9055

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

BUDGET 2015 HIGHLIGHTS

ECONOMIC OUTLOOK

- The South African economy is forecast to grow by 2 per cent in 2015, with a gradual improvement to 3 per cent by 2017.
- Weaker global growth prospects and slower growth in key emerging markets introduce uncertainty into the forecast, with volatility expected in capital markets and exchange rates.
- Lower oil prices over the short term should boost global growth, trade and consumption. Real exchange-rate depreciation and low inflation should support the competitiveness of South African firms, but the electricity-supply constraint will curtail mining and manufacturing output, and exports.
- Low investor confidence could hinder investment in South Africa this year, but businesses with strong balance sheets are expected to upgrade machinery and equipment, and continue investing in fast-growing African markets.
- The medium-term strategic framework supports a range of programmes that, in combination with continued infrastructure investment and structural changes in the real economy, will ultimately raise growth potential.

BUDGET FRAMEWORK

- A budget deficit of 3.9 per cent of GDP is expected for 2014/15, narrowing to 2.5 per cent in 2017/18.
- Debt stock as a percentage of GDP is expected to stabilise at 43.7 per cent in 2017/18.
- The main budget non-interest expenditure ceiling has been reduced by R25 billion over the next two years.
- Increases in personal income tax rates and the general fuel levy are set to add R16.8 billion to gross tax revenue in 2015/16.
- Any additions to personnel headcounts for 2015/16 and 2016/17 will be paid for from existing allocations.
- Real growth in non-interest spending will average 2.1 per cent over the next three years and will be more closely aligned to long-term average real GDP growth from 2017/18.
- Capital remains the fastest-growing item of non-interest spending over the medium term, with compensation and goods and services growing slowest.

SPENDING PROGRAMMES

Over the next three years, government will spend:

- An additional 7.9 per cent per year, increasing expenditure from R1.24 trillion in 2014/15 to R1.56 trillion in 2017/18.
- At least 60 per cent of non-interest expenditure to improve social services and alleviate poverty.
- R647 billion on basic education, including R36.7 billion on school infrastructure.
- R634 billion on local development and social infrastructure, including R145.5 billion on municipal infrastructure.
- R502 billion on health, with R46.6 billion on the *HIV and AIDS conditional grant*.
- R498 billion on social protection.
- R197 billion on post-school education and training.
- R18 billion on providing free meals to over 9 million learners.

TAX PROPOSALS

Government proposes to:

- Increase the marginal personal income tax rates by one percentage point for all taxpayers earning more than R181 900, and adjusting tax brackets and rebates to account for fiscal drag.
- Raise the general fuel levy by 30.5 c/litre. The Road Accident Fund levy will also increase by 50 c/litre, bringing the total fuel levy increases to 80.5 c/litre.
- Take further steps to combat base erosion and profit shifting.
- Provide a more generous turnover-tax regime for small businesses.
- Increase excise duties on alcohol and tobacco products.
- Review the diesel refund scheme.
- Strengthen the energy-efficiency savings initiative.
- Raise the electricity levy.
- Change transfer duty rates and brackets to provide relief for middle-income households.

BUDGET 2015

KEY BUDGET STATISTICS

A full set of 2015 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 tables due to classification, definition and rounding.

BUDGET REVENUE, 2014/15

R billion	
Tax revenue	**979.0**
of which:	–
Personal income tax	*350.0*
Corporate income tax	*183.0*
Value-added tax	*260.6*
Taxes on international trade and transactions	*40.8*
Non-tax revenue	**27.0**
less: SACU payments	-51.7
Main budget revenue	**954.3**
Provinces, social security funds and public entities	136.7
Consolidated budget revenue	**1 091.0**
As percentage of GDP	
Tax revenue	*25.2%*
Budget revenue	*24.6%*

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2011	2012	2013	2014	2015	2016	2017
	Actual			Estimate	Forecast		
Household consumption	4.9	3.4	2.9	1.2	2.0	2.6	3.0
Gross fixed-capital formation	5.7	3.6	7.6	-0.6	2.2	3.4	3.8
Exports	4.3	0.1	4.6	0.9	3.3	4.6	5.0
Imports	10.5	6.0	1.8	-0.3	4.6	5.3	5.5
Real GDP growth	3.2	2.2	2.2	1.4	2.0	2.4	3.0
CPI inflation	5.0	5.7	5.8	6.1	4.3	5.9	5.7
Current account balance (% of GDP)	-2.2	-5.0	-5.8	-5.8	-4.5	-4.9	-5.2

CONSOLIDATED FISCAL FRAMEWORK

R billion/ percentage of GDP	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Outcome			Estimate	Medium-term estimates		
Revenue	**842.2**	**908.7**	**1 008.1**	**1 091.0**	**1 188.9**	**1 331.5**	**1 439.5**
	27.3%	*27.3%*	*27.9%*	*28.1%*	*28.4%*	*29.3%*	*29.2%*
Expenditure	**952.3**	**1 044.6**	**1 145.3**	**1 243.4**	**1 351.0**	**1 448.8**	**1 561.7**
	30.9%	*31.4%*	*31.7%*	*32.0%*	*32.2%*	*31.9%*	*31.7%*
Budget balance	**-110.1**	**-135.8**	**-137.2**	**-152.4**	**-162.2**	**-117.3**	**-122.2**
	-3.6%	*-4.1%*	*-3.8%*	*-3.9%*	*-3.9%*	*-2.6%*	*-2.5%*

DIVISION OF NATIONALLY RAISED REVENUE

R billion	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Outcome			Estimate	Medium-term estimates		
Division of available funds							
National departments	389.4	420.0	453.2	491.4	523.0	553.8	586.1
Provinces	355.8	380.9	410.6	439.7	468.2	496.3	526.4
Local government	68.3	76.4	82.8	89.1	99.8	103.9	110.0
Non-interest allocations	**813.5**	**877.4**	**946.6**	**1 020.1**	**1 090.9**	**1 154.0**	**1 222.5**
Percentage shares							
National departments	47.9%	47.9%	47.9%	48.2%	47.9%	48.0%	47.9%
Provinces	43.7%	43.4%	43.4%	43.1%	42.9%	43.0%	43.1%
Local government	8.4%	8.7%	8.8%	8.7%	9.1%	9.0%	9.0%

CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2015/16

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	156.6	17.5	13.0	16.3	0.0	**203.5**
Post-school education and training	8.3	1.8	3.4	48.7	0.0	**62.2**
Health	99.3	43.2	10.1	4.7	0.0	**157.3**
Social protection	10.7	6.8	0.9	136.9	0.0	**155.3**
Employment, labour affairs and social security funds	4.8	7.5	0.6	51.2	0.0	**64.1**
Industrial development, trade and innovation	21.4	14.6	12.6	21.0	0.0	**69.7**
Economic infrastructure and network regulation	11.6	23.1	29.8	2.1	5.8	**72.3**
Defence and state security	25.8	11.8	1.0	10.8	0.0	**49.4**
Law courts and prisons	26.4	10.1	2.3	0.3	0.0	**39.1**
Police services	61.7	16.7	3.3	1.0	0.0	**82.7**
Housing development and social infrastructure	14.9	11.0	74.4	78.9	0.1	**179.2**
Rural development and land reform	2.8	2.1	4.3	1.6	0.0	**10.7**
Arts, sport, recreation and culture	3.3	3.1	1.6	1.7	0.0	**9.6**
General public services	31.9	18.4	3.8	6.7	0.0	**64.4**
Debt-service costs					126.4	**126.4**
Unallocated reserves						**5.0**
Total	**479.5**	**187.7**	**161.1**	**381.8**	**132.4**	**1 351.0**

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

Percentages reflect growth relative to 2014/15 estimated outcome.

2015/16 CONSOLIDATED GOVERNMENT EXPENDITURE

R1.35 TRILLION | 8.7%

ECONOMIC AFFAIRS

R206.2bn

8.8%

Economic infrastructure and network regulation	R72.3bn | 5.8%
Industrial development, trade and innovation	R69.7bn | 7.8%
Employment, labour affairs and social security funds	R64.1bn | 13.6%

DEFENCE, PUBLIC ORDER AND SAFETY

R171.2bn

5.0%

Police services	R82.7bn | 5.7%
Defence and state security	R49.4bn | 4.0%
Law courts and prisons	R39.1bn | 4.6%

DEBT-SERVICE COSTS

R126.4bn

9.9%

GENERAL PUBLIC SERVICES

R64.4bn

-0.6%

General public administration and fiscal affairs	R38.6bn | 4.2%
Executive and legislative organs	R12.3bn | -0.3%
Home affairs	R6.3bn | -18.4%
External affairs and foreign aid	R7.1bn | -5.8%

SOCIAL SERVICES

R777.9 BILLION | 9.4%

EDUCATION

R265.7bn

8.0%

Basic education	R191.1bn | 7.6%
University transfers	R26.2bn | 8.6%
Skills development and adult education	R25.3bn | 15.3%
Education administration	R13.1bn | -0.3%
National Student Financial Aid Scheme	R10bn | 8.2%

HEALTH

R157.3bn

8.8%

District health services	R66.7bn | 7.6%
Provincial hospital services	R30.2bn | 6.3%
Other health services	R26.4bn | 18.2%
Central hospital services	R25.9bn | 5.9%
Facilities management and maintenance	R8.1bn | 9.7%

LOCAL DEVELOPMENT AND SOCIAL INFRA-STRUCTURE

R199.6bn

13.0%

Municipal equitable share and infrastructure grant	R65.2bn | 12.9%
Human settlements, water and electrification programmes	R49.3bn | 13.2%
Public transport	R41.3bn | 15.8%
Other local development and social infrastructure	R33.1bn | 12.4%
Rural development and land reform	R10.7bn | 4.8%

SOCIAL PROTECTION

R155.3bn

7.9%

Old-age grant	R53.5bn | 8.4%
Child support grant	R47.8bn | 10.2%
Disability grant	R20.2bn | 6.6%
Provincial social development	R16.7bn | 9.1%
Other grants	R8.5bn | -2.5%
Policy oversight and grant administration	R8.5bn | 4.8%

Foreword

The South African economy faces a difficult few years ahead. Some of the difficulties are the result of a weak global outlook, while others have to do with the structure of our economy. But the net result is that economic growth is likely to remain subdued over the medium term, rising from a projected 2 per cent of GDP in 2015 to 3 per cent of GDP in 2017.

Slow growth means that the economy does not generate the tax revenue needed to balance our budget. To continue increasing our stock of debt, and the interest payments that will consume R420.8 billion over the next three years, would jeopardise the sustainability of the public finances. This requires government, as the custodian of public money, to take deliberate steps to narrow the budget deficit.

The 2015 Budget proposes revenue and spending measures needed to stabilise the public finances.

On the revenue side, government proposes a one percentage point increase in personal income tax rates for all but the lowest income bracket, along with increases in the fuel levies. On the spending side, budgeted expenditure over the next two years has been reduced by R25 billion across national, provincial and local government.

The fiscal constraints we face will affect the pace and breadth of government's contribution to national development in the medium term. But core social and economic programmes will be maintained.

Progress has been made in containing costs and improving the composition of expenditure. Over the next three years, capital is the fastest-growing category of non-interest spending. Much more work remains to be done to improve the value derived from every rand spent on the public's behalf, and a range of new initiatives will improve cost containment and strengthen expenditure planning. We aim to reach a fair, sustainable public-sector wage agreement that protects the purchasing power of public servants.

Today the economy is receiving a short-term boost from low oil prices, which reduce inflation and increase buying power. But the present electricity supply constraint is a serious hurdle to be overcome. Government is working to reduce the effects of electricity outages today, while ensuring that in the years ahead, there will be sufficient supply from a wider range of sources to power South Africa's factories and mines, schools and households.

Slow economic growth puts our society and our long-term socioeconomic transformation project at risk. Beyond the short term, the 2015 Budget is about making the necessary adjustments to put the country on a path towards faster growth. This means shifting to a growth trajectory led by investment, not consumption, as proposed in the National Development Plan.

Projected public-sector investment totals R813.1 billion over the next three years. Reforms under way through the medium-term expenditure framework will put our economy on a higher growth path. Government has rolled out a wide array of initiatives to promote energy efficiency, bolster competitiveness, boost skills and job creation, cut red tape and improve business confidence. Government is also stepping up its work with municipalities, in partnership with the private sector, to reshape South Africa's cities and improve their contributions to economic growth.

I am grateful to Cabinet, the Portfolio Committee on Finance and the Ministers' Committee on the Budget, and Minister of Finance Nene and Deputy Minister Jonas for their guidance and leadership. And I owe special thanks to my dedicated and hardworking colleagues at the National Treasury and throughout government, who have helped us to prepare a budget that responds to the challenges we face.

Lungisa Fuzile
Director-General: National Treasury

Contents

Tables

Figures