3

Fiscal policy

In brief

- Fiscal policy is focused on containing the budget deficit and slowing the pace of debt accumulation to maintain spending programmes and promote confidence in the economy.
- The 2017 Budget tax proposals will raise R28 billion in additional revenue in 2017/18. Expenditure ceiling reductions amount to R10 billion in 2017/18 and R16 billion in 2018/19.
- Despite revenue underperformance, the main budget primary deficit – a key measure of fiscal sustainability – will halve from 1 per cent of GDP in 2015/16 to 0.5 per cent of GDP by the end of 2016/17.
- Net debt is forecast to stabilise at 48.2 per cent of GDP in 2020/21.
- To address elevated fiscal risks, government is managing the national and provincial wage bill, improving budget execution and stabilising the operations of financially troubled public entities.

Overview

Fiscal policy focused on containing budget deficit and stabilising public debt

Government is committed to a measured path of fiscal consolidation that contains the budget deficit and stabilises public debt. The spending ceiling remains in place and previously announced tax measures are being implemented. Headcount in the public service has levelled out, relieving some of the upward pressure on the wage bill. Government's fiscal stance takes account of risks associated with the macroeconomic outlook, budget execution and the finances of some state-owned companies.

As a result of these measures, the main budget primary deficit has narrowed consistently over the past four years, despite slowing economic growth. As a share of GDP, the primary deficit halves in the current year, and will move into surplus over the medium term. Achieving a primary surplus is a key milestone on the path to debt stabilisation. In addition, the share of total spending financed by government borrowing continues to decline.

Tax revenue projections have been revised downwards since 2016 MTBPS

Nevertheless, significant risks remain. Economic growth is forecast to increase moderately off a very low base, and tax revenue projections have been revised downwards since the 2016 *Medium Term Budget Policy Statement* (MTBPS). The wage bill continues to place upward pressure on the expenditure ceiling, and the financial position of state-owned companies has deteriorated.

A measured approach that protects the public finances and creates an enabling environment for faster economic growth is required over the medium term. The 2017 Budget proposals will:

- Reduce the expenditure ceiling by R10 billion in 2017/18 and R16 billion in 2018/19. This will be achieved through reduced national department operating budgets; lower transfers to entities, provinces and local government; and reallocations. Chapter 5 discusses adjustments to government's spending plans.
- Introduce tax policy measures to generate an additional R28 billion in revenue in 2017/18, mainly through higher personal income taxes and fuel levies. Chapter 4 discusses tax policy. Proposals to raise R15 billion in 2018/19 will be announced in the 2018 Budget.

Consolidated budget deficit projected to narrow to 2.6 per cent by 2019/20

The combination of a lower expenditure ceiling and higher taxes will narrow the consolidated budget deficit from an estimated 3.4 per cent of GDP in 2016/17 to 2.6 per cent by 2019/20.

South Africa's development objectives, expressed in the National Development Plan, rely on achieving higher economic growth and using public resources effectively. If low growth were to persist, however, government would have to adjust its spending plans, and determine which policies to implement, downsize or delay.

Table 3.1 Consolidated fiscal framework

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Revised		Medium-term estimates	
R billion/percentage of GDP				estimate			
Revenue	**1 008.1**	**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%*
Non-interest expenditure	*1 033.8*	*1 112.1*	*1 227.9*	*1 291.8*	*1 393.8*	*1 489.5*	*1 608.0*
	28.5%	*28.8%*	*30.0%*	*29.3%*	*29.4%*	*29.0%*	*29.0%*
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%*

Source: National Treasury

Securing fiscal sustainability

Significant slippage against fiscal targets would likely result in rating downgrades

The central fiscal policy objective is to stabilise the national debt-to-GDP ratio by closing the budget deficit. Acting too quickly to reduce the budget deficit could hamper service delivery, delay economic recovery, and compromise tax revenue collection. But significant slippage against fiscal targets is likely to result in credit rating downgrades, interest rate hikes and capital flight. If the latter scenario were to materialise, maintaining current levels of service delivery would be difficult and likely require extensive austerity measures.

The economic growth outlook remains largely unchanged since the 2016 MTBPS, but declining tax buoyancy is expected to result in lower tax revenue over the medium term. In total, revenue collection for the current year is projected to be R30 billion below the 2016 Budget estimate. Underspending and higher non-tax revenue should partially offset this shortfall, but government will have to borrow more to bridge the gap.

Owing to revenue under-collection and declining tax buoyancy, government will have to borrow more

The main budget net borrowing requirement will increase by a total of R43 billion between 2016/17 and 2018/19 compared with the 2016 Budget projection. The borrowing requirement is discussed in Chapter 7.

Table 3.2 Macroeconomic performance and projections

Percentage change	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Actual		Estimate		Forecast	
Real GDP growth	2.3	1.8	0.6	1.0	1.3	2.1	2.3
Nominal GDP growth	9.1	6.6	5.8	7.9	7.5	8.2	8.1
CPI inflation	5.8	5.6	5.2	6.4	6.3	5.7	5.6
GDP at current prices (R billion)	**3 624**	**3 863**	**4 087**	**4 410**	**4 741**	**5 129**	**5 546**

Source: National Treasury

As Table 3.3 shows, consolidation measures have been applied both to revenue and expenditure since the 2015 Budget. The total revenue increase of R28 billion in 2017/18 is the result of tax measures announced in both the 2016 Budget and the MTBPS.

Table 3.3 Consolidation measures

R billion	2015/16	2016/17	2017/18	2018/19
2015 Budget Review				
Expenditure reductions	10	15	–	–
Revenue increases	17	–	–	–
2016 Budget Review				
Expenditure reductions	–	–	10	15
Revenue increases	–	18	15	15
2017 Budget Review				
Expenditure reductions	–	–	10	16
Revenue increases	–	–	13	–

Source: National Treasury

Government has adhered to the spending ceiling since it was established in 2012, as shown in Table 3.4. Spending plans allow for moderate real expenditure growth, with priority given to higher education, health and social development. The government wage bill will stabilise as a share of the budget, largely as a result of measures to reduce appointments in non-critical posts.

Moderate real expenditure growth, with priority given to higher education, health and social development

Total main budget non-interest expenditure is projected to remain stable at 26.2 per cent of GDP over the medium term. Tax revenue will increase from 26 per cent of GDP in the current year to 27.2 per cent of GDP in 2019/20.

Table 3.4 Expenditure ceiling[1]

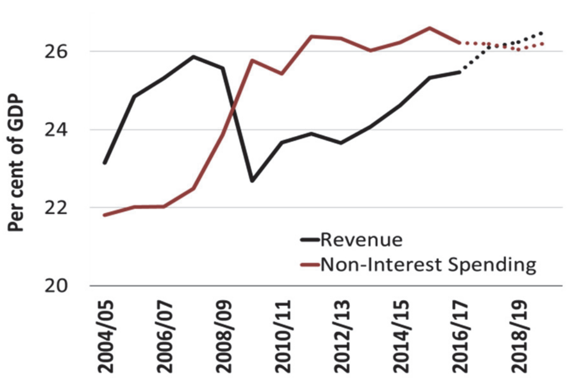
R million	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
2015 Budget Review	1 006 905	1 081 214	1 152 833	1 250 086		
2015 MTBPS	1 001 789	1 077 527	1 152 833	1 250 086	1 354 422	
2016 Budget Review	1 001 874	1 076 705	1 152 833	1 240 086	1 339 422	
2016 MTBPS		1 074 992	1 144 353	1 229 742	1 323 465	1 435 314
2017 Budget Review		1 074 989	1 144 225	1 229 833	1 323 564	1 435 418

1. Non-interest spending financed from the National Revenue Fund, excluding skills development levy, special appropriations in 2015/16 for Eskom and New Development Bank, debt management and Gold and Foreign Exchange Contingency Reserve Account transactions

Source: National Treasury

The 2016 Budget projected that net debt (gross debt less government's cash balances) would stabilise in 2017/18 at 46.2 per cent. Net debt is now forecast to stabilise at 48.2 per cent of GDP in 2020/21. The revised projection reflects two factors: revenue shortfalls and the build-up of cash reserves for large debt redemptions over the period ahead.

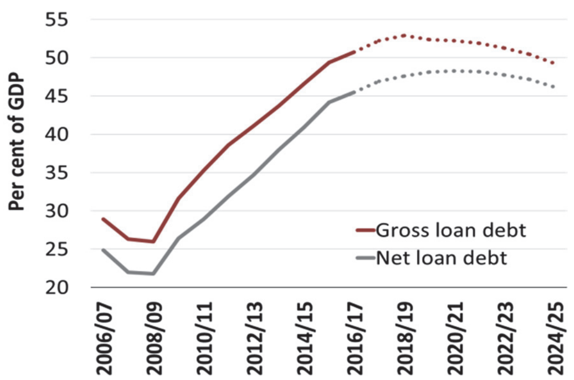
Figure 3.1 Main budget revenue and non-interest spending[1]



[1]Excludes financial transactions

Source: National Treasury

Figure 3.2 Gross and net debt outlook



Source: National Treasury and Reserve Bank

Strengthening budget execution

To improve in-year monitoring, public entities will submit quarterly reports

Consolidation in the midst of prolonged low growth calls for more vigilance in budgeting, and steps are being taken across government to improve budget execution and the in-year monitoring of spending. National and provincial departments and municipalities submit monthly reports to the National Treasury. To strengthen oversight, a process has been initiated for all national public entities to report on a quarterly basis. This will improve transparency and provide early warnings of budget deviations.

Headcount in the public service has stabilised at about 1.32 million staff. Although some national departments are struggling to maintain their personnel budget limits, preliminary indications are that most are on track to stay within compensation ceilings. Provinces continue to make progress in containing staff headcount, which has declined by 2.8 per cent since the beginning of 2016/17. The proportion of provincial budgets spent on personnel has declined from 60.4 per cent in 2015/16 to 59.8 per cent in 2016/17.

Managing the national and provincial wage bill

Between 2008/09 and 2015/16, national and provincial government salaries rose about 1.8 per cent faster than inflation. In total, salaries have nearly doubled, compared with an increase in the consumer price index of about 70 per cent. Public-service wage settlements generally provide for increases equal to inflation, plus a premium that is not linked to performance.

In recent years, government has withdrawn nearly all identified funding for vacant posts and blocked appointments to non-critical vacant posts on the payroll system, pending the submission of revised human resource plans by departments.

During 2016, national departments were required to develop and submit human resource budget plans to the Medium-term Expenditure Committee (MTEC). The MTEC is composed of senior officials from the National Treasury, the Department of Performance Monitoring and Evaluation, the Department of Cooperative Governance and Traditional Affairs, and the Department of Public Service and Administration. The plans allow the committee to manage headcount and vacancies within set compensation limits. The MTEC continues to monitor the implementation of these plans.

The National Treasury and the Department of Public Service and Administration are working with departments to reduce headcount, including testing the idea of voluntary severance packages.

A wage agreement that takes account of fiscal constraints can reduce headcount pressures

The 2015 wage agreement put significant pressure on the public finances by crowding out spending on goods, services and infrastructure. Negotiations on a new public-sector wage agreement are due to begin during 2017. An agreement that takes account of fiscal constraints will reduce some of the pressure on staff headcount and enable government to direct a larger portion of expenditure to capital investment.

New budgeting facility for multi-year infrastructure projects

Government is proposing a new financing facility for large infrastructure projects that require funding or other state support, such as sovereign guarantees. It will address shortcomings in the planning and execution of infrastructure projects, particularly as they relate to life-cycle budgeting, operations and maintenance costs. The facility will help government build a pipeline of projects that have undergone rigorous technical analysis.

A technical unit will develop government-wide project design and evaluation guidelines that will be issued as a regulation by the National Treasury. Projects will be rigorously appraised from inception until financial closure.

Government budgets over three-year cycles through the medium-term expenditure framework. Large infrastructure projects, however, typically take more than three years to complete. The reform will ensure that full life-cycle, multi-year budgeting takes place in a transparent manner. This will be done by introducing legislation that will govern funding, implementation and reporting requirements for very large projects. The first phase of the facility is expected to begin operating in 2017 with the establishment of a technical unit and governing board.

Government is working with municipalities to strengthen infrastructure and maintenance budgeting. The City Infrastructure Delivery and Management System has been developed by the National Treasury, in collaboration with cities, to improve long-term infrastructure planning and asset management.

Procurement reforms will boost efficiency, curb waste and narrow opportunities for corruption

While spending remains constrained in real terms, there are many opportunities to improve the quality of state expenditure. Initiatives led by the Office of the Chief Procurement Officer to boost efficiency, eliminate waste and narrow opportunities for corruption in public procurement are discussed in Chapter 5.

Risks to consolidation

Risks to the fiscal consolidation remain elevated. These risks are associated with the macroeconomic outlook, budget execution, policy uncertainty and financially distressed state-owned companies.

In most economic scenarios, debt is projected to stabilise as share of GDP

The likelihood of a recession has receded somewhat, but lower economic growth remains a significant risk to the budget. In most of National Treasury's economic scenarios, debt is projected to stabilise as a share of GDP. However, persistently weak growth over the next decade would result in a rising debt-to-GDP ratio.

Tax buoyancy – the ratio of tax revenue growth to nominal GDP growth – represents another risk to the consolidation. Tax buoyancy fell from 1.47 in 2015/16 to 0.88 in 2016/17. This reflects a combination of lower tax revenue and higher nominal GDP (mainly resulting from falling imports). Government projects a tax buoyancy of 1.1 in 2019/20.

Policy risks can result from unanticipated spending pressures, particularly where budgetary consequences have not been adequately considered. For example, the need to subsidise university fees by a higher-than-budgeted amount continues to put pressure on the public finances.

Financial condition of state-owned companies and entities poses risks

The financial condition of state-owned companies and public entities represents another significant risk over the medium term. Several state-owned companies – including South African Airways – require close monitoring and may require intervention to stabilise their operations. Any request for funding allocations will be considered in light of principles set out in the 2014 MTBPS – namely that approved funding cannot have an impact on the budget balance. Moreover, state-owned companies facing financial difficulty must demonstrate tangible progress in returning to profitability. Government will also explore opportunities to expand private participation.

Over the longer term, the solvency outlook of the Road Accident Fund (RAF) remains a concern. Legislation to create a new Road Accident Benefit Scheme is expected to be tabled in Parliament this year. Chapter 8 reviews the financial health of public-sector institutions and the steps government is taking to stabilise those in difficulty.

Fiscal framework

Consolidated deficit slightly wider than projected over medium term, reflecting lower revenue

Table 3.5 presents government's consolidated operating and capital accounts. Compared with the 2016 Budget, the consolidated deficit is wider by 0.3 per cent of GDP on average between 2016/17 and 2018/19. This reflects lower tax revenue, partially offset by projected underspending and higher surpluses of public entities. In inflation-adjusted terms, consolidated non-interest expenditure will grow at an annual average rate of 1.6 per cent over the next three years.

Over the medium term, compensation is projected to grow at a nominal annual average of 7.2 per cent. As a percentage of total expenditure, compensation remains stable at about 35 per cent. Current transfers and subsidies are expected to grow on average by 8.1 per cent over the next three years, mainly reflecting inflation-related increases to social grants.

Goods and services budgets will grow by 6.8 per cent over the same period.

Projected current surplus reflects improved composition of consolidated budget balance

Capital payments and transfers are expected to grow by a nominal annual average of 5.3 per cent over the medium term. The capital financing requirement, which is the summation of capital payments, transfers and receipts, averages about 3.5 per cent of GDP. At the same time, the current balance – the gap between revenue and operational spending – is moving into surplus. This reflects an improvement in the composition of the consolidated budget balance.

Table 3.5 Consolidated operating and capital accounts

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Revised estimate		Medium-term estimates	
OPERATING ACCOUNT							
Current revenue	**991.2**	**1 080.6**	**1 177.5**	**1 279.6**	**1 396.0**	**1 519.7**	**1 653.7**
Current payments	**1 005.4**	**1 082.5**	**1 175.7**	**1 276.5**	**1 378.1**	**1 480.9**	**1 599.4**
Compensation of employees	408.0	437.4	473.1	512.2	550.4	588.7	631.1
Goods and services	174.2	185.5	195.6	208.3	221.7	237.5	253.6
Interest payments	109.6	121.4	136.3	153.4	169.3	187.6	206.4
Current transfers and subsidies	313.7	338.3	370.6	402.7	436.7	467.1	508.4
Current balance	**-14.2**	**-2.0**	**1.8**	**3.0**	**17.9**	**38.8**	**54.2**
Percentage of GDP	*-0.4%*	*-0.1%*	*0.0%*	*0.1%*	*0.4%*	*0.8%*	*1.0%*
CAPITAL ACCOUNT							
Capital receipts	0.2	1.4	0.4	0.3	0.2	0.2	0.2
Capital payments	75.7	85.5	93.2	93.0	101.4	104.6	107.8
Capital transfers	58.1	59.8	65.1	69.3	72.1	76.6	81.8
Capital financing requirement	**-133.6**	**-143.9**	**-157.9**	**-162.0**	**-173.3**	**-181.1**	**-189.5**
Percentage of GDP	*-3.7%*	*-3.7%*	*-3.9%*	*-3.7%*	*-3.7%*	*-3.5%*	*-3.4%*
Financial transactions[1]	12.4	11.3	13.8	11.1	12.4	10.4	9.5
Contingency reserve	–	–	–	–	6.0	10.0	20.0
Budget balance	**-135.4**	**-134.6**	**-142.2**	**-147.9**	**-149.0**	**-141.9**	**-145.8**
Percentage of GDP	*-3.7%*	*-3.5%*	*-3.5%*	*-3.4%*	*-3.1%*	*-2.8%*	*-2.6%*

1. Transactions in financial assets and liabilities
Source: National Treasury

Elements of the consolidated budget

The consolidated budget includes the main budget as well as spending by provinces, public entities and social security funds financed from their own revenue.

Main budget framework

Main budget deficit declines from 3.9 per cent of GDP in 2016/17 to 3.3 per cent in outer year

The main budget framework, shown in Table 3.6, summarises spending financed by revenue and borrowing deposited into the National Revenue Fund. The main budget deficit, which is government's net borrowing requirement, will be 3.9 per cent of GDP in 2016/17, declining to 3.3 per cent in the outer year.

Despite revenue underperformance, the main budget primary deficit will halve from 1 per cent of GDP in 2015/16 to 0.5 per cent of GDP by the end of 2016/17, and reach a surplus in 2018/19. In real terms, non-interest expenditure will grow by 1.9 per cent over the next three years, remaining relatively stable at 26.2 per cent of GDP.

Revisions in personal income tax, customs and VAT only partially offset by corporate income tax

Compared with the 2016 Budget, gross tax revenue has been revised down by R30 billion in the current year. This reflects downward revisions to most tax categories, including value-added tax, customs, and personal income tax – partially offset by higher corporate income tax.

Despite the additional policy measures, gross tax revenue is projected to be lower by R31 billion in 2017/18 and R50 billion in 2018/19. This is offset by stronger mineral and petroleum royalties, departmental receipts and National Revenue Fund receipts. The latter result from premiums on debt transactions and revaluation profits on foreign-currency transactions.

Table 3.6 Main budget framework

R billion/percentage of GDP	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Revised estimate	Medium-term estimates		
Revenue							
Gross tax revenue after proposals	900.0	986.3	1 070.0	1 144.4	1 265.5	1 384.4	1 507.6
Non-tax revenue	19.0	18.3	42.9	17.9	18.3	17.8	19.0
SACU[1]	-43.4	-51.7	-51.0	-39.4	-56.0	-62.4	-64.5
National Revenue Fund receipts	11.7	12.6	14.4	14.1	14.6	11.2	9.5
Main budget revenue	**887.4**	**965.5**	**1 076.2**	**1 136.9**	**1 242.4**	**1 351.0**	**1 471.5**
	24.5%	*25.0%*	*26.3%*	*25.8%*	*26.2%*	*26.3%*	*26.5%*
Expenditure							
National departments	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
Contingency reserve	–	–	–	–	6.0	10.0	20.0
Non-interest expenditure	**946.6**	**1 017.1**	**1 115.8**	**1 161.1**	**1 246.9**	**1 341.5**	**1 454.9**
Debt-service costs	101.2	114.8	128.8	146.3	162.4	180.7	197.3
Main budget expenditure	**1 047.8**	**1 131.9**	**1 244.6**	**1 307.4**	**1 409.2**	**1 522.2**	**1 652.2**
	28.9%	*29.3%*	*30.5%*	*29.6%*	*29.7%*	*29.7%*	*29.8%*
Main budget balance	**-160.4**	**-166.4**	**-168.4**	**-170.5**	**-166.8**	**-171.2**	**-180.7**
	-4.4%	*-4.3%*	*-4.1%*	*-3.9%*	*-3.5%*	*-3.3%*	*-3.3%*
Primary balance	**-59.2**	**-51.6**	**-39.6**	**-24.3**	**-4.4**	**9.5**	**16.6**
	-1.6%	*-1.3%*	*-1.0%*	*-0.5%*	*-0.1%*	*0.2%*	*0.3%*

1. Southern African Customs Union. Amount made up of payments and other adjustments. 2017/18 figures are preliminary
Source: National Treasury

The large fall in the Southern African Customs Union (SACU) payment between 2015/16 and 2016/17 is mainly driven by a reclassification of the imported component of the fuel levy. The misclassification, which occurred in 2014/15, is corrected for in the current year in line with the SACU formula. Lower customs, excise, ad valorem duties and nominal imports result in a R5 billion downward revision of the 2017/18 payment estimate.

Debt-service costs to increase as result of higher borrowing

Debt-service costs are lower in the current year by R1.4 billion, reflecting a stronger exchange rate. Over the next two years, debt-service costs increase relative to the 2016 Budget projection, mainly as a result of higher borrowing.

Table 3.7 Revisions to main budget revenue and expenditure estimates

	2016/17		2017/18		2018/19	
R billion/percentage of GDP	2016 Budget	2017 Budget	2016 Budget	2017 Budget	2016 Budget	2017 Budget
Revenue						
Gross tax revenue	1 174.8	1 144.4	1 296.5	1 265.5	1 434.7	1 384.4
Non-tax revenue	14.5	17.9	15.1	18.3	14.4	17.8
SACU[1]	-39.4	-39.4	-51.1	-56.0	-63.0	-62.4
National Revenue Fund receipts	12.2	14.1	3.8	14.6	2.5	11.2
Main budget revenue	**1 162.0**	**1 136.9**	**1 264.3**	**1 242.4**	**1 388.7**	**1 351.0**
	26.5%	*25.8%*	*26.6%*	*26.2%*	*26.9%*	*26.3%*
Expenditure						
Current payments	359.7	359.8	383.7	382.8	412.3	413.3
of which:						
Compensation of employees	*148.5*	*148.3*	*154.8*	*154.7*	*163.3*	*163.2*
Goods and services	*63.3*	*65.1*	*66.8*	*65.7*	*70.3*	*69.3*
Debt-service costs	*147.7*	*146.3*	*161.9*	*162.4*	*178.6*	*180.7*
Transfers and subsidies	933.0	927.6	1 009.5	999.1	1 076.1	1 079.6
Payments for capital assets	14.4	13.7	13.0	15.8	13.8	14.1
Payments for financial assets	5.0	6.2	5.0	5.4	5.0	5.0
Provisional allocation not assigned to votes	0.3	–	0.5	–	17.8	0.2
Contingency reserve	6.0	–	10.0	6.0	15.0	10.0
Total expenditure	**1 318.3**	**1 307.4**	**1 421.7**	**1 409.2**	**1 540.0**	**1 522.2**
	30.0%	*29.6%*	*29.9%*	*29.7%*	*29.8%*	*29.7%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments. 2017/18 figures are preliminary
Source: National Treasury

Social security funds, public entities and provincial balances

The social security funds, public entities and provinces have a combined cash surplus over the medium term, which partially offsets the main budget deficit. Despite cash surpluses, the balance sheets of many public entities have deteriorated markedly, as discussed in Chapter 8.

Table 3.8 Consolidated budget balance

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Main budget	-160.4	-166.4	-168.4	-170.5	-166.8	-171.2	-180.7
Social security funds	13.5	15.8	18.9	19.8	21.4	23.2	24.4
Provinces	4.3	6.2	0.6	-0.6	0.6	0.8	1.0
Public entities	6.6	9.5	7.1	2.6	-4.1	5.7	9.9
RDP Fund[1]	0.6	0.4	-0.5	0.8	-0.2	-0.4	-0.4
Consolidated budget balance	**-135.4**	**-134.6**	**-142.2**	**-147.9**	**-149.0**	**-141.9**	**-145.8**

1. Reconstruction and Development Programme Fund
Source: National Treasury

In aggregate, social security funds continue to generate a large cash surplus, averaging about R23 billion in each year of the MTEF period. Around three-quarters of the surplus is driven by the Unemployment Insurance Fund, which generates far more in revenue than it disburses. Public entities recorded a cash surplus of R7.1 billion in 2015/16 compared with a deficit of R3.5 billion projected in the 2016 Budget. The Passenger Rail Agency of South Africa, which receives most of its income in the form of transfers from government, ran a surplus of R4.4 billion in 2015/16 as a result of underspending on its capital programme. Similarly, the sector educational and training authorities, the National Skills Fund and the water boards also underspent.

Provinces have cash surpluses that are typically used to repay debt, and to clear balances and accruals accumulated in prior years. A provincial deficit is projected for the current year as some provinces draw on their accumulated reserves.

Summary

Government remains on track to contain budget deficit and stabilise national debt as share of GDP

Despite a weaker revenue outlook, government remains on track to contain the budget deficit and stabilise national debt as a share of GDP. There is some evidence that the economy is recovering. Growth is still subdued, however, and there are several pressures on the budget. Over the coming fiscal year, government will ensure implementation of the fiscal strategy to protect the public finances.