Budget Review

2018

National Treasury

Republic of South Africa

21 February 2018

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2018 BUDGET HIGHLIGHTS

ECONOMIC OUTLOOK

- Gross domestic product growth of 1 per cent is expected for 2017, up from 0.7 per cent projected in October 2017. Growth is forecast to reach 2.1 per cent by 2020.
- The economy has benefited from strong growth in agriculture, higher commodity prices and, in recent months, an upturn in investor sentiment.
- The global economic recovery provides a supportive environment for South Africa to expand trade and investment, but domestic constraints that have reduced business confidence stand in the way of accelerated growth.
- Government will implement structural reforms to promote investment by reducing policy uncertainty, and act decisively to promote good governance and sound financial practices at state-owned companies.

BUDGET FRAMEWORK

- The budget deficit is projected to narrow from 4.3 per cent of GDP in 2017/18 to 3.5 per cent in 2020/21.
- Main budget non-interest expenditure is projected to remain stable at 26.6 per cent of GDP between 2017/18 and 2020/21.
- Net debt is expected to stabilise at 53.2 per cent of GDP in 2023/24.
- Proposed tax measures will raise an additional R36 billion in 2018/19.
- The fiscal framework reflects two major changes that followed the 2017 MTBPS: medium-term expenditure cuts identified by a Cabinet subcommittee amounting to R85 billion, and an additional allocation of R57 billion for fee-free higher education and training.
- Contingency reserves have been revised upwards to R26 billion over the next three years.
- Real growth in non-interest expenditure will average 1.8 per cent over the next three years. Post-school education and training is the fastest-growing category.

SPENDING PROGRAMMES

Over the next three years, government will spend:

- R528.4 billion on social grants.
- In total, R324 billion is provided for higher education and training, including R57 billion of new allocations for fee-free higher education and training.
- R792 billion on basic education, including R35 billion for infrastructure, and R15.3 billion for learner and teacher support materials, including ICT.
- R667.8 billion on health, with R66.4 billion on the HIV, AIDS and TB conditional grant.
- R123.3 billion on subsidised public housing.
- R125.8 billion on water infrastructure and services.
- R207.4 billion on transfers of the local government equitable share to provide basic services to poor households.
- R129.2 billion to support affordable public transport.

TAX PROPOSALS

In 2018/19:

- The VAT rate will increase from 14 to 15 per cent from 1 April 2018.
- R6.8 billion will be raised from partial relief for bracket creep.
- Increases in the general fuel levy and alcohol and tobacco excise duties will together raise revenue of R2.6 billion. *Ad valorem* excise duties for luxury goods, such as motor vehicles, will be increased.
- Estates above R30 million will now be taxed at a rate of 25 per cent.
- The plastic bag levy, motor vehicle emissions tax and the levy on incandescent light bulbs will be raised to promote eco-friendly choices. A health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018.

2018 BUDGET

KEY BUDGET STATISTICS

A full set of 2018 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 annexure due to classification, definition and rounding.

BUDGET REVENUE 2018/19

R billion	
Tax revenue	**1 345.0**
of which:	
Personal income tax	*505.8*
Corporate income tax	*231.2*
Value-added tax	*348.1*
Taxes on international trade and transactions	*54.1*
Non-tax revenue	**24.5**
less: SACU payments	-48.3
Main budget revenue	**1 321.1**
Provinces, social security funds and public entities	169.6
Consolidated budget revenue	**1 490.7**
As percentage of GDP	
Tax revenue	*26.8%*
Main budget revenue	*26.3%*

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2014	2015	2016	2017	2018	2019	2020
	Actual			Estimate	Forecast		
Household consumption	0.7	1.7	0.8	1.3	1.7	1.9	2.3
Gross fixed-capital formation	1.7	2.3	-3.9	0.3	1.9	3.3	3.7
Exports	3.2	3.9	-0.1	1.5	3.8	3.4	3.5
Imports	-0.5	5.4	-3.7	2.7	4.4	4.6	4.5
Real GDP growth	1.7	1.3	0.3	1.0	1.5	1.8	2.1
CPI inflation	6.1	4.6	6.3	5.3	5.3	5.4	5.5
Current account balance (% of GDP)	-5.3	-4.4	-3.3	-2.2	-2.3	-2.7	-3.2

CONSOLIDATED FISCAL FRAMEWORK

R billion/ % of GDP	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Outcome			Estimate	Medium-term estimates		
Revenue	**1 095.3**	**1 215.3**	**1 285.7**	**1 353.6**	**1 490.7**	**1 609.7**	**1 736.9**
	28.3%	*29.5%*	*29.2%*	*28.8%*	*29.7%*	*29.9%*	*29.9%*
Expenditure	**1 235.0**	**1 366.2**	**1 441.8**	**1 558.0**	**1 671.2**	**1 803.0**	**1 941.9**
	31.9%	*33.1%*	*32.7%*	*33.2%*	*33.3%*	*33.4%*	*33.4%*
Budget balance	**-139.7**	**-151.0**	**-156.1**	**-204.3**	**-180.5**	**-193.3**	**-205.0**
	-3.6%	*-3.7%*	*-3.5%*	*-4.3%*	*-3.6%*	*-3.6%*	*-3.5%*

DIVISION OF NATIONALLY RAISED REVENUE

R billion	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Outcome			Estimate	Medium-term estimates		
Division of available funds							
National departments	490.0	546.1	555.7	599.9	628.6	685.9	736.6
Provinces	439.5	471.4	500.4	538.2	571.0	611.8	657.5
Local government	87.6	98.3	102.9	110.7	118.5	126.9	137.5
Non-interest allocations	**1 017.1**	**1 115.8**	**1 159.0**	**1 248.8**	**1 324.1**	**1 426.9**	**1 533.6**
Percentage shares							
National departments	48.2%	48.9%	48.0%	48.0%	47.7%	48.1%	48.1%
Provinces	43.2%	42.2%	43.2%	43.1%	43.3%	42.9%	42.9%
Local government	8.6%	8.8%	8.9%	8.9%	9.0%	8.9%	9.0%

CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2018/19

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	190.7	24.2	12.6	19.2	0.1	**246.8**
Post-school education and training	10.7	1.8	5.0	76.2	0.0	**93.7**
Arts, culture, sport and recreation	3.9	3.3	1.4	2.1	0.0	**10.7**
Health	128.8	57.4	12.9	6.3	0.0	**205.4**
Social protection	13.5	7.8	1.0	171.0	0.0	**193.4**
Social security funds	3.9	4.4	0.3	57.1	0.3	**66.0**
Community development	17.6	13.2	74.9	90.6	0.0	**196.3**
Industrialisation and exports	9.2	2.4	8.3	13.0	0.0	**32.9**
Agriculture and rural development	12.4	7.7	5.8	4.3	0.0	**30.2**
Job creation and labour affairs	3.4	7.0	0.9	12.0	0.0	**23.3**
Economic regulation and infrastructure	19.9	36.4	30.7	3.7	7.2	**97.9**
Innovation, science and technology	4.9	3.2	1.4	6.3	0.0	**15.8**
Defence and state security	25.2	11.6	1.4	10.2	0.0	**48.4**
Police services	75.4	18.5	4.0	1.2	0.0	**99.1**
Law courts and prisons	32.0	11.0	2.0	0.4	0.0	**45.4**
Home affairs	4.5	2.7	0.5	0.2	0.0	**7.9**
Executive and legislative organs	7.5	5.4	0.4	2.7	0.0	**16.0**
Public administration and fiscal affairs	20.6	13.2	2.5	4.1	0.0	**40.4**
External affairs	3.0	2.5	0.4	1.5	0.1	**7.6**
Payments for financial assets						**6.0**
Debt-service costs					180.1	**180.1**
Contingency reserve						**8.0**
Total	**587.1**	**233.6**	**166.5**	**482.1**	**187.8**	**1 671.2**

2018/19 BUDGET EXPENDITURE

CONSOLIDATED GOVERNMENT EXPENDITURE — **R1.67 TRILLION**

R1.01 TRILLION — **SOCIAL SERVICES**

ECONOMIC DEVELOPMENT R200.1bn

Economic regulation and infrastructure	R97.9bn
Industrialisation and exports	R32.9bn
Agriculture and rural development	R30.2bn
Job creation and labour affairs	R23.3bn
Innovation, science and technology	R15.8bn

LEARNING AND CULTURE R351.1bn

Basic education	R230.4bn
University transfers	R34.9bn
National Student Financial Aid Scheme	R22.8bn
Skills development levy institutions	R19.3bn
Education administration	R16.8bn
Technical and vocational education and training	R10.7bn

PEACE AND SECURITY R200.8bn

Police services	R99.1bn
Defence and state security	R48.4bn
Law courts and prisons	R45.4bn
Home affairs	R7.9bn

HEALTH R205.4bn

District health services	R90.2bn
Central hospital services	R38.6bn
Provincial hospital services	R34.3bn
Other health services	R33.8bn
Facilities management and maintenance	R8.5bn

GENERAL PUBLIC SERVICES R64bn

Public administration and fiscal affairs	R40.4bn
Executive and legislative organs	R16.0bn
External affairs	R7.6bn

COMMUNITY DEVELOPMENT R196.3bn

Municipal equitable share	R62.7bn
Human settlements, water and electrification programmes	R56.5bn
Public transport	R38.6bn
Other human settlements and municipal infrastructure	R38.5bn

DEBT-SERVICE COSTS R180.1bn

SOCIAL DEVELOPMENT R259.4bn

Old-age grant	R70.5bn
Social security funds	R66bn
Child-support grant	R60.6bn
Disability grant	R22.1bn
Provincial social development	R20.6bn
Policy oversight and grant admin	R9.8bn
Other grants	R9.7bn

Foreword

The 2018 Budget arrives at a moment of opportunity for South Africa. A renewed sense of optimism has provided a much-needed boost to confidence and investment. The economic outlook has improved. And government has expressed a new resolve to strengthen policy coordination.

Yet this positive turn of events should not blind us to the enormous economic and fiscal challenges facing our country. Economic growth is far too low to reduce alarmingly high unemployment and inequality. Revenue collection, on which government depends to fund social and economic spending programmes, will fall short of projections by R48.2 billion in 2017/18. The finances of several state-owned companies are in a precarious state.

The 2017 *Medium Term Budget Policy Statement* (MTBPS) pointed out that extraordinary measures would be needed to stabilise the public finances. Without such measures, we would only delay the debt reckoning, and a growing share of spending would be absorbed by interest payments.

The 2018 Budget proposals address these concerns with resolve. The budget sets out a programme of expenditure cuts identified by a Cabinet subcommittee amounting to R85 billion over the next three years, and reprioritises spending. Several tax measures, including a value-added tax increase and maintaining the top four tax brackets with no inflationary adjustment, will raise an additional R36 billion in 2018/19, enabling government to narrow the revenue gap. Social grant payments will increase faster than inflation to offset the effect of higher taxes on poor households.

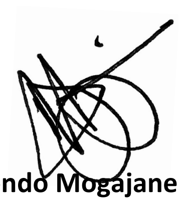
The budget also responds to new policy initiatives. This includes an allocation of R57 billion for fee-free higher education and training over the medium term, as announced in December 2017.

The fiscal measures in this budget entail a difficult adjustment. They will require increased spending discipline in government and resilience from the people of South Africa. Nonetheless, these measures will protect the government's ability to meet its constitutional obligations over the long term, and ensure that we retain fiscal sovereignty.

As a result of these steps and the improved growth outlook, the budget deficit is projected to narrow to 3.5 per cent of GDP in 2020/21. Gross loan debt, which in the MTBPS projections was set to breach 60 per cent in 2021/22, is now projected to stabilise at 56.2 per cent by 2022/23.

Government is committed to setting the country on a new path of growth, employment and transformation. In the months ahead, we will end policy limbo in key areas and address governance concerns with renewed vigour. We will build a social compact with business and labour to speed up investment and job creation. And we will continue to improve planning for major infrastructure projects to ensure value for money.

I would like to extend my thanks to Cabinet, the Minister and Deputy Minister of Finance, Parliament's finance portfolio committee, the Ministers' Committee on the Budget and my colleagues across government for their contributions to the 2018 Budget, which took shape in a highly complex environment. I would also like to thank my predecessor, former Director-General Lungisa Fuzile, for his many years of service to the country. I am especially grateful to the team at the National Treasury, who have worked diligently for the people of South Africa through extraordinarily challenging times.



Dondo Mogajane
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