3

Fiscal policy

In brief

- The economic and revenue outlook has deteriorated since the October 2018 *Medium Term Budget Policy Statement* (MTBPS), and funding pressures from state-owned companies have increased.
- Given these developments, the 2019 Budget proposes large-scale expenditure reprioritisation and tax measures that narrow the deficit from 4.5 per cent of GDP in 2019/20 to 4 per cent by 2021/22. Gross national debt is projected to stabilise at 60.2 per cent of GDP in 2023/24.
- Relative to the 2018 MTBPS, baselines have been reduced by R50.3 billion, with about half of this amount relating to compensation. These reductions are offset by provisional allocations of R75.3 billion over the next three years, mainly for Eskom's reconfiguration. In total, the expenditure ceiling has been raised by R14 billion in 2019/20, R1.3 billion in 2020/21 and R732 million in 2021/22.
- The contingency reserve has been raised by R6 billion in 2019/20 to reflect the risk of additional fiscal support for smaller state-owned companies. Any support will be funded through the sale of assets, and will not affect the budget balance.

Overview

The 2018 MTBPS noted that weak economic performance and revenue shortfalls had contributed to some slippage in fiscal projections. Since then, economic growth has remained subdued and the domestic GDP outlook has been revised down. In the current year, tax revenue will be R15.4 billion below the 2018 MTBPS estimate. Funding pressures from Eskom and other financially distressed state-owned companies have increased, with several requesting state support to continue operating.

Budget proposes tax and spending measures to narrow deficit and stabilise debt-to-GDP ratio

In this context, the 2019 Budget proposes a series of tax and expenditure measures aimed at narrowing the deficit and stabilising the debt-to-GDP ratio. Over the medium term, additions to spending amount to R75.3 billion, consisting mainly of transfers to support the reconfiguration of Eskom. These additions are partially offset by reductions to baselines and proposed savings from compensation adjustments totalling R50.3 billion. Tax measures raise an additional R15 billion in 2019/20 and R10 billion in 2020/21.

Table 3.1 Macroeconomic performance and projections

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Percentage change		**Actual**		**Estimate**		**Forecast**	
Real GDP growth	0.6	0.9	1.3	0.7	1.5	1.9	2.1
Nominal GDP growth	6.8	6.9	7.0	7.2	7.0	7.4	7.5
CPI inflation	5.2	6.3	4.7	4.9	5.2	5.5	5.4
GDP at current prices (R billion)	**4 127.0**	**4 412.7**	**4 721.0**	**5 059.1**	**5 413.8**	**5 812.4**	**6 249.1**

Source: National Treasury

In combination, these measures are expected to narrow the consolidated budget deficit from a projected 4.5 per cent of GDP in 2019/20 to 4 per cent of GDP in 2021/22. Gross national debt is projected to stabilise at 60.2 per cent of GDP in 2023/24. Net loan debt (gross loan debt excluding government's cash balances) stabilises at 57.3 per cent of GDP in 2024/25.

Table 3.2 Consolidated fiscal framework

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
R billion/percentage of GDP		**Outcome**		**Revised estimate**		**Medium-term estimates**	
Revenue	**1 215.3**	**1 285.9**	**1 353.5**	**1 455.2**	**1 583.8**	**1 696.4**	**1 836.6**
	29.4%	*29.1%*	*28.7%*	*28.8%*	*29.3%*	*29.2%*	*29.4%*
Expenditure	**1 366.3**	**1 443.0**	**1 543.8**	**1 665.4**	**1 826.6**	**1 948.9**	**2 089.0**
	33.1%	*32.7%*	*32.7%*	*32.9%*	*33.7%*	*33.5%*	*33.4%*
Non-interest expenditure	*1 227.9*	*1 288.6*	*1 374.0*	*1 476.7*	*1 617.2*	*1 716.2*	*1 833.1*
	29.8%	*29.2%*	*29.1%*	*29.2%*	*29.9%*	*29.5%*	*29.3%*
Budget balance	**-151.0**	**-157.0**	**-190.3**	**-210.2**	**-242.7**	**-252.6**	**-252.4**
	-3.7%	*-3.6%*	*-4.0%*	*-4.2%*	*-4.5%*	*-4.3%*	*-4.0%*

Source: National Treasury

As Figure 3.2 shows, government debt has grown considerably since 2009. Without intervention, a continued increase in debt and debt-service costs will crowd out economic and social expenditure. If economic growth does not strengthen in the period ahead, more difficult fiscal adjustments will be required to return the public finances to a sustainable path.

Figure 3.1 Revenue and non-interest spending*

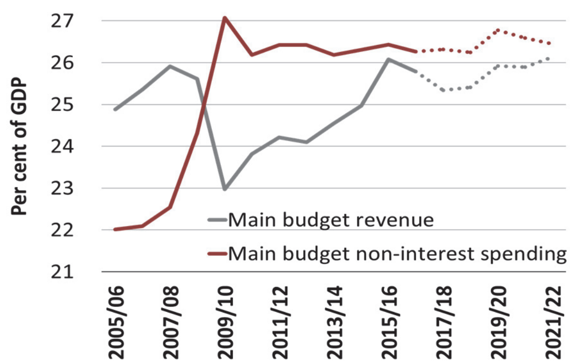
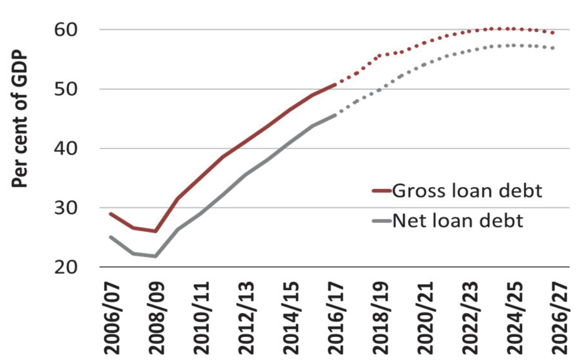


Figure 3.2 Gross and net debt outlook



**Excludes financial transactions*
Source: National Treasury

Changes in tax revenue and the expenditure ceiling

Tax revenue projections

Tax revenue is expected to underperform by R15.4 billion in 2018/19 compared with 2018 MTBPS estimates. This creates a lower base for revenue projections in the outer years. In addition, major tax bases have been revised downwards. Table 3.3 shows that over the next three years, gross tax revenue shortfalls total R16.3 billion compared with 2018 MTBPS estimates.

Tax revenue underperforms by estimated R15.4 billion in 2018/19

The 2019 Budget proposes tax increases of R15 billion in 2019/20 and R10 billion in 2020/21 relative to the 2018 MTBPS estimates. The additional revenue in 2019/20 will be raised primarily from limiting relief for the effects of inflation on personal income tax. The increases will partially offset projected revenue shortfalls in each year of the medium-term expenditure framework (MTEF).

Table 3.3 Revised gross tax revenue projections

R billion	2018/19	2019/20	2020/21	2021/22
MTBPS 2018	1 317.6	1 430.1	1 548.9	1 674.8
Revised estimate including tax proposals	1 302.2	1 422.2	1 544.9	1 670.4
Deviation against 2018 MTBPS including tax proposals	-15.4	-7.9	-4.0	-4.4

Source: National Treasury

Expenditure ceiling adjustments

Since 2012, despite considerable spending pressures, the main budget expenditure ceiling has anchored fiscal policy. At the time of the 2018 MTBPS, a total of R33.4 billion was reprioritised over the MTEF period to support policy priorities, including the President's economic stimulus and recovery plan, and some non-discretionary and infrastructure spending pressures. These changes did not affect the expenditure ceiling.

Baselines reduced by R50.3 billion, while spending additions total R75.3 billion

Relative to the 2018 MTBPS, the 2019 Budget's proposed adjustments to spending plans will affect the expenditure ceiling as follows:

- Baseline spending reductions amount to R50.3 billion over the MTEF period. The largest proportion of these reductions – 54 per cent – fall on compensation. Goods and services budgets for selected public entities will also be reduced by 1 per cent. Allocations to specific programmes that have accumulated surpluses or require significant reform will be cut. The contingency reserve is increased by R6 billion in 2019/20, and is lowered by R8 billion in the two outer years of the framework. Initial reforms to reconfigure the state are also expected to reduce spending on compensation, and on goods and services.

- Spending additions totalling R75.3 billion over the MTEF period, of which R69 billion is a provisional allocation for reconfiguring Eskom, R5 billion is for the infrastructure fund and R1.3 billion is for the 2021 Census.

- The 2018 MTBPS allocated R5 billion to South African Airways (SAA), R1.2 billion to South African Express Airways and R2.9 billion to the South African Post Office (SAPO) in the current year. An additional

R1.5 billion is allocated to SAPO over the MTEF period. Other state-owned companies, including SAA, the South African Broadcasting Corporation and Denel, have requested fiscal support to continue operating. Government has revised the contingency reserve for 2019/20 to respond to possible requests for financial support. Any financial support agreed on will be raised from the sale of non-core assets and will be excluded from the expenditure ceiling.

Table 3.4 Adjustments to the expenditure ceiling since 2018 Budget

	MTEF spending changes			
R million	**2019/20**	**2020/21**	**2021/22**	**MTEF total**
2018 Budget non-interest expenditure	**1 434 907**	**1 543 593**	**1 651 638**	**4 630 138**
Skills development levy adjustment	459	618	706	1 783
2018 MTBPS non-interest expenditure	1 435 366	1 544 211	1 652 345	4 631 922
Budget 2019				
Baseline adjustments[1]	-9 002	-19 711	-21 568	-50 281
Changes to contingency reserve	6 000	-2 000	-6 000	-2 000
Additions to spending[2]	24 000	23 000	28 300	75 300
National Revenue Fund payments adjustment	135	–	–	135
2019 Budget non-interest expenditure	**1 456 500**	**1 545 500**	**1 653 077**	**4 655 076**
Change in non-interest expenditure from 2018 Budget	*21 592*	*1 907*	*1 438*	*24 938*
Less:				
Skills development levy	-18 759	-20 437	-22 307	-61 503
Other adjustments[3]	-7 146	-11	-12	-7 168
2019 Budget expenditure ceiling	**1 430 595**	**1 525 052**	**1 630 758**	**4 586 405**
Change in expenditure ceiling from 2018 Budget	*13 998*	*1 289*	*732*	*16 019*

1. Baseline reductions and changes to provisional allocations
2. Allocation for Census 2021 and provisional allocations for Eskom and infrastructure fund
3. Provision for SOC funding in 2019/20 through the sale of assets, NRF payments and International Oil Pollution Compensation Fund
Source: National Treasury

After taking account of the various adjustments to non-interest spending, the expenditure ceiling will increase by R14 billion in 2019/20, R1.3 billion in 2020/21 and R732 million in 2021/22 relative to 2018 MTBPS estimates.

Table 3.5 Main budget expenditure ceiling[1]

R million	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
2017 Budget Review	1 074 970	1 144 225	1 229 823	1 323 553	1 435 408		
2017 MTBPS		1 141 978	1 233 722	1 316 553	1 420 408	1 524 222	
2018 Budget Review			1 232 678	1 315 002	1 416 597	1 523 762	
2018 MTBPS			1 225 455	1 314 865	1 416 597	1 523 762	1 630 026
2019 Budget Review				**1 310 156**	**1 430 595**	**1 525 052**	**1 630 758**

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

Risks to the fiscal outlook

The primary risks to the fiscal outlook stem from the macroeconomic forecast. A sharp rise in bond yields, exchange rate depreciation or lower economic growth could widen the deficit and delay debt stabilisation.

Main expenditure risk stems from state-owned companies in financial distress

The main expenditure risk to the fiscus stems from state-owned companies. Several major companies are in financial distress. If reforms to restore their financial sustainability are unsuccessful, risks from associated contingent liabilities, alongside requests for fiscal support, may materialise.

In 2019, the National Treasury will publish an update to its long-term fiscal model. The model assesses the affordability of current public expenditure commitments and new policy priorities using a range of economic and demographic assumptions.

National Treasury investigating measures to anchor fiscal sustainability

In addition to the expenditure ceiling, the National Treasury is investigating the feasibility of other measures to anchor fiscal sustainability, such as rules to protect the composition of spending and limit the pace of debt accumulation. It will draw on global best practice to develop recommendations.

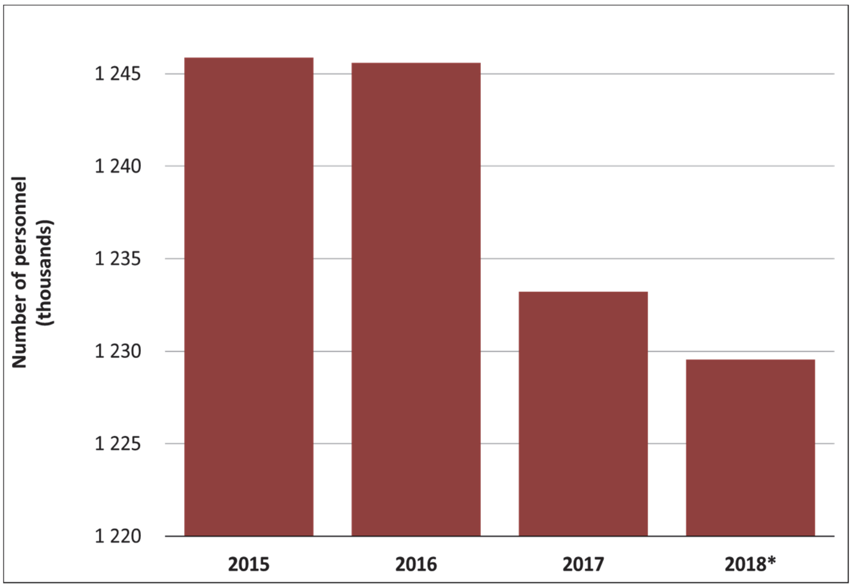
Managing the public-service wage bill

Compensation accounts for more than 35 per cent of consolidated public spending and has been a major driver of the fiscal deficit. Spending reductions have typically fallen on goods and services, and capital investment. Over time, compensation as a share of consolidated spending has increased for most departments.

Projected compensation spending likely to be lower than budgeted for 2018/19

Following last year's wage agreement, the 2018 MTBPS projected a shortfall of about R30 billion over the 2018 MTEF period if departments' employee numbers remained static. Recent data shows that employee numbers are declining at a rate sufficient to absorb wage agreement pressures, owing to natural attrition. Monthly payrolls in 2018 showed an average of about 16 000 fewer employees than in the corresponding months of 2015. In addition, new employees tend to be younger and lower ranked than employees who are leaving. As a result of these trends, projected national and provincial compensation spending is likely to be lower than budgeted for 2018/19.

Figure 3.3 Number of personnel (excluding SANDF)*



**Average for January to August*
Source: National Treasury (PERSAL data)

Over the medium term, government will take additional steps to manage growth in compensation. The combination of natural attrition and active measures allows for a reduction of compensation budgets by R5.3 billion in 2019/20, R11 billion in 2020/21 and R10.7 billion in 2021/22.

Government has decided to scale up early retirement without penalties. Where feasible, older employees will be allowed to retire early, with younger employees taking their place. Departments are required to realise permanent savings of 50 per cent of the cost attributable to early retirement cases. In December 2018, there were 126 710 public service employees between the ages of 55 and 59 years old. This initiative is expected to save an estimated R20.3 billion over the 2019 MTEF period, assuming that 30 000 employees take up the offer. This measure contributes to a more sustainable wage bill.

Early retirement penalties to be funded from contingency reserve and state pension fund

Funding will be provided for associated once-off penalties and other retirement-related costs. The estimated cost of this intervention is about R16 billion over the next two years, of which a portion will be funded from the contingency reserve, and the balance by the Government Employees Pension Fund. The fund's contribution will be repaid by the state over a longer period.

The Department of Public Service and Administration has announced a change to performance bonus payments. In recent years, government has paid out about R2 billion per year in performance bonuses. Government proposes to progressively phase out this bonus over the next four years, and to replace it with other performance management measures.

Additional measures to contain the wage bill, including active management of overtime and progression payments, are under consideration.

Fiscal framework

Consolidated deficit of 4.2 per cent of GDP in 2018/19

The consolidated operating and capital accounts are summarised in Table 3.6. The consolidated deficit in 2018/19 (4.2 per cent of GDP) is wider than the 2018 Budget estimate by 0.6 percentage points. This is mainly a result of lower tax revenue, partially offset by projected underspending and higher surpluses of social security funds and public entities.

Compared with the 2018 Budget, the consolidated deficit estimates for 2019/20 and 2020/21 are wider on average by 0.9 percentage points, mainly due to lower tax revenue and higher consolidated spending. The provisional allocation of R23 billion per year for Eskom is the main driver of higher consolidated spending. The consolidated deficit is projected to narrow from 4.5 per cent of GDP in 2019/20 to 4 per cent of GDP in 2021/22.

Compensation as share of total expenditure declines to 35.1 per cent in 2018/19

Over the MTEF period, consolidated non-interest spending will grow at an annual real average rate of 2 per cent. Compensation as a share of total expenditure is projected to decline from 35.5 per cent in 2017/18 to 35.1 per cent in 2018/19, and 34.2 per cent in 2021/22. Over the next three years, the consolidated wage bill is projected to grow at a nominal annual average of 6.8 per cent.

Table 3.6 Consolidated operating and capital accounts

R billion/percentage of GDP	2015/16	2016/17 Outcome	2017/18	2018/19 Revised estimate	2019/20	2020/21 Medium-term estimates	2021/22
OPERATING ACCOUNT							
Current revenue	**1 172.2**	**1 267.2**	**1 333.7**	**1 439.8**	**1 568.7**	**1 687.1**	**1 826.3**
Current payments	**1 179.5**	**1 285.7**	**1 375.6**	**1 495.5**	**1 610.3**	**1 731.0**	**1 855.7**
Compensation of employees	473.2	511.6	547.4	585.2	627.1	667.6	713.1
Goods and services	197.9	218.9	227.5	242.6	251.0	268.3	293.5
Interest payments	138.5	154.4	169.8	188.7	209.4	232.7	255.9
Current transfers and subsidies	369.9	400.8	431.0	478.9	522.7	562.4	593.3
Current balance	**-7.3**	**-18.5**	**-41.9**	**-55.6**	**-41.6**	**-43.8**	**-29.4**
	-0.2%	*-0.4%*	*-0.9%*	*-1.1%*	*-0.8%*	*-0.8%*	*-0.5%*
CAPITAL ACCOUNT							
Capital receipts	0.3	0.5	0.5	0.3	0.3	0.3	0.3
Capital payments	90.3	79.0	75.2	84.2	98.5	103.1	111.0
Capital transfers	65.4	69.7	72.6	70.3	75.0	78.5	85.4
Capital financing requirement	**-155.4**	**-148.2**	**-147.3**	**-154.2**	**-173.2**	**-181.3**	**-196.1**
	-3.8%	*-3.4%*	*-3.1%*	*-3.0%*	*-3.2%*	*-3.1%*	*-3.1%*
Financial transactions[1]	11.7	9.7	-1.1	-0.4	-14.9	-21.4	-20.9
Contingency reserve	–	–	–	–	13.0	6.0	6.0
Budget balance	**-151.0**	**-157.0**	**-190.3**	**-210.2**	**-242.7**	**-252.6**	**-252.4**
	-3.7%	*-3.6%*	*-4.0%*	*-4.2%*	*-4.5%*	*-4.3%*	*-4.0%*

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

Over the medium term, the composition of spending gradually improves. In line with the President's economic stimulus and recovery plan, initiatives to boost infrastructure spending are under way. The capital financing requirement, which is the sum of capital payments, transfers and receipts, is expected to remain in deficit, at about 3 per cent of GDP, over the medium term. Capital payments and transfers grow by a nominal annual average of 8.3 per cent. The current deficit – the gap between revenue and current spending – is projected to narrow over the MTEF period.

Elements of the consolidated budget

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

Main budget framework

Main budget deficit projected to widen in 2019/20, then narrow to 4.3 per cent of GDP in 2021/22

Table 3.7 summarises spending financed from the National Revenue Fund. The main budget deficit, which is the government's net borrowing requirement, has exceeded the 2018 Budget estimate of 3.8 per cent of GDP in 2018/19 by 0.6 percentage points. The wider deficit is mainly attributable to tax revenue shortfalls, partially offset by lower expected spending. Consequently, net borrowing increases by R33.4 billion in the current year. The main budget deficit is projected to widen to 4.7 per cent of GDP in 2019/20 before narrowing to 4.3 per cent of GDP in 2021/22.

Table 3.7 Main budget framework

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised estimate		Medium-term estimates	
Revenue							
Gross tax revenue after proposals	1 070.0	1 144.1	1 216.5	1 302.2	1 422.2	1 544.9	1 670.4
Non-tax revenue	42.9	19.0	19.3	19.8	27.0	21.1	22.3
SACU[1]	-51.0	-39.4	-56.0	-48.3	-50.3	-65.8	-65.4
National Revenue Fund receipts	14.4	14.2	16.6	11.7	4.5	5.0	5.6
Main budget revenue	**1 076.2**	**1 137.9**	**1 196.4**	**1 285.4**	**1 403.5**	**1 505.1**	**1 632.9**
	26.1%	*25.8%*	*25.3%*	*25.4%*	*25.9%*	*25.9%*	*26.1%*
Expenditure							
National departments	546.1	555.7	592.7	638.2	684.7	733.1	777.7
Provinces	471.4	500.4	538.6	572.2	612.3	657.1	701.0
Local government	98.3	102.9	111.1	117.3	127.3	137.9	149.5
Contingency reserve	–	–	–	–	13.0	6.0	6.0
Provisional allocation not assigned to votes	–	–	–	–	19.2	11.4	18.9
Non-interest expenditure	**1 115.8**	**1 159.0**	**1 242.3**	**1 327.6**	**1 456.5**	**1 545.5**	**1 653.1**
Debt-service costs	128.8	146.5	162.6	182.2	202.2	224.1	247.4
Main budget expenditure	**1 244.6**	**1 305.5**	**1 405.0**	**1 509.9**	**1 658.7**	**1 769.6**	**1 900.5**
	30.2%	*29.6%*	*29.8%*	*29.8%*	*30.6%*	*30.4%*	*30.4%*
Main budget balance	**-168.4**	**-167.6**	**-208.6**	**-224.5**	**-255.2**	**-264.4**	**-267.6**
	-4.1%	*-3.8%*	*-4.4%*	*-4.4%*	*-4.7%*	*-4.5%*	*-4.3%*
Primary balance	**-39.6**	**-21.1**	**-45.9**	**-42.3**	**-53.0**	**-40.4**	**-20.2**
	-1.0%	*-0.5%*	*-1.0%*	*-0.8%*	*-1.0%*	*-0.7%*	*-0.3%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments. The estimates for the outer two years include projected forecast error adjustments for 2018/19 and 2019/20, respectively
Source: National Treasury

Compared with 2018 MTBPS estimates, non-tax revenue and National Revenue Fund receipts have been revised upwards due to higher-than-anticipated collections for mineral and petroleum royalties, and revaluation profits on foreign-currency transactions.

Payments to the Southern African Customs Union are projected to increase sharply between 2019/20 and 2020/21 due to rising imports and estimated underpayments.

Debt-service costs increasing above 2018 Budget estimates

Real growth in main budget non-interest expenditure will increase from 1.9 per cent in 2018/19 to 4.3 per cent in 2019/20, largely due to the provisional allocation of R23 billion for reconfiguring Eskom. Table 3.8 shows revisions to the main budget revenue and expenditure estimates since the 2018 Budget. Debt-service costs are higher than the 2018 Budget estimates by R2.1 billion in the current year, R4.5 billion in 2019/20 and R10.2 billion in 2020/21.

Table 3.8 Revisions to main budget revenue and expenditure estimates

	2018/19		2019/20		2020/21	
R billion/percentage of GDP	**2018 Budget**	**2019 Budget**	**2018 Budget**	**2019 Budget**	**2018 Budget**	**2019 Budget**
Revenue						
Gross tax revenue	1 345.0	1 302.2	1 454.8	1 422.2	1 581.9	1 544.9
Non-tax revenue	18.3	19.8	19.3	27.0	20.5	21.1
SACU[1]	-48.3	-48.3	-46.3	-50.3	-60.1	-65.8
National Revenue Fund receipts	6.2	11.7	–	4.5	0.4	5.0
Main budget revenue	**1 321.1**	**1 285.4**	**1 427.8**	**1 403.5**	**1 542.7**	**1 505.1**
	26.3%	*25.4%*	*26.5%*	*25.9%*	*26.6%*	*25.9%*
Expenditure						
Current payments	409.8	417.0	443.5	452.9	477.1	492.2
of which:						
Compensation of employees	*163.6*	*163.4*	*175.8*	*175.6*	188.7	*188.5*
Goods and services	*65.9*	*71.3*	*69.9*	*74.9*	74.3	*79.5*
Debt-service costs	*180.1*	*182.2*	*197.7*	*202.2*	*213.9*	*224.1*
Transfers and subsidies	1 069.5	1 063.3	1 159.7	1 153.4	1 248.0	1 238.8
Payments for capital assets	14.3	15.6	14.3	15.4	15.3	16.2
Payments for financial assets	4.6	13.9	4.7	4.8	4.9	4.9
Provisional allocation not assigned to votes	6.0	–	2.3	19.2	2.1	11.4
Contingency reserve	8.0	–	8.0	13.0	10.0	6.0
Total expenditure	**1 512.2**	**1 509.9**	**1 632.6**	**1 658.7**	**1 757.5**	**1 769.6**
	30.1%	*29.8%*	*30.3%*	*30.6%*	*30.3%*	*30.4%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Social security funds, public entities and provincial balances

Social security funds, provinces and public entities are projected to have a combined cash surplus in the current year and over the MTEF period, partially offsetting the main budget deficit. Social security funds are discussed further in Chapter 8.

Table 3.9 Consolidated budget balance

R billion	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Main budget	-168.4	-167.6	-208.6	-224.5	-255.2	-264.4	-267.6
Social security funds	10.1	8.2	9.4	10.3	8.0	5.4	5.1
Provinces	0.6	-2.5	0.7	-0.9	1.0	1.6	2.1
Public entities	7.6	5.0	8.4	4.7	3.6	5.0	8.0
RDP Fund[1]	-1.0	-0.2	-0.3	0.2	-0.1	-0.1	-0.1
Consolidated budget balance	**-151.0**	**-157.0**	**-190.3**	**-210.2**	**-242.7**	**-252.6**	**-252.4**

1. Reconstruction and Development Programme Fund
Source: National Treasury

Public entities registered a cash surplus of R8.4 billion in 2017/18, driven mainly by the Passenger Rail Agency of South Africa's lower spending on planned capital projects. Over the next two years, the combined surplus of public entities averages R4.3 billion per year.

Public-sector borrowing requirement

The public-sector borrowing requirement includes the borrowing needs of government as a whole, as well as those of state-owned companies. It excludes the borrowing activity of development finance institutions. The public-sector borrowing requirement will be R330.1 billion or 6.5 per cent of GDP in 2018/19.

Public-sector borrowing requirement revised up over next two years due to larger main budget deficit

Compared with 2018 Budget estimates, the borrowing requirement has been revised upwards in the current year and over the next two years, mainly due to a larger main budget deficit. Local government borrowing outcomes have been restated and the projections have also been revised up in their budgets. This reflects the continued effort by municipalities to address backlogs, as well as new infrastructure identified in integrated development plans.

Table 3.10 Public-sector borrowing requirement[1]

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19		2019/20	2020/21	2021/22
		Outcome		Budget 2018	Budget 2019		Medium-term estimates	
Main budget	168.4	167.6	208.6	191.1	224.5	255.2	264.4	267.6
Social security funds	-10.1	-8.2	-9.4	-9.6	-10.3	-8.0	-5.4	-5.1
Provinces	-0.6	2.5	-0.7	-0.3	0.9	-1.0	-1.6	-2.1
Public entities	-7.6	-5.0	-8.4	-1.0	-4.7	-3.6	-5.0	-8.0
RDP Fund	1.0	0.2	0.3	0.3	-0.2	0.1	0.1	0.1
Consolidated government	**151.0**	**157.0**	**190.3**	**180.5**	**210.2**	**242.7**	**252.6**	**252.4**
	3.7%	*3.6%*	*4.0%*	*3.6%*	*4.2%*	*4.5%*	*4.3%*	*4.0%*
Local authorities	**8.0**	**8.4**	**13.6**	**13.0**	**16.2**	**16.1**	**16.0**	**16.0**
	0.2%	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
State-owned companies[2]	**120.5**	**88.5**	**99.4**	**104.0**	**103.7**	**74.7**	**73.8**	**75.8**
	2.9%	*2.0%*	*2.1%*	*2.1%*	*2.1%*	*1.4%*	*1.3%*	*1.2%*
Borrowing requirement	**279.5**	**254.0**	**303.3**	**297.6**	**330.1**	**333.5**	**342.3**	**344.2**
	6.8%	*5.8%*	*6.4%*	*5.9%*	*6.5%*	*6.2%*	*5.9%*	*5.5%*

1. A negative number reflects a surplus and a positive number a deficit
2. Includes Eskom, South African Airways, Transnet, Airports Company South Africa and Denel
Source: National Treasury

As discussed in Chapter 8, the medium-term borrowing estimates for state-owned companies have been revised down as capital programmes are completed and these institutions find it more difficult to source funding. Eskom continues to be the significant driver of state-owned company borrowing. A large proportion of state-owned companies' borrowing over the medium term will refinance debt.

Conclusion

Fiscal consolidation sees deficit narrowing to 4 per cent by 2021/22

The fiscal framework underlines government's commitment to narrowing the budget deficit and stabilising debt. In the context of weak economic growth and the need to address the large risk posed by Eskom, the 2019 Budget proposes large-scale expenditure reprioritisation and tax measures that narrow the deficit from 4.5 per cent of GDP in 2019/20 to 4 per cent by 2021/22. Gross national debt is projected to stabilise at 60.2 per cent of GDP in 2023/24.