

Budget Review

2020

National Treasury

Republic of South Africa

26 February 2020



ISBN: 978-0-621-48101-3
RP: 19/2020

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.

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#RSABUDGET2020 HIGHLIGHTS

ECONOMIC OUTLOOK

- Real GDP is expected to grow at 0.9 per cent in 2020, 1.3 per cent in 2021 and 1.6 per cent in 2022.
- The global outlook has improved marginally, but significant downside risks remain. The outlook for South Africa's key trading partners has weakened in recent months.
- Government has announced urgent reforms in the electricity sector to ensure adequate supply of power for businesses and households.
- Raising South Africa's economic growth rate requires further structural reforms to reduce costs and encourage investment across the economy.
- Weak growth translated into a record unemployment rate of 29.1 per cent in the second half of 2019.

BUDGET FRAMEWORK

- Low growth has led to a R63.3 billion downward revision to estimates of tax revenue in 2019/20 relative to the 2019 Budget. Debt is not projected to stabilise over the medium term, and debt-service costs now absorb 15.2 per cent of main budget revenue.
- Over the next three years, the 2020 Budget proposes total reductions of R261 billion, which includes a R160.2 billion reduction to the wage bill of national and provincial departments, and national public entities.
- Reallocations and additions total R111.1 billion over the medium term, of which R60 billion is set aside for Eskom and South African Airways.
- These measures narrow the consolidated deficit from 6.8 per cent of GDP in 2020/21 to 5.7 per cent in 2022/23, with debt rising to 71.6 per cent of GDP over the same period.
- Along with faster economic growth, fiscal sustainability will require targeted reduction of specific programmes, and firm decisions to rein in extra-budgetary pressures, including reform of state-owned companies and the Road Accident Fund (RAF).

SPENDING PROGRAMMES

- Total consolidated spending will amount to R1.95 trillion in 2020/21, R2.04 trillion in 2021/22 and R2.14 trillion in 2022/23.
- The bulk of spending is allocated to learning and culture (R396.4 billion), social development (R309.5 billion) and health (R229.7 billion).
- The fastest-growing functions over the medium term are economic development, community development and social development.
- Debt-service costs remain the fastest-growing expenditure item, followed by capital expenditure.

TAX PROPOSALS

- Above-inflation increase in the personal income tax brackets and rebates.
- Limit corporate interest deductions to combat base erosion and profit shifting as well as restricting the ability of companies to fully offset assessed losses from previous years against taxable income.
- Increases of 25c per litre to the fuel levy, which consists of a 16c per litre increase in the general fuel levy and a 9c per litre increase in the RAF levy.
- Increase the annual contribution limit to tax-free savings accounts by R3 000 from 1 March 2020.
- Increase excise duties on alcohol and tobacco by between 4.4 and 7.5 per cent. Also, government will introduce a new excise duty on heated tobacco products, to be taxed at a rate of 75 per cent of the cigarette excise rate with immediate effect.
- Government will increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020.

#RSABUDGET2020

KEY BUDGET STATISTICS

A full set of 2020 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, 2020/21

R billion	
TAX REVENUE	1 425.4
of which:	
Personal income tax	546.8
Corporate income tax	230.2
Value-added tax	360.6
Taxes on international trade and transactions	60.6
Non-tax revenue	36.0
Less: SACU payments	-63.4
Main budget revenue	1 398.0
Provinces, social security funds and public entities	185.9
Consolidated budget revenue	1 583.9
As percentage of GDP	
Tax revenue	26.3%
Main budget revenue	25.8%

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2016	2017	2018	2019	2020	2021	2022
	Actual			Estimate	Forecast		
Household consumption	0.6	2.1	1.8	1.1	1.1	1.3	1.6
Gross fixed-capital formation	-3.5	1.0	-1.4	-0.4	0.2	1.3	1.9
Exports	0.4	-0.7	2.6	-2.1	2.3	2.6	2.8
Imports	-3.9	1.0	3.3	0.2	1.8	2.5	2.8
Real GDP growth	0.4	1.4	0.8	0.3	0.9	1.3	1.6
CPI inflation	6.3	5.3	4.7	4.1	4.5	4.6	4.6
Current account balance (% of GDP)	-2.9	-2.5	-3.5	-3.4	-3.4	-3.5	-3.7

CONSOLIDATED FISCAL FRAMEWORK

R billion/percentage of GDP	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Outcome			Estimate	Medium-term estimates		
Revenue	1 285.6	1 351.4	1 445.4	1 517.0	1 583.9	1 682.8	1 791.3
	29.1%	28.8%	29.4%	29.4%	29.2%	29.2%	29.2%
Expenditure	1 442.6	1 541.9	1 642.8	1 843.5	1 954.4	2 040.3	2 141.0
	32.6%	32.8%	33.4%	35.7%	36.0%	35.4%	34.9%
Budget balance	-157.0	-190.5	-197.4	-326.6	-370.5	-357.5	-349.7
	-3.6%	-4.1%	-4.0%	-6.3%	-6.8%	-6.2%	-5.7%
Gross domestic product	4 419.4	4 698.7	4 921.5	5 157.3	5 428.2	5 759.0	6 126.3

DIVISION OF NATIONALLY RAISED REVENUE

R billion/percentage of GDP	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Outcome			Estimate	Medium-term estimates		
DIVISION OF AVAILABLE FUNDS							
National departments	555.6	592.6	634.3	739.5	757.7	768.9	797.8
Provinces	500.4	538.6	572.0	612.8	649.3	692.0	730.7
Local government	102.9	111.1	118.5	125.0	132.5	142.4	151.4
Non-interest allocation	1 158.9	1 242.3	1 324.8	1 477.3	1 531.7	1 587.2	1 645.1
PERCENTAGE SHARES							
National departments	47.9%	47.7%	47.9%	50.1%	49.2%	48.0%	47.5%
Provinces	43.2%	43.4%	43.2%	41.5%	42.2%	43.2%	43.5%
Local government	8.9%	8.9%	8.9%	8.5%	8.6%	8.9%	9.0%

CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2020/21

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	205.3	26.9	11.4	22.3	0.0	265.9
Post-school education and training	11.6	2.4	5.7	99.3	0.0	118.8
Arts, culture, sport and recreation	4.2	3.7	1.2	2.5	0.0	11.7
Health	145.1	67.1	11.4	6.1	0.0	229.7
Social protection	15.3	9.2	1.0	196.0	0.0	221.5
Social security funds	4.8	5.4	1.3	76.2	0.4	88.0
Community development	17.6	15.0	72.7	107.0	0.1	212.3
Industrialisation and exports	10.3	5.2	8.2	15.3	0.0	39.0
Agriculture and rural development	12.6	8.4	5.2	2.1	0.0	28.3
Job creation and labour affairs	3.5	10.7	0.7	7.5	0.0	22.4
Economic regulation and infrastructure	23.1	36.0	31.5	5.2	9.6	105.3
Innovation, science and technology	4.8	3.4	1.6	6.6	0.0	16.4
Defence and state security	27.0	12.7	1.3	10.3	0.0	51.4
Police services	81.9	18.7	3.5	2.0	0.0	106.1
Law courts and prisons	34.1	12.4	2.1	1.0	0.0	49.6
Home affairs	4.8	3.3	1.6	0.2	0.0	9.9
Executive and legislative organs	7.8	5.1	0.3	1.4	0.0	14.6
Public administration and fiscal affairs	22.2	17.1	2.5	5.4	0.0	47.3
External affairs	2.9	2.4	0.5	2.2	0.1	8.2
Payments for financial assets						73.6
Debt-service costs					229.3	229.3
Contingency reserve						5.0
Total	638.9	265.1	163.7	568.7	239.5	1 954.4

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

BUDGET2020/21

BUDGET EXPENDITURE

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CONSOLIDATED GOVERNMENT EXPENDITURE

R1.95 TRILLION



R1.15 TRILLION

SOCIAL SPENDING



R211.5 bn

ECONOMIC DEVELOPMENT

Economic regulation and infrastructure	R105.3 bn
Industrialisation and exports	R39.0 bn
Agriculture and rural development	R28.3 bn
Job creation and labour affairs	R22.4 bn
Innovation, science and technology	R16.4 bn

Basic education	R248.6 bn
University transfers	R44.8 bn
National Student Financial Aid Scheme	R37.1 bn
Skills development levy institutions	R21.0 bn
Education administration	R17.8 bn
Technical & vocational education and training	R13.4 bn



R396.4 bn

LEARNING AND CULTURE



R217.0 bn

PEACE AND SECURITY

Police services	R106.1 bn
Defence and state security	R51.4 bn
Law courts and prisons	R49.6 bn
Home affairs	R9.9 bn

District health services	R102.0 bn
Central hospital services	R44.7 bn
Provincial hospital services	R37.6 bn
Other health services	R35.4 bn
Facilities management and maintenance	R10.1 bn



R229.7 bn

HEALTH



R70.0 bn

GENERAL PUBLIC SERVICES

Public administration and fiscal affairs	R47.3 bn
Executive and legislative organs	R14.6 bn
External affairs	R8.2 bn

Municipal equitable share	R74.7 bn
Human settlements, water and electrification programmes	R55.7 bn
Public transport	R44.7 bn
Other human settlements and municipal infrastructure	R37.2 bn



R212.3 bn

COMMUNITY DEVELOPMENT



R229.3 bn

DEBT-SERVICE COSTS

Social security funds	R88.0 bn
Old-age grant	R83.1 bn
Child-support grant	R69.8 bn
Other grants	R35.0 bn
Provincial social development	R23.3 bn
Policy oversight and grant administration	R10.0 bn



R309.5 bn

SOCIAL DEVELOPMENT

Foreword

Budgets are complex, but the numbers we face are straightforward.

Without faster economic growth rates, South Africa cannot raise the revenue we need to fund our ambitious social and economic development agenda. Without sustainable public finances, revenue will increasingly be used to pay interest on debt, which now absorbs 15 cents of every rand government collects. Without financially self-sustaining state-owned companies, taxpayers will be paying for their losses for many years to come.

Over the past year, economic growth has been weaker than forecast and is only expected to reach 0.9 per cent in 2020. Electricity shortages have put the economy under great strain, and demands from Eskom and other financially distressed state-owned companies drain public resources. In 2019/20, revenue collected is expected to be R63.3 billion lower than forecast in the 2019 *Budget Review*. By 2022/23, gross government debt is expected to rise to 71.6 per cent of GDP.

Addressing this difficult situation requires two complementary approaches: determined action to reverse the deterioration of the public finances by narrowing the budget deficit and containing debt, and structural reforms to return the economy to faster, sustainable growth.

The 2020 Budget proposals mark an important step on the road to fiscal consolidation. In comparison with the 2019 Budget, government proposes to reduce its expenditure by R156.1 billion – primarily through a decrease in its compensation bill. Public-service employees should be fairly remunerated, but government is obligated to balance its wage bill with the broader needs of society. Other reductions are being applied, wherever possible, to poorly performing or underspending programmes. Reductions of this magnitude will inevitably have negative consequences for the economy and social services. But these short-term costs are necessary to put the country onto a more sustainable footing.

Rapid and sustained economic growth is the central requirement to build a prosperous and equitable South Africa. This remains our core policy objective. Achieving this requires decisive steps to build confidence, promote investment and job creation, reduce anti-competitive practices and eliminate regulatory blockages. The most immediate and crucial reform is to ensure adequate electricity supply for businesses and households. The President has announced the first steps to enable greater private-sector participation in electricity generation. A series of regulatory adjustments will follow.

I would like to thank Cabinet, the Minister and Deputy Minister of Finance, Parliament's Portfolio Committee on Finance, the Standing Committee on Appropriations, the Technical Committee on Finance, the Budget Council and my colleagues across government for their contributions to the 2020 Budget. National and provincial departments deserve much credit for their disciplined budget execution over the past several years. Finally, I want to acknowledge the diligent and dedicated team at the National Treasury, who continue to fulfil their constitutional responsibilities in challenging circumstances.



Dondo Mogajane
Director-General: National Treasury

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- W1** Explanatory memorandum to the division of revenue
- W2** Structure of the government accounts

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