3. PUBLIC FINANCES

3.1 INTRODUCTION

Summary

This chapter outlines the objectives of fiscal policy and summarises aggregate trends in the public finances. Revenue and expenditure estimates for the various spheres of general government from 1994/95 to 1997/98 are set out. Projections for public finances up to the year 2000/01 are also presented.

The general government financial accounts in section 3.4 are based on preliminary or incomplete information, and are intended only to indicate the main trends in the public finances.

Most public discussion of fiscal policy relates to the national budget. The aim of this chapter is to give a broader overview of the trends in the whole public sector. Annexure D sets out the definitions and classifications of the government accounts used in this chapter.

Section 3.5 discusses the latest projections for public debt and the financing policies of the government, including projections for the financing of the budget deficit for the years 1998/99 to 2000/01.

3.2 FISCAL POLICY AIMS

RDP and fiscal policy

The *Reconstruction and Development Programme* (RDP) embodies Government's commitment to eliminate poverty in a fast growing economy in which fiscal policy supports economic growth and maximises the reduction in inequality that can be achieved through targeted Government interventions in the economy.

Government's fiscal policy has three broad aims:

- Revenue raising, spending and borrowing for each part of the public sector consistent with increasing economic growth, maximum social development and eliminating the inequalities of the past;
- A allocation of expenditure across different parts of Government that matches the distribution of functions and their relative priority;
- Within each sphere of Government, use of resources in a manner which minimises costs, maximises delivery and avoids the duplication of services that can be provided at a lower cost by the private sector.

THE BUDGET

The annual Budget presents to Parliament and the public proposals for financing the activities through which Government meets its responsibilities. It is a central statement of Government's political commitments and economic strategy. The taxes, expenditure and borrowing associated with these activities affect the economy as a whole, all communities and each individual. They impact on prices, income distribution, employment and economic growth. Used well, they are powerful instruments for social and economic transformation; used improperly, they can cause damage to the economy and society.

The Budget is a financial plan of expenditure, revenue and borrowing. It is a tool of accountability, a tool of management and an instrument of economic policy. With regard to accountability, the Budget spells out the details of the expenditure and financing programmes of spending departments, who are then held responsible for the proper control and cost-effective use of appropriated funds. As a management tool it states the financial implications of the policies and programmes of Government.

As an operational plan, the Budget brings together Government's medium term plans, the expected costs and the allocation of available resources. Economic policy is embedded in the role of budgetary policy in the attainment of Government's macroeconomic objectives. The Budget therefore reflects the Government's priorities and commitments towards promoting economic growth, employment and the delivery of public services to all South Africans.

Aims of fiscal policy

At its broadest level Government seeks to ensure that its fiscal policy:

- improves domestic savings, supports a higher level of investment and reduces the need to borrow from abroad;
- improves South Africa's competitiveness and supports an export-friendly trade and industrial strategy;
- contributes to sound public finances - that government debt does not grow faster than the ability to repay it and that debt service costs are consistent with future growth in the delivery of public services, and do not crowd out expenditure;
- keeps government consumption spending at an affordable level, contributing to lower inflation and a sustainable balance of payouts; and
- ensures that pay increases within the public sector are market and productivity related, and are fiscally sustainable.

Reprioritisation of spending

The RDP commits Government to developing a programme of delivery. Much has already been achieved by way of the reprioritising of spending to meet reconstruction and development objectives, in the equitable delivery of services, and in addressing infrastructure backlogs. Maximising Government's ability to deliver services within sustainable levels of overall public spending requires:

- focusing on core public sector responsibilities, while targeting spending on the needs of the poor;
- increasing cost recovery on public services that are used by the non-poor;
- outsourcing non-core administrative services to reduce costs, allow managers to focus on core activities, and create empowerment opportunities for new and emerging enterprises;
- promotion of private-public partnerships to increase efficiency, cost effectiveness and to leverage private sector skills, finance and technology;
- the restructuring of state assets to accelerate delivery and focus on core activities; and
- effective targeting of social delivery.

Thus the fiscal program supports a sustainable economic transformation, promotes jobs and investment, and ensures that public spending reflects the Government's priorities.

THE LEVELS OF GOVERNMENT

PUBLIC SECTOR

GENERAL GOVERNMENT

National Government

Universities and technikons

Other extra budgetary accounts

Social security funds

Provincial Governments

Local Government

Non-financial public enterprises

Public Corporations

Division of functions

Government activities are organised into three spheres, whose functions are established by the Constitution. Alongside the national, provincial and local government spheres, various extra-budgetary agencies and institutions are accountable to government and responsible for specific public services.

The Government also owns or holds equity in public enterprises and corporations, whose mandates may include economic objectives of the state.

3.3 THE NATIONAL BUDGET: 1997/98 OUTCOME

Coverage of the national budget

The national budget covers all revenues and borrowing to cover expenditure by national government departments and all monies transferred to provincial funds, local government and extra-budgetary institutions either directly from the national revenue account, or indirectly from national departments. It accounts for about 80 per cent of general government spending.

Budget outcome

As reported in the Adjustments Estimate tabled on 13 February 1998, revenue in 1997/98 is projected to be 10,7 per cent higher than the estimated 1996/97 outcome, while expenditure is projected to have increased by 7,5 per cent. Revenues are expected to total R162,6 billion and total expenditure for 1997/98 is revised to R189,2 billion. The revised budget deficit is R26,6 billion, which is 4,3 per cent of estimated GDP.

3.3.1 Revised revenue estimates: 1997/98

Total ordinary revenue in 1997/98 is expected to be R 162,6 billion, which is 0,4 per cent higher than the original budget estimate. Details are in table 3.1.

Income tax

Income tax from *gold mines* is projected to be substantially lower than the budget estimate. In the 1997 Budget it was anticipated that the profitability of gold mines would increase, due in part to an improved rand price of gold. The fall in the dollar gold price coupled with the depreciation of the rand in 1997/98 resulted in a lower than anticipated rand gold price. A number of mines have become unprofitable and losses were set off against the taxable income of profitable mines.

Revenue from *non-mining companies* is expected to be 9,5 per cent lower than budgeted. This is because of the slower growth and the resulting lower than anticipated company profits.

Income tax on persons and individuals is now projected to be higher than expected in the Budget. This is mainly the result of improvements in collections of taxes in arrears, and success in broadening the tax base, which resulted in an additional R2 000 million for 1997/98.

Table 3.1 Comparison between budgeted and revised estimate of 1997/98 national revenue

R million	Budgeted	Revised	Increase/decrease
Taxes on income and profits:			
Gold Mines	800,0	450,0	-350,0
Other Mines	1 354,0	1354,0	0
Non-mining companies	21 100,0	19 100,0	-2 000,0
Secondary tax on companies	1 300,0	1 350,0	50,0
Individuals	65 019,0	67 600,0	2 581,0
Tax on retirement fund industry	2 700,0	3 100,0	400,0
Other[a]	700,0	600,0	-100,0
Taxes on property[b]	**2 432,0**	**2 647,0**	**215,0**
Domestic taxes on goods And services:			
Value Added Tax	40 280,0	39 700,0	-580,0
Excise Duties	7 879,0	7 645,0	-234,0
Fuel Levy	11 595,0	12 131,0	536,0
Financial Services Levy	400,0	250,0	-150,0
Other[c]	39,8	63,0	23,2
Taxes on international trade:			
Customs Duties	7 115,0	6 300,0	-815,0
Other[d]	178,0	22,0	-156,0
Stamp duties and fees	1 275,0	1 500,0	225,0
Customs union agreement	5 237,2	5 237,2	0
Tax revenue (net)	**158 929,6**	**158 574,8**	**-354,8**
Non-tax revenue:	2 820,7	2 922,4	101,7
Interest earned on Exchequer deposits	700,0	600,0	-100,0
Dividend: SFF	200,0	200,4	0,4
Other[e]	1 920,7	2 122,0	201,3
Current revenue	**161 750,3**	**161 497,2**	**-253,1**
Capital revenue	1 258,4	1 255,4	-3,0
Total revenue	**163 008,7**	**162 752,6**	**-256,1**
Grants	-	168,8	168,8
Total revenue and grants	**163 008,7**	**162 921,4**	**-87,3**
Receipts not regarded as revenue	883,3	4 063,2	3 179,9
Total ordinary revenue[f]	**161 926,0**	**162 573,8**	**647,8**
Direct taxes	*92 973,0*	*93 554,0*	*581,0*
Indirect taxes	*65 956,6*	*65 020,8*	*-935,8*
Other receipts	*2 996,4*	*3 999,0*	*1 002,6*

a) Including interest on overdue income tax and non-residents shareholders' tax.

b) Including donations tax, estate duties, marketable securities tax and transfer duties.

c) Including levies and mining lease rights and licenses.

d) Including ordinary levy and miscellaneous Customs and Excise income.

e) Mainly departmental income and mining leases and ownership.

f) Total revenue excluding extraordinary capital receipts and grants, and including recoveries of loans and advances.

Table 3.2 Expected divergences between budgeted revenue and expenditure in 1997/98

R million	Budgeted	Revised
Total ordinary revenue	**161 926,0**	**162 573,8**
Less: repayments	-167,3	-902,4
Total Receipts	**161 758,7**	**161 671,4**
Revenue [1]		
Total Inland Revenue	140 228,9	140 641,8
Customs and Excise	21 529,8	20 860,8
Grants [2]	-	168,8
Expenditure		
Printed Estimate (RP2)	184 033,2	184 033,2
Supplementary Estimate (RP4)	739,2	739,0
Adjustment Estimate	2 074,4	9 119,6
Subtotal	**186 846,8**	**193 891,8**
Recovery from pension fund	400,0	400,0
Savings in state debt costs	-	279,2
Suspensions	-	63,2
Declared savings	-	357,5
Estimated roll-over to 1998/99	-	3 600,0
Function shifts [3]	-	37,2
Estimated expenditure: Budget and statutory amounts	**186 446,8**	**189 154,6**
Standing appropriations	300,0	37,5
Total estimated expenditure level	**186 746,8**	**189 192,1**
Repayments	-167,3	-902,4
Total estimated expenditure and repayments	**186 579,5**	**188 289,7**
Deficit	**24 820,8**	**26 618,3**

Source: Department of Finance

1. *Revenue adjusted for net lending to correspond with the March 1997 Budget Review.*
2. *Including RDP grants and grants received from other levels of government.*
3. *The shifting of functions between departments requires additional appropriations, but as these additional allocations are offset by corresponding reductions in allocations of the "source" votes, there is no increase in the total level of expenditure.*

Value-added tax

VAT receipts are lower than expected, because of lower than expected private consumption expenditure.

Interest

Interest on overdue tax is less than the budget projections because of the tax amnesty extended to taxpayers and the resulting loss of interest on collection of taxes in arrears.

Customs and excise duties

Revenue from *customs duties* was substantially overestimated in the 1997 Budget. The decline in excise duty is mainly the result of a decline in revenue received from neighbouring countries and lower *ad valorem* rates.

Fuel levy

Revenue received from *the fuel levy* is expected be R12 131 million, or R536 million higher than the budgeted estimate. This can be attributed to improved collections and revenue formerly diverted to regional services councils and joint services boards now being collected as part of the fuel levy.

3.3.2 Revised expenditure and deficit: 1997/98

Expenditure outcome

Total expenditure is expected to be R189,2 billion, an increase of 1,3 per cent over the budgeted amount and 7,5 per cent higher than the preliminary estimate for 1996/97. Details are set out in table 3.2.

Adjustments Estimate

The Adjustments Estimate of R9,1 billion includes:

- A rollover of unspent funds of R4,8 billion, offset by an anticipated R3,6 billion which will be unspent in 1997/98;
- R501,4 million already identified at the time of the Budget but not included in votes, of which R42,9 million was used for salary adjustments for political office-bearers, R300 million for poverty relief, R83,4 million for integrated computer systems and R75,0 million for the new social grants programme;
- an additional R70,0 million for Correctional Services, because of the increase in the number of prisoners;
- R235,8 million for SABC losses;
- an additional R200 million for the South African Police Service, including R45 million for the Bonitas and Hosmed Medical Schemes and R155 million for the Polmed Medical Scheme; and
- R124 million for improvements in conditions of service.

The Adjustments Estimate also includes additional transfers to provinces of R2 080 million, of which R580 million will be funded from the contingency reserve. The transfers are broken down as follows:

Table 3.3 Additional allocations to provinces – 1997/98

Eastern Cape	R m 107
Free State	37
Gauteng	80
KwaZulu/Natal	124
Mpumalanga	44
Northern Cape	10
North West	46
Northern Province	83
Western Cape	49
Budget adjustment	1 500
Total	**2 080**

State debt costs

An additional R279,2 million saving in the servicing of state debt is projected.

Savings and adjustments

Savings amounting to R357,5 million have been identified from departmental votes appropriated in the original 1997/98 Estimate of Expenditure. Together with the shifting of functions, repayments from the Agricultural Credit account, suspensions and declared saving, standing appropriations and a recovery of R400 million from pension funds, these adjustments bring the estimated expenditure level for 1997/98 to R189,2 billion.

National budget deficit

The revised *national* budget deficit for 1997/98 is now estimated at R26,6 billion, which represents 4,3 per cent GDP.

PROVINCIAL SPENDING IN 1997/98

The provinces took on new responsibilities in the 1997/98 financial year. Provincial executive councils and legislatures developed and enacted budgets for the first time in their capacity as independent governments.

The integrity of the fiscal system rests on the understanding that the Budget is a law, and that the governments in each sphere are obliged to live within their enacted budgets. Provinces worked tirelessly in 1997/98 to align their expenditure with policy obligations and budget constraints. Many provinces lacked institutional capacity, often as a result of historical circumstances. Task teams led by the Departments of State Expenditure and Finance had frequent and intense interactions with provincial treasuries, assisting in the assessment and review of expenditure trends. National and provincial departments of education, health, welfare and the public service and administration also participated in these teams.

Provinces implemented cost savings measures during the second half of the financial year and took steps to improve financial management. The importance of these measures in controlling expenditure extends beyond the 1997/98 financial year, as they will continue to have the effect of moderating future spending as well.

The national government allocated R2 080 million to the provinces in the 1997/98 Adjustments Estimate. All provinces received a share of R580 million, which was distributed by an equitable formula to guard against "rewarding" over-expenditure. These funds were from budgeted reserves and thus were part of the original expenditure framework.

The remaining R1,5 billion was provided to assist those provinces that face irredeemable differences between revenue and expenditure, and thus require structural changes. Provinces can access these funds only within the context of section 100(1)(a) of the Constitution which allows for national intervention, which in this case would be part of a negotiated agreement between the national executive and provincial executive. The agreement would include a detailed directive for achieving a reorganisation and rationalisation of the provincial administration and services to bring expenditure commitments in line with available resources. The directive will be gazetted and made public by the President. This approach requires a substantial response from any province seeking access to these funds, while at the same time acknowledging the need to take collective responsibility for their budget problems.

The additional R580 million and cost containment measures allowed most provinces to remain within their budgets or, at most, run small overdrafts. Two provinces - Eastern Cape and KwaZulu-Natal – are expected to run significant overdrafts. Both of these provinces have expressed an interest in accessing the R1,5 billion to address their problems. (See chapter 4 for further discussion of the causes of provincial over-expenditure in 1997/98.)

Despite this over-expenditure, most provinces made significant progress in controlling expenditure during 1997/98. Between 1995/96 and 1996/97, for instance, provinces experienced unsustainable growth rates in education and health personnel costs of 26 per cent and 31 per cent, respectively. These were reduced to a growth rate of 10 per cent for education personnel and 12 per cent for health personnel in 1997/98. Provincial budgets for 1998/99 are far more realistic, having taken into account anticipated actual expenditure in 1997/98. Resources are focused on the core functions of education, health and welfare. Although this may require sharp cuts in other programmes, it ensures that basic services will be delivered and thus reduces pressures for provinces to overspend.

3.3.3 Medium term projections

Medium term projections

The table below sets out the macroeconomic and fiscal policy assumptions underlying the medium term expenditure framework:

Table 3.4 The medium term macroeconomic fiscal framework

	1997/98	1998/99	1999/00	2000/01
GDP (R billion)	**613,0**	**669,3**	**734,3**	**809,6**
GDP real growth rate	1,5%	3,0%	4,0%	5,0%
GDP inflation	8,5%	6,0%	5,5%	5,0%
Budget Expenditure (R billion)	**188,3**	**200,3**	**215,2**	**234,5**
% of GDP	*30,7%*	*29,9%*	*29,3%*	*29,0%*
Budget Revenue (R billion)	**161,7**	**176,6**	**192,9**	**210,0**
% of GDP	*26,4%*	*26,4%*	*26,3%*	*25,9%*
Budget deficit (R billion)	**26,6**	**23,7**	**22,3**	**24,5**
% of GDP	*4,3%*	*3,5%*	*3,0%*	*3,0%*

Repayments are excluded from revenue and treated as negative expenditure.

Deficit

The deficit is projected to fall to 3,0 per cent of GDP by the end of the decade.

Revenue

Revenue is projected to fall to 26,0 per cent in 2000/01 of GDP, consistent with Government's medium term tax policy objectives.

Expenditure

Government expenditure will be reduced as a share of GDP to 29,1 per cent, but will grow by an average of 8 per cent a year over the period.

3.4 TRENDS IN THE GENERAL GOVERNMENT ACCOUNTS

3.4.1. National Government

National Budget

Table 3.5 below shows projections of total national revenue and expenditure, including transfers to other spheres. Interest on the national debt continues to be treated as part of national expenditure.

Table 3.5 National Budget revenue and expenditure

	Outcome		Preliminary		Projections		
R billion	1994/95	1995/96	1996/97	1997/98	1998/99[2]	1999/00	2000/01
Revenue:	**112,2**	**125,9**	**146,8**	**161,7**	**176,6**	**192,9**	**210,0**
Tax revenue	110,3	123,1	142,6	158,6	173,6	189,7	206,4
Non-tax revenue	1,9	2,7	3,6	2,9	3,0	3,2	3,5
Grants	0,0	0,1	0,5	0,2	0,0	0,0	0,0
Expenditure:	**137,0**	**154,8**	**175,8**	**188,3**	**200,3**	**215,2**	**234,5**
Current expenditure	129,0	146,7	168,9	181,5	193,4	206,7	225,2
Goods & services	37,3	24,9	30,3	32,3	38,6	41,0	45,0
Interest	24,3	29,3	34,1	39,4	42,5	45,0	48,0
Subsidies	5,9	3,9	4,8	7,1	6,3	7,7	9,4
Total transfers	57,1	85,6	97,1	100,3	104,4	110,7	119,9
Transfers to provinces		72,0	84,5	86,9	90,4	94,7	102,5
Other							
Capital expenditure	8,1	8,2	7,1	7,6	7,9	9,0	9,8
Net lending	-0,2	-0,1	-0,2	-0,9	-1,0	-0,5	-0,5
Deficit/surplus	**-24,8**	**-28,8**	**-29,0**	**-26,6**	**-23,7**	**-22,3**	**-24,5**
Memorandum items:							
Revenue % GDP	*25,2%*	*25,3%*	*26,4%*	*26,4%*	*26,4%*	*26,3%*	*25,9%*
Expenditure % GDP	*30,8%*	*27,5%*	*31,6%*	*30,7%*	*29,9%*	*29,3%*	*29,0%*
Deficit % GDP	*-5,6%*	*-5,8%*	*-5,2%*	*-4,3%*	*-3,5%*	*-3,0%*	*-3,0%*
GDP (R billion)	*444,9*	*497,3*	*556,0*	*613,0*	*669,3*	*734,3*	*809,6*

Source: South African Reserve Bank and Department of Finance projections.

3.4.2 Provincial government

Provincial government

The consolidated revenue and expenditure of the nine provinces are set out in the following table.

Table 3.6 Provincial government revenue and expenditure

	Outcome		Preliminary		Projections		
R billion	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue:	**52,7**	**77,3**	**89,6**	**91,7**	**94,3**	**98,8**	**107,1**
Tax revenue	3,8	1,7	1,6	1,5	1,2	1,3	1,5
Non-tax revenue	3,0	3,6	3,4	3,3	2,7	2,8	3,1
Total grants	45,9	72,0	84,5	86,9	90,4	94,7	102,5
of which: equitable share[1]					81,4	87,0	94,9
Expenditure:	**54,2**	**75,0**	**91,2**	**94,0**	**94,3**	**98,8**	**107,1**
Current expenditure	50,5	70,1	84,1	86,8	87,9	92,7	100,6
Goods & services	34,9	54,0	66,5	67,3	68,3	71,5	77,2
Interest	1,0	2,0	0,2	0,2	0,5	0,3	0,1
Subsidies	1,0	0,5	0,0	0,0	0,0	0,0	0,0
Transfers to other levels of govt	1,1	0,7	1,6	2,6	1,6	1,5	1,8
Other transfers	12,4	12,9	15,8	16,2	17,5	19,4	21,6
Capital expenditure	3,7	4,9	7,1	7,2	6,5	6,1	6,5
Deficit/surplus	**-1,5**	**2,3**	**-1,7**	**-2,3**	**0,0**	**0,0**	**0,0**
Memorandum items:							
Revenue % GDP	*11,8%*	*15,5%*	*16,1%*	*15,0%*	*14,1%*	*13,5%*	*13,2%*
Expenditure % GDP	*12,2%*	*15,1%*	*16,4%*	*15,3%*	*14,1%*	*13,5%*	*13,2%*
Deficit % GDP	*-0,3%*	*0,5%*	*-0,3%*	*-0,4%*	*0,0%*	*0,0%*	*0,0%*
GDP (R billion)	*444,9*	*497,3*	*556,0*	*613,0*	*669,3*	*734,3*	*809,6*

Source: South African Reserve Bank and Department of Finance projections.

1. Including projected improvements in conditions of service

Revenue

These estimates show the effect of the shift of expenditure responsibilities from national to provincial government. Provinces have limited sources of revenue other than grants from the national government. Their own revenue amounts to only about 5 per cent of total revenue of the provinces or about 0,6 per cent of GDP over the MTEF period 1998/99 to 2000/01.

Expenditure

As expected with the shifting of functions from national government to the provinces, expenditure by the provinces increased from 1994/95 to 1997/98 by more than 3 per cent of GDP. The transfer of functions to provinces reflects the implementation of the Constitution and the priority of social services.

Expenditure on goods and services has been increased partly because of an increase in the provincial wage bill. Other transfers (mainly welfare payments to households) by provincial governments have also increased over the period.

These estimates indicate shortfalls between provincial revenue and expenditure in 1996/97 and 1997/98, attributable in part to inadequate expenditure controls. The MTEF projections allow for increased grants to provinces from the national budget, described in chapters 4, 5 and 6, and expenditure is expected to be kept to within the projected available revenue.

3.4.3 Local government

Local government finances

Table 3.7 sets out recent developments in local government revenue and expenditure, as well as projections to 2000/01. These figures do not include spending of local government enterprises, including electricity, water and sewerage charges. The Department of Finance recognises concern about the accuracy of local government statistics and intends, together with the SA Reserve Bank, to investigate this matter further.

Table 3.7 Local government revenue and expenditure

	Outcome		Preliminary		Projections		
R billion	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue:	**17,6**	**20,5**	**21,4**	**24,3**	**24,4**	**27,0**	**28,9**
Tax revenue	6,7	7,4	7,5	8,2	8,8	9,5	10,0
Non-tax revenue	7,4	8,7	8,9	9,8	10,4	11,5	12,5
Capital revenue	0,3	0,3	0,4	0,4	0,5	0,5	0,6
Grants	3,3	4,0	4,6	5,9	4,7	5,5	5,9
Expenditure:	**18,5**	**21,3**	**22,2**	**24,3**	**25,9**	**28,4**	**30,2**
Current expenditure	12,8	16,1	16,1	17,5	18,7	20,6	21,8
Goods & services	11,7	14,1	15,0	16,3	17,4	19,3	20,4
Interest	1,1	1,7	1,0	1,1	1,2	1,3	1,3
Capital expenditure	5,1	4,6	5,5	6,1	6,5	6,9	7,4
Net lending	0,5	0,6	0,6	0,7	0,8	0,9	1,0
Deficit/surplus	**-0,9**	**-0,8**	**-0,8**	**0,0**	**-1,5**	**-1,3**	**-1,3**
Memorandum items:							
Revenue % GDP	*4,0%*	*4,1%*	*3,9%*	*4,0%*	*3,6%*	*3,7%*	*3,6%*
Expenditure % GDP	*4,2%*	*4,3%*	*4,0%*	*4,0%*	*3,9%*	*3,9%*	*3,7%*
Deficit % GDP	*-0,2%*	*-0,2%*	*-0,1%*	*0,0%*	*-0,2%*	*-0,2%*	*-0,2%*
GDP (R billion)	*444,9*	*497,3*	*556,0*	*613,0*	*669,3*	*734,3*	*809,6*

Source: South African Reserve Bank and Department of Finance projections.

Revenue

Local government revenue as a share of GDP has remained stable in recent years. Its major components are property taxes, and intergovernmental grants and other revenue. A preliminary 13,6 per cent increase from 1996/97 to 1997/98 is now estimated. Loans of some 54 per cent of planned capital expenditure were budgeted in 1997/98. Chapter 4 contains further details.

3.4.4 Extra-budgetary institutions[1]

Table 3.8 Extra-budgetary institutions revenue and expenditure

R billion	Outcome		Preliminary		Projections		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue:	**13,8**	**15,6**	**16,7**	**18,4**	**20,1**	**22,1**	**24,5**
Tax revenue	0,1	0,1	0,1	0,1	0,1	0.1	0,2
Non-tax revenue	4,5	5,2	7,4	8,1	8,9	9,8	10,9
Capital revenue	0,0	0,1	0,1	0,1	0,1	0,1	0,1
Grants	9,2	10,2	9,1	10,0	11,0	12,1	13,4
Expenditure:	**14,2**	**16,0**	**17,8**	**19,5**	**21,0**	**22,7**	**24,7**
Current expenditure	13,1	14,7	16,5	18,0	19,3	20,8	22,3
Goods & services	12,2	13,8	15,6	17,0	18,3	19,7	21,1
Subsidies & transfers	0,4	0,3	0,3	0,4	0,5	0,5	0,5
Interest	0,3	0,3	0,3	0,4	0,4	0,4	0,5
Capital expenditure	0,8	0,9	1,0	1,1	1,2	1,3	1,7
Net lending	0,3	0,4	0,4	0,4	0,5	0,5	0,6
Deficit/surplus	**-0,4**	**-0,4**	**-1,1**	**-1,1**	**-0,9**	**-0,6**	**-0,2**
Memorandum items:							
Revenue % GDP	*3,1%*	*3,1%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*
Expenditure % GDP	*3,2%*	*3,2%*	*3,2%*	*3,2%*	*3,1%*	*3,1%*	*3,0%*
Deficit % GDP	*-0,1%*	*-0,1%*	*-0,2%*	*-0,2%*	*-0,1%*	*-0,1%*	*-0,0%*
GDP (R billion)	*444,9*	*497,3*	*556,0*	*613,0*	*669,3*	*734,3*	*809,6*

Source: South African Reserve Bank and Department of Finance projections.

[1] In South Africa the extra-budgetary institutions include: universities and technikons, Land Procurement Fund, Loan Fund for the Promotion of Economic Cooperation, Mintek, National Zoo, National Road Fund, National Parks Board, HSRC, Disaster Fund, Legal Aid Board, SABS, SA Medical Research Board, SA Tourism Board, Special Defence Fund, State President's Fund, Urban Transport Fund, CSIR and Water Research Commission.

Extra-budgetary institutions

The table below sets out the estimated revenue and expenditure of the extra budgetary institutions, which form part of general government but are not included in the national or provincial public service. These institutions include universities and technikons and various agencies, funds and councils.

Both revenue and expenditure of extra-budgetary institutions have increased slightly over the period 1994/95 to 1997/98. The decline in revenue from 1996/97 is partly because of the lower allocation in the budget to the Special Defence Account, universities and technikons.

Fees, charges and other non-tax receipts form almost half of the extra-budgetary institutions' total revenue.

3.4.5 Social security funds

Social security funds

Social security funds include the Unemployment Insurance Fund (UIF), the Mines and Works Compensation Fund and the Workmen's Compensation Fund. Of these, the largest is the UIF.

Table 3.9 shows projections of revenue and expenditure of the social security funds, depicting a virtually unchanged net balance over the period.

Table 3.9 Social security funds revenue and expenditure

	Outcome		Preliminary		Projections		
R billion	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue:	**2,5**	**2,7**	**3,0**	**3,3**	**3,6**	**3,8**	**4,1**
Tax revenue	2,0	2,2	2,5	2,7	2,9	3,1	3,3
Non-tax revenue	0,4	0,4	0,5	0,5	0,6	0,6	0,7
Grants	0,0	0,1	0,1	0,1	0,1	0,1	0,1
Expenditure:	**2,5**	**2,7**	**3,0**	**3,3**	**3,5**	**3,7**	**3,9**
Current expenditure	2,5	2,7	3,0	3,3	3,5	3,7	3,9
Transfers	2,4	2,6	2,9	3,1	3,3	3,6	3,8
Other	0,1	0,1	0,1	0,2	0,2	0,1	0,1
Net lending	0,2	0,2	0,2	0,3	0,3	0,3	0,4
Deficit/surplus	**-0,2**	**-0,2**	**-0,2**	**-0,2**	**-0,2**	**-0,2**	**-0,2**

Source: South African Reserve Bank and Department of Finance projections

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3.4.6 General government

General Government

General Government encompasses national, provincial and local government, as well as the extra budgetary institutions and the social security funds. Table 3.10 below details the revenue and expenditure of the general government.[2] This section presents consolidated estimates of expenditure and reserve of general government. Transfers between the different levels of government are netted out.

The table shows that general government spending reached a peak of 38 per cent of GDP in 1996/97. It is anticipated to decline to 34,5 per cent in 2000/01.

Revenue

Total revenue of the general government increased from 31,5 per cent in 1994/95 to an estimated 32,1 per cent of GDP in 1996/97. Tax revenue of the national government is the largest part of total revenue. Non-tax revenue has remained stable at around 4 per cent of GDP.

Expenditure

The expenditure of general government reflects increased spending on the wage bill, interest payments and a moderate increase in capital expenditure.

Government is committed to redesigning policies to maximise delivery. In respect of several capital spending pogrammes, this involves a shift from the direct provision to payments to a service provider, who undertakes capital spending in the place of Government. This reduces government capital spending and increases purchases of services or operating subsidies.

Functional classification

Table 3.11 shows the trend from 1990/91 in spending by the general the general government classified by function. A striking feature is the decline in defence spending from a total of 11,3 per cent of spending to 6,7 per cent. Over this period, interest has increased from 12,5 per cent to 16,5 per cent. Spending on social services has also increased over the period.

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[2] The **general government** as defined here includes national government, provincial governments (comprising, in respect of earlier years, the former provincial authorities, TBVC states and self-governing territories), social security funds (the Unemployment Insurance Fund and the Compensation Funds), extra-budgetary agencies (including universities, technikons, museums, parks boards, libraries, the research councils, the National Road Fund, the Legal Aid Board, the Special Defence Account and the Atomic Energy Corporation, amongst others) and local authorities.

Table 3.10 General government revenue and expenditure

R billion	Outcome		Preliminary		Projections		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue:	**140,3**	**155,6**	**178,6**	**196,3**	**212,8**	**232,4**	**252,7**
Tax revenue	122,8	134,6	154,3	171,1	186,7	203,8	221,3
Non-tax revenue	17,2	20,6	23,9	24,7	25,6	28,0	30,7
Capital revenue	0,4	0,4	0,5	0,5	0,6	0,7	0,7
Expenditure:	**168,1**	**183,6**	**211,4**	**226,5**	**239,2**	**256,7**	**278,9**
Current expenditure	149,4	164,0	189,7	204,0	216,6	232,1	252,1
Goods & services	96,3	106,9	127,5	133,5	142,7	153,8	163,8
Interest	26,7	33,4	35,7	41,0	44,6	47,0	49,9
Subsidies	7,1	4,6	5,0	7,4	6,6	6,6	9,7
Transfers	19,4	19,1	21,4	22,1	22,6	24,7	28,7
Capital expenditure	17,8	18,6	20,6	22,0	22,0	23,3	25,4
Net lending	0,9	1,0	1,2	0,5	0,6	1,3	1,4
Deficit/surplus	**-27,7**	**-28,0**	**-32,8**	**-30,2**	**-26,4**	**-24,2**	**-26,2**
Memorandum items:							
Revenue % GDP	*31,5%*	*31,3%*	*32,1%*	*32,0%*	*31,8%*	*31,7%*	*31,2%*
Expenditure % GDP	*37,8%*	*36,9%*	*38,0%*	*37,0%*	*35,7%*	*35,0%*	*34,5%*
Deficit % GDP	*-6,2%*	*-5,6%*	*-5,9%*	*-4,9%*	*-3,9%*	*-3,3%*	*-3,2%*
GDP (R billion)	*444,9*	*497,3*	*556,0*	*613,0*	*669,3*	*734,3*	*809,6*

Source: South African Reserve Bank and Department of Finance projections.

Table 3.11 Functional breakdown of general government expenditure: 1990/91 to 1995/96

% of total	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
General administration	**12.0%**	**9,3%**	**8,1%**	**12,6%**	**10,9%**	**9,3%**
Protection services:	**19,4%**	**19,1%**	**16,8%**	**14,5%**	**15,4%**	**15,5%**
Defence	11,3%	10,3%	8,0%	6,5%	6,7%	6,7%
Safety & security	8,0%	8,8%	8,8%	8,0%	8,8%	8,7%
Social services:	**41,8%**	**43,6%**	**43,5%**	**45,3%**	**43,7%**	**42,6%**
Education	19,1%	20,3%	20,8%	18,4%	20,4%	20,4%
Health	9,3%	9,7%	9,4%	8,9%	9,1%	9,2%
Social security and welfare	7,7%	8,0%	8,4%	12,9%	9,2%	8,3%
Housing	4,3%	4,1%	3,5%	3,5%	3,5%	1,0%
Other	1,4%	1,4%	1,4%	1,5%	1,5%	3,8%
Economic services:	**13,0%**	**13,5%**	**16,7%**	**12,4%**	**15,1%**	**14,8%**
Fuel and energy	0,8%	0,6%	2,2%	0,6%	4,4%	4,5%
Transport, communication	5,4%	5,1%	5,3%	5,4%	5,1%	5,2%
Agriculture, forestry, fishing	2,2%	2,5%	4,4%	2,3%	1,9%	1,8%
Mining, manufacturing and construction	2,2%	1,9%	1,4%	1,0%	0,9%	0,5%
Other	2,3%	3,3%	3,5%	3,1%	2,7%	2,6%
Interest	**12,5%**	**12,8%**	**13,2%**	**13,6%**	**13,6%**	**16,5%**
Unallocated	1,9%	1,7%	1,7%	1,5%	1,3%	1,4%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: CSS. Based on Auditor General's reports for the national and the provincial governments.

3.4.7 Non-financial public enterprises

Non-financial public enterprises

The financing requirements of the non-financial public enterprises amounted to R4,0 billion in 1995/96. This deficit has since been reversed and a surplus of about R4,0 billion is anticipated for 1997/98 and subsequent years.

Public enterprises include Eskom, Telkom, the Central Energy Fund, Mossgas, the South African Broadcasting Corporation, Transnet and its subsidiaries, the South African Post Office, the Rand Water Board and other water boards and state airports, amongst others.

Table 3.12 Financing requirements of non-financial public enterprises

	Outcome		**Preliminary**		**Projections**		
R billion	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Consolidated saving and investment							
Net saving	-3,3	-3,2	-0,1	-0,2	-0,3	-0,3	-0,3
Depreciation	14,3	15,0	16,4	19,2	21,0	23,2	25,7
Gross saving	11,1	11,2	16,3	19,0	20,7	22,9	25,3
Investment	12,8	15,2	15,8	15,1	16,7	18,9	21,5
Surplus/Deficit	**-1,7**	**-4,0**	**0,5**	**3,9**	**4,0**	**4,0**	**3,9**
Memorandum items:							
Total deficit % GDP	***-0,4***	***-0,8***	***0,1***	***0,6***	***0,6***	***0,5***	***0,5***

Source: South African Reserve Bank and Department of Finance projections. Includes local government enterprises.

3.4.8 Total public sector

Total public sector

To assess fully the impact of government on the economy, the overall public sector must be examined. This is made up of the national government, extra-budgetary institutions, social security funds, provincial government, local governments, comprising the general government, and the non-financial public enterprises. Table 3.13 shows trends in the total public sector borrowing requirement and its components.

Public sector borrowing requirement

Since 1993/94 the public sector borrowing requirement (PSBR)[3] has been reduced from 10,4 per cent of GDP to an estimated 5,1 per cent in 1997/98. As the national budget accounts for most public sector borrowing, the public sector borrowing requirement is projected to decline in line with the trend for the main budget. It is expected that the PSBR will decline to 3,8 per cent of GDP in the year 2000/01, because of the decrease in the projected national budget deficit, together with a projected surplus of the non-financial public enterprises.

Table 3.13 The total public sector borrowing requirement

	Outcome		Preliminary		Projections		
	1994/95	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**
R billion							
General government expenditure	168,1	183,6	211,4	226,5	239,2	256,7	278,9
General government revenue	140,3	155,6	178,6	196,3	212,8	232,4	252,7
General government deficit	-27,7	-28,0	-32,8	-30,2	-26,4	-24,2	-26,2
NFPE[1] borrowing requirement	0,8	-0,9	0,7	1,2	4,4	4,5	4,4
PSBR	**28,5**	**28,9**	**33,5**	**31,4**	**30,8**	**28,7**	**30,6**
Surpluses / deficits as % of GDP							
National	*-5,6%*	*-5,8%*	*-5,2%*	*-4,3%*	*-3,5%*	*-3,0%*	*-3,0%*
General government	*-6,2%*	*-5,6%*	*-5,9%*	*-4,9%*	*-3,9%*	*-3,3%*	*-3,2%*
NFPE[1] borrowing requirement	0,2%	-0,2%	0,1%	0,2%	0,7%	0,6%	0,5%
PSBR	**6,4%**	**5,8%**	**6,0%**	**5,1%**	**4,6%**	**3,9%**	**3,8%**

Source: South African Reserve Bank and Department of Finance projections.

1. Non-financial public enterprises borrowing requirement, excluding local government enterprises (which are already reflected in the general government accounts).

[3] The **public sector borrowing requirement (PSBR)** comprises the general government borrowing requirement and the consolidated borrowing requirement of public corporations and national government enterprises. (Local government enterprises are excluded from the calculation of the PSBR, given the fact that they are already accounted for in the general government figures as part of the income of local governments).

3.5 GOVERNMENT DEBT

3.5.1. Government debt: 1993/94 to 1997/98

Government debt in historical context

Government debt increased from 48,6 per cent of GDP in 1993/94 to a peak of 56,2 per cent in 1995/96 and has since decreased to a projected 55,2 per cent of GDP on 31 March 1998.

The increase since 1993/94 was partly attributable to R14,1 billion in respect of the indebtedness of the former TBVC states and the former self-governing territories. Government bond transfers totalling R10,6 billion were made in previous years to the Reserve Bank to compensate for realised losses on the Gold and Foreign Exchange Contingency Reserve Account.

Transfers have also been made to government pension funds to meet liabilities associated with early retirement offers to public servants, amounting to R7,4 billion.

Composition of debt

Table 3.14 of this Review shows the major components of projected government debt on 31 March 1998, together with comparable estimates for earlier years. Table 9 in Annexure B contains further details.

Marketable domestic debt has increased from R181,9 billion on 31 March 1994 to a projected R319,3 billion at the end of March 1998.

Non-marketable domestic debt has increased from R2,9 billion to R4,0 billion over the same period.

Foreign debt as a share of total debt has increased from 2,7 per cent in 1993/94 to 4,2 per cent in 1997/98 as a result of re-entry into international capital markets.

Table 3.14 also shows that the outstanding balance in the Gold and Foreign Exchange Contingency Reserve Account, which is a liability of Government to the South African Reserve Bank, reached R4,2 billion at the end of March 1995. Over much of the past year, the Bank has made profits on its forward cover operations, contributing to the reduction in this balance over the 1997/98 year to a projected balance of R500 million.

Table 3.14 Composition of government debt: 1993/94 to 1997/98

R million	1993/94	1994/95	1995/96	1996/97	1997/98
Marketable domestic debt	181 890	225 662	263 844	290 424	319 260
Non-marketable domestic debt	2 879	5 905	4 900	6 621	4 045
Total domestic debt[1]	184 769	231 567	268 744	297 045	323 305
Total foreign debt[2]	5 201	8 784	10 944	11 394	14 314
Total loan debt	189 970	240 351	279 688	308 439	337 619
Gold and Foreign Exchange Contingency Reserve Account[3]	2 190	4 147	0	2 169	500
Total government debt (as at 31 March)	**192 160**	**244 498**	**278 688**	**310 608**	**338 119**
% of GDP	48,6%	54,8%	56,2%	55,8%	55,2%

Source: Department of Finance

1. *Includes converted debt from former TBVC states and self-governing territories in terms of section 239 of the 1993 Constitution.*
2. *Valued at prevailing exchange rates.*
3. *Mainly the accrued losses made on the forward book.*

3.5.2 Increase in debt: 1997/98

Sale of state assets

Receipts from the sale of state assets are generally applied for the purpose of reducing state debt. In some instances proceeds are also used for recapitalisation of the enterprise concerned.

Of the amount of R516 million included in the 1997/98 budget as gross proceeds from the sale of radio stations a net amount of R510 million was realised. In addition R1 165 million was received in the Exchequer for the sale of 30 per cent of government's stake in Telkom. A further amount of R21,1 million was received as a partial payment for the sale of Sun Air, bringing total proceeds from the sale of state assets, during 1997/98 to R1 697 million.

Loan redemptions

Total loan redemptions amounted to R12,5 billion in 1997/98, compared to the R12,1 billion foreseen at the time of the Budget. The revised amount includes the following, which was not provided for in the original figures:

- the scheduled repayments of R203 million on debt which was taken over from the Republic of Namibia in terms of an agreement on 23 May 1997;
- an unforeseen repayment of debt of the former TBVC states and self-governing territories, amounting to R229 million; and

- a small amount of bonds repurchased before redemption date in advance in terms of a facility made available to the Reserve Bank.

After accounting for the premium on consolidating, repurchasing and switching of government bonds of R82,7 million, the net loan redemption amounted to R12,4 billion[4].

1997/98 gross borrowing requirement

Taking into account the revised deficit of R26,6 billion, proceeds from the sale of state assets and transfers from the strategic Fuel Fund, the gross borrowing requirement for 1997/98 is expected to be R36,2 billion, compared to the budgeted R35,1 billion.

The revised borrowing requirement together with details of its financing are set out in table 3.15.

The 1996/97 cash balance brought forward to 1997/98 was R1,2 billion and not the envisaged nil balance, mainly because of additional funding per cash management purposes. During 1997/98 late requests and surrenders by Departments in respect of previous years resulted in the cash balance brought forward from 1996/97 being adjusted to R2,7 billion.

Short-term loans

It was envisaged that short-term loans would increase by R2,0 billion. The increase is now estimated to be R3,0 billion. Short-term loans were obtained or refinanced at an average weighted interest rate of 14 per cent (budgeted 14,5 per cent).

[4] Premiums earned on transactions in government bonds were R117,0 million lower than projected because of switches from 3-month zero-coupon bonds to long-term government bonds in terms of formal agreements with certain institutions. In practice, this premium arises either as a cash flow gain or as a book-entry reflecting the difference between the discount on the government bonds redeemed before maturity and the discount on the new bonds issued. For purposes of analysis, this "book-profit" is excluded from national budget revenue and shown as "negative" loan redemptions.

Table 3.15: Budgeted and revised estimates of borrowing requirement and financing: 1997/98

R million	Budgeted	Revised Estimate
Budget deficit	**24 820,8**	**26 618,3**
Transfer from Strategic Fuel Fund	1 250,0	1 250,0
Proceeds from the sale of state assets	516,0	1 696,8
Net borrowing requirement	**23 054,8**	**23 671,5**
Loan redemptions:	12 078,4	12 506,3
Short-term (net)	0,0	0,0
Government bonds	10 596,2	10 475,4
Premium on transactions in government bonds	-200,0	-82,7
Foreign loans	68,9	68,9
IMF loan (CCF Facility)	1 381,2	1 381,2
Namibia taken over debt [1]	0,0	202,6
TBVC and SGTs debt [2]	232,1	460,9
Gross borrowing requirement	**35 133,2**	**36 177,8**
Financing: 1996/97 cash balance brought forward	0,0	2 687,6
Short-term (net)	2 000,0	2 985,0
Government bonds	27 752,0	28 840,1
Foreign loans	4 000,0	3 883,9
Transfer from IMF deposit account at SARB	1 381,2	1 381,2
Total financing	**35 133,2**	**39 777,8**
Closing cash balance	0,0	3 600,0

Source: Department of Finance

1. *Debt of the Republic of Namibia which was taken over in terms of an agreement on 23 May 1997.*
2. *Debt of the former TBVC states and self-governing terrories taken over in terms of section 239 of the 1993 Constitution.*

Government bonds

At the time of the Budget it was foreseen that funding in government bonds would take place in R150 (12,0 per cent: 2004/5/6), R184 (12,5 per cent 2006), R153 (13,0 per cent 2009/10/11) and R157 (13,5 per cent 2014/15/16) government bonds. Furthermore, small amounts of zero-coupon bonds with maturities beyond April 2003 were also anticipated. During 1997/98, government bonds to a total nominal value of R32,3 billion were issued at an average weighted coupon rate of 13,0 per cent (budgeted 13,0 per cent) and an average weighted yield of 14,4 per cent (budgeted 15,0 per cent), broken down as follows:

Table 3.16: Government bonds issued during 1997/98

Bonds	Bonds issued Nominal R million	Average Yield	Financing raised (cash) R million	Discount R million
Zero-coupon [1]	1 249	14,23%	95	1 154
R150 (12,0% 2004/5/6)	710	14,42%	638	72
R184 (12,5% 2006)	5 656	14,50%	5 086	570
R153 (13,0% 2009/10/11)	14 573	14,30%	13 509	1 064
R157 (13,5% 2014/15/16)	10 085	14,47%	9 507	578
R175 (9,0% 2002)	14	14,56%	11	3
R177 (9,5% 2007)	4	14,49%	3	1

Source: Department of Finance

1. *Unlike the discount on other government bonds, the discount on zero-coupon bonds is accrued to state debt cost.*

Foreign loans

Financing in foreign loans was R3,9 billion against the budgeted amount of R4,0 billion. In addition to the 3,35 per cent ¥40 billion and 8,5 per cent $500 million loans, yielding R3,8 billion, an amount of R60,1 million was received from borrowing from the Overseas Economic Co-operation Fund in Japan in respect of the Kwandebele Water project.

Total financing

Total financing for 1997/98 is thus expected to be R39,8 billion compared to the revised gross borrowing requirement of R36,2 billion, leaving an expected closing balance for 1997/98 of R3,6 billion. Of this amount R2,0 billion represents a minimum cash buffer which is needed on an ongoing basis to provide for mismatches between expenditure and revenue flows. Provision has also been made for a negative cash flow of R1,6 billion on the exchequer account in respect of further identified debt of the former homelands and provincial authorities. Depending on the date on which a Special Act to appropriate the payment is promulgated, the payment will be made during 1997/98 or early in 1998/99. If such payments are made during 1997/98 the closing balance for 1997/98 will amount to about R2,0 billion.

Decline in debt-GDP ratio

It is projected that total government debt (in nominal terms) will increase by R27,5 billion to R338,1 billion by the end of the 1997/98 financial year. Total government debt is thus projected to be equal to 55,2 per cent of GDP on 31 March 1998, compared to 55,8 per cent at the end of the 1996/97 financial year.

Outstanding debt

Outstanding marketable rand denominated debt is expected to be R319,3 billion on 31 March 1998. This includes government bonds of R461 million of the former TBVC states and self-governing territories and R229 million of government bonds taken over as debt of the Republic of Namibia on 23 May 1997.

Outstanding non-marketable rand denominated debt will amount to an estimated R4,0 billion on 31 March 1998 and will include non-marketable treasury bills of R2,6 billion. The remainder of R1 478 million mainly represents loans by the Committee for Economic and Development Co-operation in South Africa (CEDCSA) to the former TBVC states and self-governing territories for infrastructure projects and a Republic of Namibia commitment to the South African Reserve Bank which was taken over by Government.

Table: 3.17 Explaining the change in government debt: 1997/98

R million	
Financing of the national budget [1]	**24 472**
Republic of Namibia debt taken over on 23 May 1997	1 437
Unamortised discount on zero coupon bonds	875
Additional debt of former regional structures	1 924
Revaluation of existing foreign loans	472
Total loan debt	**29 180**
Foreign exchange forward cover losses realised by the South African Reserve Bank	-1 669
Total projected increase in government debt	**27 511**

Source: Department of Finance

1 *Comprises government bonds (nominal value, i.e. including the discount), and foreign loans.*

Foreign debt

Total foreign debt on 31 March 1998 is projected to be R14,3 billion, if valued at the exchange rates prevailing on 17 February 1998.

The total losses on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 1998 are projected to be R500 million. Table 9 of Annexure B of this Review projects government debt up to 2000/01.

State debt cost for 1997/98

Despite the higher financing requirement of R36,2 billion as against the budgeted gross borrowing requirement of R35,1 billion, it is estimated that a saving of about R279 million in state debt costs will be realised for the 1997/98 year.

This saving results from lower costs associated with bond financing in the domestic market as a result of the easing of capital market interest rates, proceeds from the sale of state assets, and lower than budgeted exchange rate losses in respect of interest on and redemption of foreign loans.

These savings were partially offset by higher than budgeted costs in respect of short-term financing through treasury bills, costs associated with formal switching arrangements with certain institutional investors and shortfalls in transfers of interest in respect of former regional structures that was identified by the provinces in respect of previous fiscal years.

3.5.3 Projections of state debt costs from 1998/99 to 2000/01

Debt costs for 1998/99

State debt costs are recorded on a cash basis, in keeping with government accounting practice. For the 1998/99 financial year the cost of servicing state debt, which forms a first charge against the National Revenue Account, is estimated at R42 525 million, or 6,4 per cent of estimated GDP.

Assumptions

The assumptions used in the state debt cost estimate were:

- a national budget deficit of R23,7 billion;
- scheduled domestic and foreign loan redemptions of R15,8 billion;
- a conversion of nil-coupon bonds by the South African Reserve Bank to the amount of R3 billion;
- an average capital market yield of 13,0 per cent and an average coupon rate on new government bond issues of 12,3 per cent; and
- average short-term interest rates of 13,0 per cent.

Projections of the cost to service debt up to the year 2000/01 are set out in table 3.18.

Table 3.18 Projected national government state debt cost: 1997/98 to 2000/01

		MTEF		
R million	**Revised Estimate 1997/98**	**1998/99**	**1999/00**	**2000/01**
Interest	38 671	41 497	44 050	47 950
Management costs (including revaluation of maturing foreign loans)	660	978	900	50
Cost of raising loans	3 010	2 988	2 350	2 800
Sub total	**42 341**	**45 463**	**47 300**	**50 800**
Less: Discount on sales of new government stock	2 977	2 938	2 300	2 800
Total State debt cost	39 364	42 525	45 000	48 000

Source: Department of Finance

Interest costs

Interest on state debt will increase by 7,3 per cent to R41,5 billion. In keeping with the cash basis of the government accounts, the revaluation of foreign loans that mature in 1998/99 is recorded as "management costs" at redemption.

It is anticipated that government bonds, which will, as in the past, be issued in liquid marketable instruments that carry interest somewhat below market rates, will be sold at an overall discount of R2,9 billion in 1998/99[5].

3.5.4 Gross borrowing requirement and financing

1998/99 borrowing requirement

After having taken into account a budget deficit of R23,7 billion, and scheduled loan redemptions of R15,8 billion, the gross loan financing requirement for 1998/99 amounts to R39,5 billion. Projections up to the year 2000/01 are set out in table 3.19.

Financing

The envisaged financing will mainly take place in government bonds. The scheduled final repayments of the Compensatory and Contingency Financing Facility (CCFF) due to the International Monetary Fund will be financed in 1998/99 through a transfer of R1 036 million from the IMF Deposit Account at the South African Reserve Bank. Provision is also made for a net increase in treasury bills of R2 500 million and foreign loans of R5 000 million. Table 3.19 sets out the equivalent amounts for the subsequent 1999/00 and 2000/01 years.

[5] The "discount" is the difference between the nominal or face value of a debt instrument issued and the finance actually raised. It is an addition to total debt over and above the cash amount raised.

Table 3.19 Borrowing requirement and financing: 1997/98 to 2000/01

R million	Revised Estimate 1997/98	1998/99	MTEF 1999/00	2000/01
Budget deficit	**26 618,3**	**23 698,5**	**22 296,3**	**24 547,5**
Transfer from Strategic Fuel Fund	1 250,0		-	-
Proceeds from the sale of State Assets	1 696,8	-	-	-
Net borrowing requirement	**23 671,5**	**23 698,5**	**22 296,3**	**24 547,5**
Loan redemptions:	12 506,3	15 807,6	12 175,7	16 488,6
Short-term (net)	-	-	-	-
Government bonds	10 475,4	14 660,7	9 399,4	15 080,0
Premium on transactions in government bonds	-82,7	-	-	-
Foreign loans	68,9	31,5	2 696,1	1 327,8
IMF loan (CCF Facility)	1 381,2	1 035,9	-	-
Namibia taken over debt	202,6	46,1	57,1	62,3
TBVC and SG's debt	460,9	33,4	23,1	18,5
Gross borrowing requirement	**36 177,8**	**39 506,1**	**34 472,0**	**41 036,1**
Financing:	**2 687,6**	**2 000,0**	**2 000,0**	**2 000,0**
1996/97 cash balance brought forward				
Short-term (net)	2 985,0	2 500,0	3 000,0	3 500,0
Government bonds	28 840,1	30 970,2	25 972,0	31 536,1
Foreign loans	3 883,9	5 000,0	5 500,0	6 000,0
Transfer from IMF Deposit Account at SARB	1 381,2	1 035,9	0,0	0,0
Total Financing	**39 777,8**	**41 506,1**	**36 472,0**	**43 036,1**
Closing cash balance	3 600,0	2 000,0	2 000,0	2 000,0

Source: Department of Finance

Change in total government debt

After consideration of the envisaged financing programme for the 1998/99 financial year and the estimated discount on sales of new government bonds of R2,9 billion[6] (including provision for the discount on projected conversions by the SA Reserve Bank of nil-coupon stock into interest-bearing bonds to the amount of R3,0 billion[7]), total government debt is projected to be R363,2 billion (54,3 per cent of expected GDP) on 31 March 1999 compared to the estimated R338, billion (55,2 per cent of GDP) on 31 March 1998. This projection *excludes* any changes in government debt that may result from:

- a revaluation of foreign loans because of changes in the exchange rate after 17 February 1998;
- forward cover losses or profits on the Gold and Foreign Exchange Contingency Reserve Account that may be realised during 1998/99; and
- proceeds from the sale of state assets that may be realised during 1998/99.

Preliminary estimates show that the total debt to GDP ratio will decrease to 53,0 and 51,5 per cent of GDP in 1999/00 and 2000/01 respectively.

[6] As reflected in the first print Estimate of Expenditure ("White Book").

[7] This amount will not increase the overall level of government debt.