3

Fiscal policy

- The rapid deterioration of the world economy, lower commodity prices and tighter credit will have considerable consequences for South Africa's public finances. Having pursued a sound macroeconomic and fiscal stance over the past decade, government has the fiscal space to maintain spending in support of sustainable economic growth and social development.
- While slowing economic activity will result in lower tax revenue, a low debt-to-GDP ratio combined with reduced debt service costs means that the 2009 Budget is able to add R161 billion to main budget non-interest expenditure without undermining sustainability or building up an excessive debt burden for future generations. This stance allows for an expansion of the public-sector infrastructure programme to enhance future economic capacity, while broadening the breadth and quality of public services and social transfers.
- Higher spending and a decline in tax revenue in 2009/10 are expected to result in a budget deficit of 3.8 per cent of GDP. As the economy recovers, government savings can be expected to improve, with the deficit falling over the medium term.

Overview

Fiscal space allows for a sustainable response to the economic slowdown

With the economy slowing, government is maintaining the countercyclical policy stance that has been in place for a number of years. Sustained growth in expenditure and lower revenue collections result in a widening of the deficit next year. Low public debt and liquid South African capital markets will allow government to fund its borrowings largely from the domestic market.

The growth in government spending in the present context serves two broad purposes. Firstly, it ensures that the implementation of long-term service delivery priorities is not negatively affected by lower growth in revenue collection. Instead of being forced to cut back on allocations when faced with lower revenue, government is able to devote greater resources to priority expenditure. This is a direct result of fiscal space created during the upward phase of the economic cycle.

What is countercyclical fiscal policy?

Countercyclical fiscal policy enables government to respond flexibly to the effects of the economic cycle. In adopting this stance, government manages its borrowing in a way that requires the fiscus to save temporary revenue gains when the economy is strong, and to borrow to compensate for temporary revenue losses when the economy is weak.

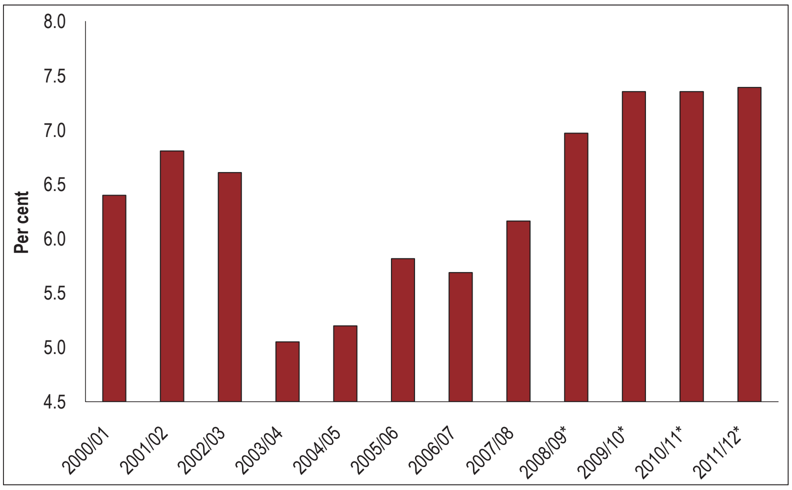
As a result, the fiscus experiences a cyclical decline in debt stock during the positive phase of the business cycle (sometimes referred to as creating fiscal space) and a cyclical increase in debt stock during the negative phase of the business cycle.

In terms of public finances, this means that expenditure and tax policy decisions made when revenue is cyclically high will still be affordable when cyclical revenues reverse. In principle, choices to increase spending on vital social and economic priorities such as infrastructure, social grants or wages when the economy is strong need not be reversed or financed by higher tax rates when the economy is underperforming.

Public-sector infrastructure programme supports aggregate demand and long-term growth potential

Secondly, by expanding government's contribution to the economy, the fiscus is able to support economic activity at a time when global and domestic demand is faltering. This complements the role of monetary policy in supporting macroeconomic stability, reducing the impact of the downturn on households and mitigating its depth and duration. The public-sector infrastructure programme also supports aggregate demand and boosts vital job-generating sectors of the economy, while raising long-term growth potential. While other governments are seeking ways of generating new capital plans or bringing forward planned projects, South Africa's investments have gathered strong momentum since 2004, providing an established and timely expansion of capital spending.

Figure 3.1 Capital spending as a percentage of consolidated government expenditure, 2000/01 – 20011/12



**2008/09 - 2011/12 are based on forecasts.*

Government's ability to increase expenditure needs to be measured against the difficulties of raising large amounts of debt in the current environment. Government remains watchful to ensure that fiscal space remains available and that rising debt does not narrow opportunities for future economic development.

Over the medium term the economic cycle is forecast to become more supportive of growth. The resulting boost to tax revenue, combined with the moderation of growth in expenditure, is expected to result in the budget balance improving.

The fiscal stance responds to immediate and longer-term challenges

In summary, the 2009 Budget is able to accommodate short-term challenges while positioning the fiscus to take advantage of better conditions when the economic cycle turns.

Key features of the 2009 Budget include the following:

- Consolidated government spending grows to 33.7 per cent of GDP in 2009/10, before declining to 32.3 per cent by 2011/12, with additional allocations to the main budget of R161 billion (including the loan to Eskom).
- Total receipts decline to 29.9 per cent of GDP in 2009/10 from a high of 31.0 per cent in 2007/08.
- The consolidated government budget deficit rises to 3.8 per cent of GDP in 2009/10 before moderating to 1.9 per cent by 2011/12.
- Interest costs stabilise at about 2.5 per cent of GDP over the next three years.
- The public sector borrowing requirement rises to 7.5 per cent of GDP in 2009/10 before moderating to 5.3 per cent by 2011/12.

The fiscal outlook

Real spending growth has enabled government to expand the social wage and increase investment

Between 2005/06 and 2008/09, real growth in spending by consolidated government has averaged about 8.2 per cent. This has enabled government to make a substantial contribution to the welfare of all South Africans by expanding the social wage, increasing transfers to households and accelerating infrastructure investment.

This strong growth in expenditure has been made possible in part by prudent fiscal management. Reduced deficits have led to debt service costs falling from 21.2 per cent of total national government spending in 1998/99 to just 7.5 per cent in 2009/10. The creation of fiscal space through lower debt costs has been supported by economic growth and rising tax revenue since 2004.

Budget shifts into a deficit, but as economy recovers savings will improve

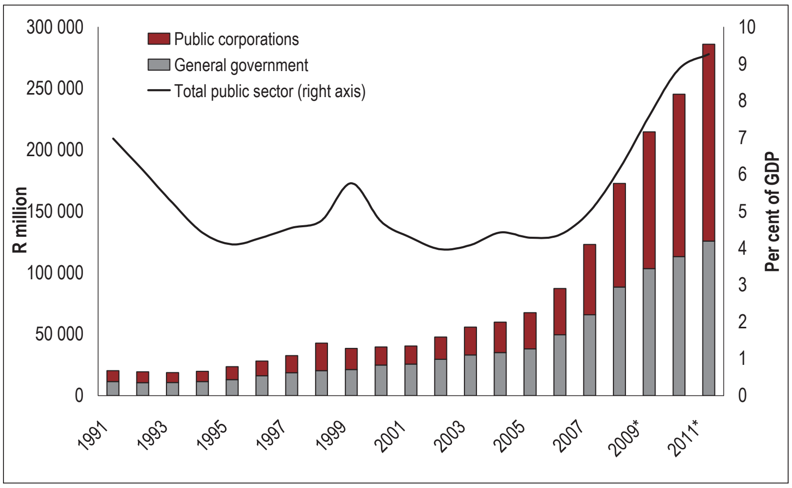
Over the past year the fiscal stance has become significantly more expansionary, with lower revenue and higher expenditure resulting in an increase in the deficit. This change in the fiscal stance coincides with the changed economic outlook and enables government to continue financing its priorities over the cyclical decline in revenue while supporting aggregate demand. As the economy recovers, revenue growth combined with relatively slower growth in public spending will see government borrowing retreat and savings improve.

Trends in expenditure and revenue

Sustaining infrastructure spending a key objective

Due to the importance of infrastructure in public service provision and boosting growth potential, government has placed a stronger emphasis on capital spending since 2001. While take-up in these rising allocations was initially slow, from 2004/05 expenditure began to accelerate. After accelerating to 19.4 per cent in 2007, real growth in government capital formation is expected to remain strong, with an average of about 9.5 per cent over the next three years.

Figure 3.2 Gross fixed capital formation by the public sector, 1991 – 2011



Historical data based on Systems of National Accounts (SNA) data as published by the Reserve Bank

**2008 - 2011 are based on forecasts.*

An expanded role for development finance institutions

The non-financial public enterprises shoulder a significant share of the public sector's broader capital investment programme. These investments, predominantly in energy, transport and water-related infrastructure, are key components of economic and social development and can be expected to raise the long-term growth potential of the economy. In addition, over the period ahead, government will support the role of its development finance institutions in infrastructure finance and provide selective support to state-owned enterprises by guaranteeing some of their debt.

Public-sector infrastructure expenditure will total R787 billion over the medium term

Table 3.1 shows that over the medium term, public-sector infrastructure expenditure plans total R787 billion. Major funding by government includes further allocations to the school building programme, public transport, housing, water and sanitation. In addition, non-financial public enterprises continue to invest in power generation, transmission, distribution, transport hubs, freight rail and pipelines.

Table 3.1 Public sector infrastructure expenditure and estimates, 2005/06 – 2011/12

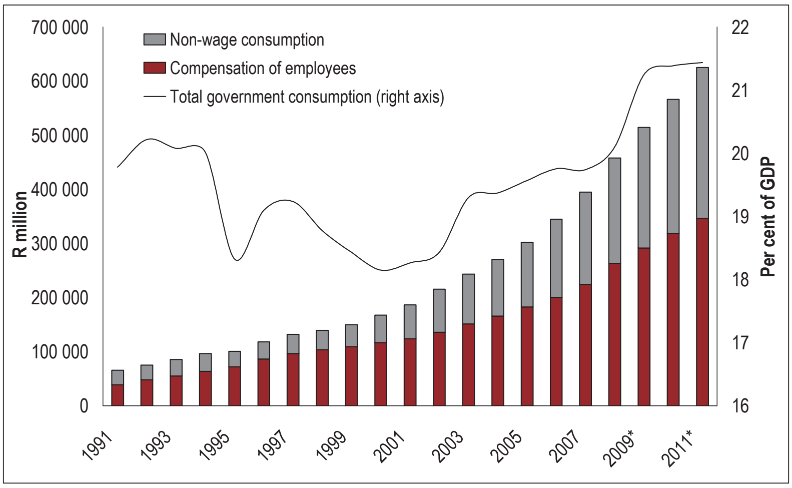
R million	2005/06	2006/07	2007/08	2008/09 Revised estimate	2009/10	2010/11	2011/12
					Medium-term estimates		
National departments [1,2]	4 909	4 631	5 712	7 157	8 024	8 641	12 867
Provincial departments [2]	22 535	27 112	29 395	34 664	39 899	46 517	52 439
Municipalities	16 865	21 084	30 736	46 093	49 496	53 738	59 074
Public private partnerships [3, 4]	1 106	1 343	3 857	7 633	13 897	11 692	11 727
Extra-budgetary public entities	3 144	3 699	3 726	4 895	6 971	7 509	8 112
General government	**48 559**	**57 869**	**73 426**	**100 442**	**118 288**	**128 098**	**144 219**
Non-financial public enterprises [5]	22 145	25 736	56 765	90 192	119 585	131 335	145 842
Total	**70 703**	**83 605**	**130 191**	**190 634**	**237 873**	**259 433**	**290 061**
Percentage of GDP	*4.5%*	*4.6%*	*6.3%*	*8.3%*	*9.6%*	*9.7%*	*9.8%*
GDP	*1 585 986*	*1 810 664*	*2 067 884*	*2 304 111*	*2 474 214*	*2 686 254*	*2 952 989*

1. *Transfers between spheres have been netted out.*
2. *Includes maintenance of infrastructure assets.*
3. *Capital expenditure on PPPs overseen by the Treasury PPP Unit, SA National Roads Agency, Department of Public Works and at municipal level.*
4. *PPPs reflect private sector contributions and SANRAL toll roads.*
5. *2009/10 - 2011/12 are based on National Treasury estimations.*

A balance is required between wages and other spending categories

Compensation of employees accounts for the greatest share of consumption expenditure. Goods and service spending has been rising strongly due to increased spending on school books, medicines and IT infrastructure. Government aims to maintain an appropriate balance between personnel spending, capital spending and social transfers. In 2007/08 and 2008/09, the wage bill grew more rapidly than anticipated. If government is to maintain its commitment to increasing public employment, some moderation of general salary increases will be appropriate.

Figure 3.3 General government consumption expenditure, 1991 – 2011



Historical data based on SNA data as published by the Reserve Bank.

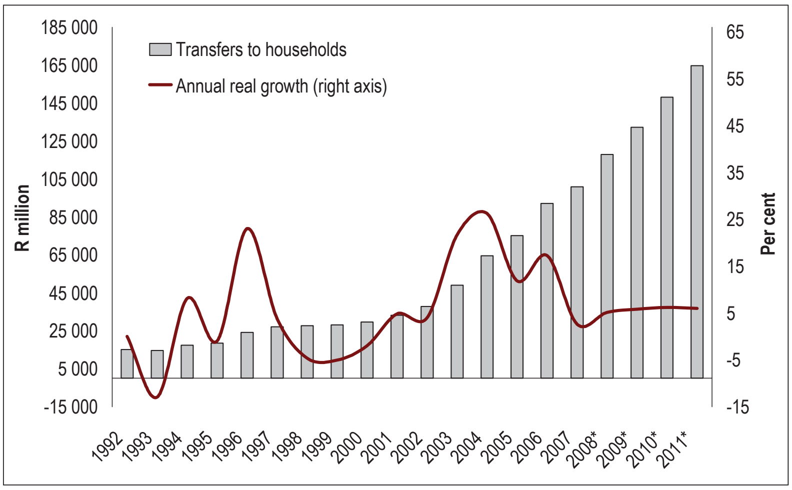
Non-wage consumption expenditure excludes transfers to households.

**2008 - 2011 are based on forecasts.*

Transfers to households grow in line with social grants

Policy changes will result in an increase in the number of social grant recipients. As a result, transfers to households are expected to grow at about 6 per cent in real terms over the medium term.

Figure 3.4 Government transfers to households, 1992 – 2011



Historical data based on SNA data as published by the Reserve Bank.

**2008 - 2011 are based on forecasts.*

Revenue buoyancy falls in line with deceleration of the economy

On the revenue side, the downward revision in economic growth is expected to have a negative effect on tax collection. Lower consumption expenditure has already resulted in VAT coming in below expectations for 2008/09, while lower commodity prices and weaker economic growth will reduce income tax receipts from both companies and individuals. As the economy begins to recover, revenue growth should stabilise.

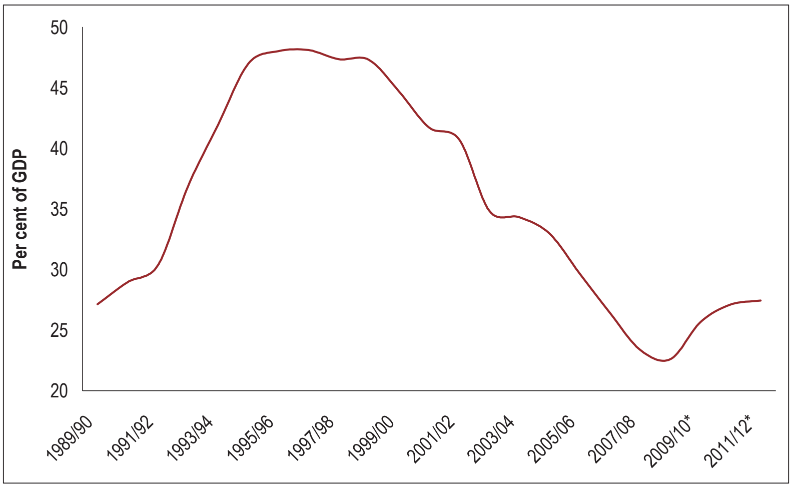
Financing

The combined effect of higher expenditure and declining revenue is that government will run a deficit that will need to be financed by borrowing.

Net loan debt rises in the short term

Over the past 13 years, net loan debt of national government has declined significantly, from 48.1 per cent of GDP in 1996/97 to an expected 22.6 per cent by the end of 2008/09. To protect the value of public expenditure and limit the extent of the economic downturn, borrowing will raise public debt to 27.4 per cent of GDP by 2011/12. This is necessary because a procyclical tightening of the fiscus through higher taxes or lower expenditure would remove demand from a slowing economy and significantly undermine public service delivery. As the economy recovers, the debt stock will decline as a percentage of GDP.

Figure 3.5 Total net loan debt as a percentage of GDP, 1989/90 – 2011/12

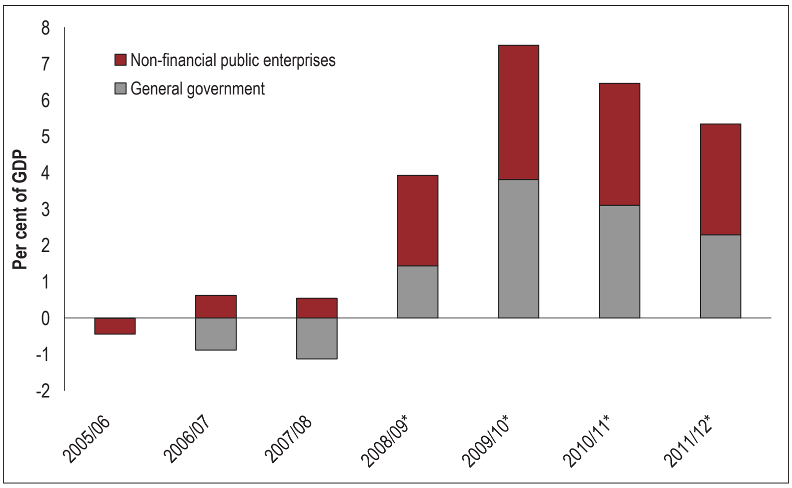


**2008/09 – 2011/12 are based on forecasts.*

The long-term infrastructure programme of the public sector requires significant capital to be raised through debt. In combination with the general government budget deficit this results in a significant widening of the public sector borrowing requirement to 7.5 per cent of GDP in 2009/10. While borrowing for capital expenditure (especially among the non-financial public enterprises) will continue beyond 2011/12, the recovery in the national government balance will lead to an overall reduction of the public sector borrowing requirement from 2010/11.

To finance the infrastructure programme, significant capital needs to be raised

Figure 3.6 Public sector borrowing requirement as a percentage of GDP, 2005/06 – 2011/12



**2008/09 – 2011/12 are based on forecasts.*

Sustainability

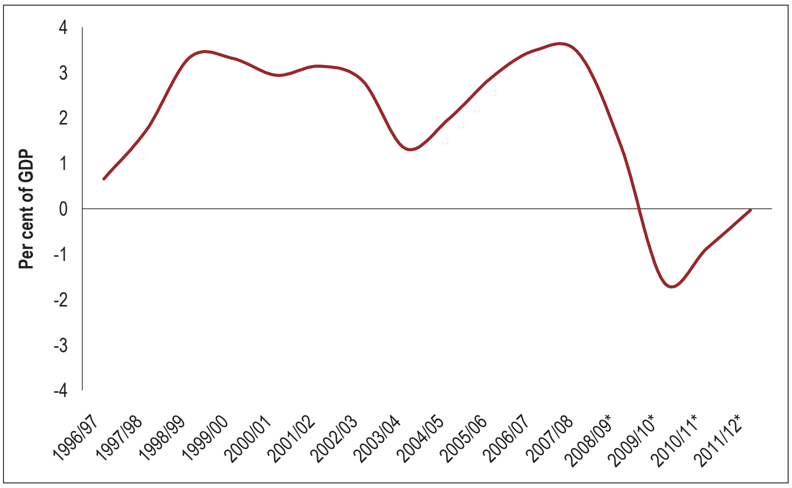
The basic indicator of sustainability in the public finances is the primary balance, calculated as national government revenue minus non-interest expenditure. This shows how much revenue remains to pay debt service costs: if insufficient resources are available to service debt, the fiscus has to borrow to pay for interest charges. While this

Fiscal stance emphasises the need for sustainability of the public finances might be possible in the medium term, it is not sustainable over the long term as borrowing to pay interest leads to a cycle of rising debt, crowding out non-interest expenditure.

Primary balance declines to a deficit position of 1.6 per cent

Lower revenue and countercyclical spending are expected to result in a primary balance of about -1.6 per cent of GDP in 2009/10. Given the extent and pace of the economic adjustment, this is not unexpected. The fiscus accommodates a primary deficit through higher borrowing, with the expectation that the primary balance will move back towards sustainable levels as economic growth begins to accelerate in 2010.

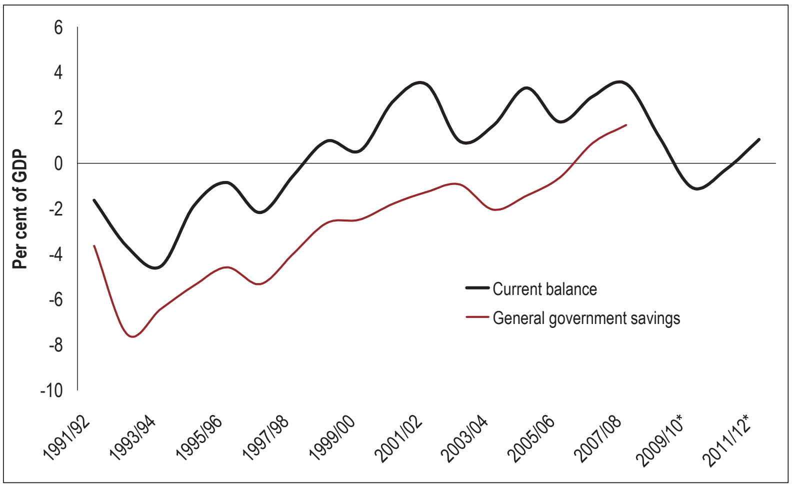
Figure 3.7 Primary balance of national government, 1996/97 – 2011/12



**2008/09 - 2011/12 are based on forecasts.*

The current balance is the difference between consolidated government revenue and expenditure, measuring the degree to which taxpayers finance the cost of public services and the extent to which the fiscal position will leave assets or liabilities for future generations.

Figure 3.8 The current balance and general government savings, 1991/92 – 2011/12



Current balance calculated at the consolidated government level of accounts.
**2008/09 - 2011/12 are based on forecasts.*

A deficit means that borrowing must rise or assets must be run down to pay for services. The current budget balance of government (and therefore savings) will decline in the short term as a result of lower cyclical revenue and growth in current expenditure. Government remains committed to running a balanced or positive savings position over the long term. As the economy begins to recover and the share of capital spending rises, the current balance will improve.

Government is committed to running a positive savings position over the long term

The budget framework

In the 2009 *Budget Review*, the budget framework is presented at the consolidated government level, taking account of the consolidated revenue and expenditure of national government, the social security and RDP funds, the provinces and various public entities. This provides for a more complete view of the revenue and expenditure decisions of government and their effects on the economy.

Table 3.2 Consolidated government budget, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09 Revised estimate	2009/10	2010/11	2011/12
Gross tax receipts	437 234	518 009	597 491	655 762	692 568	757 131	832 473
Percentage of GDP	*27.6%*	*28.6%*	*28.9%*	*28.5%*	*28.0%*	*28.2%*	*28.2%*
plus: Non-tax receipts[1]	56 937	60 333	69 298	70 846	75 713	83 230	91 037
less: SACU transfers	-14 145	-25 195	-24 713	-28 921	-27 915	-26 237	-27 867
Total receipts	**480 026**	**553 147**	**642 077**	**697 687**	**740 365**	**814 125**	**895 643**
Percentage of GDP	*30.3%*	*30.5%*	*31.0%*	*30.3%*	*29.9%*	*30.3%*	*30.3%*
Current payments	301 107	329 154	367 439	431 090	472 376	516 941	558 054
Compensation of employees	155 215	172 230	197 131	234 790	258 124	280 332	299 588
Percentage of GDP	*9.8%*	*9.5%*	*9.5%*	*10.2%*	*10.4%*	*10.4%*	*10.1%*
Goods and services	89 999	100 171	112 249	136 996	152 812	168 631	183 082
Interest	54 731	55 512	56 569	58 002	59 995	66 486	73 779
Percentage of GDP	*3.5%*	*3.1%*	*2.7%*	*2.5%*	*2.4%*	*2.5%*	*2.5%*
Other current payments	1 163	1 242	1 489	1 302	1 446	1 491	1 605
Transfers and subsidies	146 091	170 280	201 897	239 702	294 611	304 642	304 398
Percentage of GDP	*9.2%*	*9.4%*	*9.8%*	*10.4%*	*11.9%*	*11.3%*	*10.3%*
Payments for capital assets	27 616	30 121	37 385	50 260	61 349	66 161	70 617
Percentage of GDP	*1.7%*	*1.7%*	*1.8%*	*2.2%*	*2.5%*	*2.5%*	*2.4%*
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Total payments	**474 814**	**529 556**	**606 721**	**721 052**	**834 336**	**899 744**	**953 069**
Percentage of GDP	*29.9%*	*29.2%*	*29.3%*	*31.3%*	*33.7%*	*33.5%*	*32.3%*
Budget balance	**5 211**	**23 591**	**35 356**	**-23 365**	**-93 970**	**-85 619**	**-57 426**
Percentage of GDP	*0.3%*	*1.3%*	*1.7%*	*-1.0%*	*-3.8%*	*-3.2%*	*-1.9%*

1. Includes sales of capital assets and transfers received.

Consolidated government revenue has increased significantly as a percentage of GDP over the past four years as a consequence of strong economic growth and more efficient revenue collection. Over the medium term, in line with more moderate economic growth and slowing private consumption, tax revenue is expected to moderate as a percentage of GDP.

Consolidated government revenue is expected to moderate as a percentage of GDP

The decline in gross tax revenue estimates between the 2007 and 2009 Budgets is indicative of slowing domestic economic activity. From 2010/11, however, the recovery in domestic economic growth is expected to boost collections. As a result, consolidated government revenue is expected to stabilise at about 30.2 per cent of GDP over the medium term.

Debt service costs stabilise at about 2.5 per cent of GDP over the MTEF period

Since peaking in 1998/99, debt service costs have declined as a share of GDP and expenditure, freeing additional resources for spending in support of government's social and economic programmes. Debt service costs are expected to remain low in comparison to long-term levels, stabilising at about 2.5 per cent of GDP over the MTEF period.

Consolidated government expenditure averages 33.2 per cent of GDP across the next three years. This allows for additional spending of R161 billion at the main budget level. Including inflation adjustments and R50 billion of the Eskom loan, new allocations to the main budget are R60.5 billion in 2009/10, R47.8 billion in 2010/11 and R52.4 billion in 2011/12.

Consolidated government budget improves to a deficit of 1.9 per cent in 2011/12

The 2009 consolidated government budget moves to a deficit of 3.8 per cent in 2009/10, and improves to a deficit 1.9 per cent in 2011/12.

Consequences of weaker imports for the Southern African Customs Union

Botswana, Lesotho, Namibia and Swaziland (BLNS) and South Africa are members of the Southern African Customs Union (SACU). The customs and excise revenue of each member state is collected into a common revenue pool, distribution of which is governed by a 2002 revenue-sharing formula.

For 2006/07, the contribution by BLNS totalled R790 million, just under 2 per cent of the total revenue of R41.3 billon paid into the pool. The remaining 98 per cent of revenue was paid by South Africa, including duties collected for goods re-exported via South Africa to other members. This is because some of the revenue paid into the pool by South Africa is collected on behalf of BLNS. Customs revenue comprises 57 per cent and excise revenue 43 per cent of the revenue pool.

The revenue-sharing formula results in more than 50 per cent of revenue in the pool being transferred to BLNS. These revenues are also a significant part of the budgets of these countries, representing over 50 per cent of the budget revenue of Lesotho and Swaziland and over 20 per cent in the case of Botswana and Namibia.

Between 2000/01 and 2006/07, revenue transfers paid from the common revenue pool to BLNS grew by 22 per cent a year, from R8.4 billion in 2000/01 to R25.2 billion in 2006/07. This was the result of exceptionally strong import growth and growing demand for high-tariff imports, such as motor vehicles.

Customs duty revenues are extremely volatile, performing above expectation when the economy is growing strongly but poorly when the economy slows. As a result of this volatility, SACU members face a financing risk when imports to the region slow. With the changed economic environment, South Africa's import growth is forecast to slow considerably. Customs duties for 2008/09 are expected to be R7 billion less than expected. Where member states rely on this revenue to finance a significant part of their expenditure, falling import growth will present a substantial challenge to coming budgets.

A total of R27.9 billion in 2009/10, R26.2 billion in 2010/11 and R27.9 billion in 2011/12 is expected to be transferred to BLNS. These estimates are subject to revision if customs revenue collections perform more poorly or more strongly than anticipated.

Revisions to 2007/08 and 2008/09 main budget estimates

The main budget consists of the receipts and expenditure of the National Revenue Fund. Revisions to the main budget estimates are shown in Tables 3.3 and 3.4 below.

A main budget surplus of R18.3 billion in 2007/09

Total expenditure in 2007/08 was R7.6 billion greater than the original 2007 Budget estimate and R618 million lower than the revised budget estimate. Higher-than-expected revenue collection totalling R15.2 billion and underspending contributed to a main budget surplus for 2007/08 of R18.3 billion.

Table 3.3 Revised estimates of main budget revenue and expenditure, 2007/08 and 2008/09

	2007/08			2008/09			% change
R million	**Budget estimate**	**Outcome**	**Deviation**	**Budget estimate**	**Revised estimate**	**Deviation**	**2007/08 – 2008/09**
Revenue							
Direct taxes	319 130	339 108	19 978	378 194	391 686	13 492	15.5%
Indirect taxes	237 432	233 707	-3 725	264 075	236 007	-28 068	1.0%
Other revenue	11 093	11 672	579	12 005	12 352	347	5.8%
Less: SACU payments	-23 053	-24 713	-1 660	-28 921	-28 921	–	17.0%
Total revenue	**544 602**	**559 774**	**15 172**	**625 353**	**611 124**	**-14 229**	**9.2%**
Expenditure							
State debt cost	52 916	52 877	-39	51 236	54 281	3 045	2.7%
Current payments[1]	91 413	88 756	-2 657	101 478	103 692	2 214	16.8%
Transfers and subsidies	379 897	391 895	11 998	444 917	466 883	21 966	19.1%
Payments for capital assets[1]	6 647	7 970	1 323	7 465	9 051	1 586	13.6%
Contingency reserve	3 000	–	-3 000	6 000	–	-6 000	0.0%
Total expenditure	**533 873**	**541 499**	**7 626**	**611 096**	**633 907**	**22 811**	**17.1%**
Increase in non-interest allocated expenditure			10 664			25 766	
Main budget balance[2]	**10 728**	**18 275**	**7 547**	**14 257**	**-22 783**	**-37 040**	
percentage of GDP	*0.6%*	*0.9%*	*0.3%*	*0.6%*	*-1.0%*	*-1.6%*	
Gross domestic product	*1 938 934*	*2 067 884*		*2 286 906*	*2 304 111*		

1. *Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.*
2. *A positive number reflects a surplus and a negative number a deficit.*

The estimated budget balance for 2008/09 declines to a deficit of R22.8 billion from a projected surplus of R14.3 billion at the time of the 2008 Budget. A downward revision to gross tax revenue estimates of R14.6 billion and additional expenditure of R22.8 billion have contributed to the deterioration in the main budget balance.

Significant change to budget balance since February 2008

The 2009 Budget adjusts the forward estimates tabled in the 2008 Budget for 2009/10 and 2010/11 to take account of changes in the economic environment and policy priorities, and adds projections for 2011/12. Table 3.4 illustrates the substantial reduction in revenue projections, and upward adjustment to spending plans associated with the change in economic outlook since February 2008.

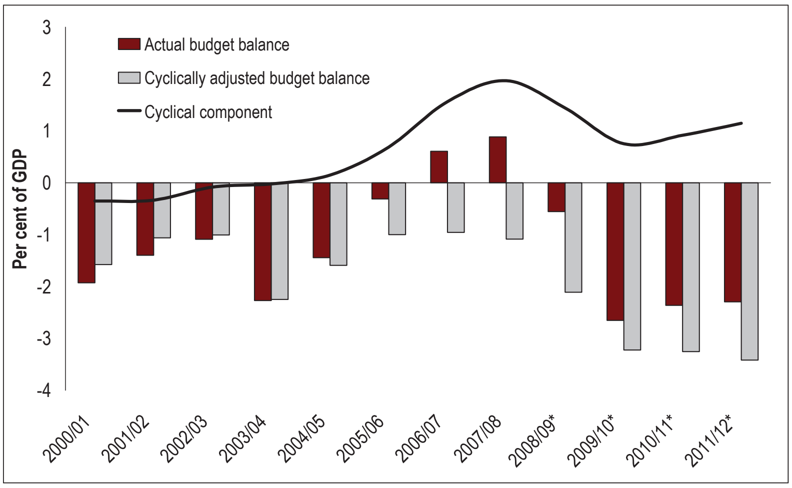
Table 3.4 Main budget medium-term estimates, 2009/10 – 2011/12

	2009/10			2010/11			2011/12
R million	2008 Forward estimate	2009 Budget	Change to baseline	2008 Forward estimate	2009 Budget	Change to baseline	2009 Budget
Revenue							
Direct taxes	418 822	397 570	-21 252	464 064	433 564	-30 499	479 483
Indirect taxes	292 659	261 734	-30 925	313 884	287 371	-26 513	314 184
Other revenue	13 550	11 602	-1 948	15 000	14 375	-625	15 426
Less: SACU payments	-32 143	-27 915	4 228	-33 992	-26 237	7 755	-27 867
Total revenue	**692 888**	**642 990**	**-49 898**	**758 956**	**709 074**	**-49 882**	**781 226**
Percentage of GDP	*27.6%*	*26.0%*		*27.5%*	*26.4%*		*26.5%*
Expenditure							
State debt cost	51 125	55 268	4 143	51 156	60 140	8 984	66 826
Current payments[1]	112 414	114 990	2 576	122 408	125 490	3 083	135 762
Transfers and subsidies	496 915	553 774	56 860	541 332	585 511	44 179	613 070
Payments for capital assets[1]	9 152	8 530	-622	9 774	9 213	-561	13 313
Contingency reserve	12 000	6 000	-6 000	20 000	12 000	-8 000	20 000
Total expenditure	**681 606**	**738 563**	**56 957**	**744 670**	**792 354**	**47 684**	**848 971**
Percentage of GDP	*27.2%*	*29.9%*		*27.0%*	*29.5%*		*28.7%*
Main budget balance[2]	**11 282**	**-95 573**	**-106 854**	**14 286**	**-83 280**	**-97 566**	**-67 745**
percentage of GDP	*0.5%*	*-3.9%*	*-4.3%*	*0.5%*	*-3.1%*	*-3.6%*	*-2.3%*
Gross domestic product	*2 506 870*	*2 474 214*		*2 758 552*	*2 686 254*		*2 952 989*

1. *Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.*
2. *A positive number reflects a surplus and a negative number a deficit.*

An indicator of the fiscal stance after adjusting for the effects of the economic cycle is provided by the structural main budget balance. The Eskom loan has been removed from the calculations as it is a once-off expenditure and cannot be considered structural. The structural budget balance averages -3.2 per cent of GDP over the next three years.

Figure 3.9 Main budget and structural budget balances, 2000/01 – 2011/12



Budget balances exclude the R60 billion Eskom loan

**2008/09 – 2011/12 are based on forecasts.*

Structural budget balance widens

The widening in the deficit is the result of two broad factors. Firstly, while key commodity prices have fallen, the prices of South Africa's export commodities have come down by less than the price of import commodities (mainly oil). As a result, the economy still benefits from positive cyclical revenue that must be removed from the structural budget. Secondly, growth in expenditure and the weaker economic outlook result in a structurally higher expenditure-to-GDP ratio.

Consolidated general government

Consolidated accounts of general government show the full extent of the revenue and expenditure

The consolidated accounts of general government represent the full extent of the revenue and expenditure for all levels of government. These estimates are made by aggregating the revenue and expenditure of the main budget, the social security funds, foreign technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities. Flows between institutions are netted out. The consolidated general government account for 2007/08 is set out in Table 3.5.

Table 3.5 Consolidated accounts of general government,[1] 2007/08

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Current receipts	559 544	25 176	9 241	28 702	92 136	**714 799**
Tax receipts (net of SACU)	*548 102*	*20 868*	*3 808*	*124*	*21 016*	***593 918***
Non-tax receipts	*11 442*	*4 308*	*5 433*	*28 578*	*71 120*	***120 880***
Sales of capital assets	230	–	124	340	76	**770**
Total own account receipts	**559 774**	**25 176**	**9 365**	**29 042**	**92 212**	**715 569**
Percentage of total	*78.2%*	*3.5%*	*1.3%*	*4.1%*	*12.9%*	***100.0%***
Transfers received[4]	2 105	9	208 669	49 015	39 702	**2 105**
Total receipts	**561 879**	**25 184**	**218 034**	**78 057**	**131 914**	**717 674**
Current payments	142 662	1 546	164 001	58 686	110 100	**476 994**
Compensation of employees	*56 270*	*906*	*119 837*	*24 497*	*31 877*	***233 386***
Goods and services	*33 334*	*640*	*43 844*	*33 168*	*76 115*	***187 100***
Interest	*52 877*	–	*77*	*243*	*1 793*	***54 990***
Other current payments	*181*	–	*244*	*778*	*316*	***1 519***
Transfers and subsidies[5]	391 895	14 810	35 770	9 307	1 353	**155 740**
Payments for capital assets	8 999	120	17 024	3 076	34 465	**63 684**
Total payments	**543 556**	**16 475**	**216 795**	**71 069**	**145 918**	**696 418**
Percentage of total	*78.1%*	*2.4%*	*31.1%*	*10.2%*	*21.0%*	***100.0%***
Budget balance[6]	**18 323**	**8 709**	**1 239**	**6 988**	**-14 004**	**21 255**
Percentage of GDP	*0.9%*	*0.4%*	*0.1%*	*0.3%*	*-0.7%*	*1.0%*
Extraordinary payments	-776	–	–	–	–	**-776**
Extraordinary receipts	2 871	–	–	–	–	**2 871**
Borrowing requirement (-)	**20 418**	**8 709**	**1 239**	**6 988**	**-14 004**	**23 351**

1. *Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the Reserve Bank.*
2. *Including universities and technikons.*
3. *Including the net financing requirement of local government enterprises.*
4. *RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.*
5. *Including transfers and subsidies to other spheres of government.*
6. *A positive number reflects a surplus and a negative number a deficit.*

In 2007/08, general government raised R717.7 billion, or 34.7 per cent of GDP, in revenue. Of this, 78.3 per cent was collected by national government. General government expenditure in 2007/08 totalled R696.4 billion, or 33.7 per cent of GDP. Of this expenditure, over half took place at provincial and local government level. The consolidated general government deficit is the sum of the deficits of all the levels of government and extra-budgetary institutions and accounts. In 2007/08, the consolidated general government budget balance showed a surplus of 1.0 per cent of GDP.

Public sector borrowing requirement

The public sector borrowing requirement represents the funds needed to cover any deficit in the financing of public-sector activities, including non-financial public enterprises.

Public sector borrowing increases to support infrastructure investment

Public sector borrowing is expected to increase significantly, moving from a cash surplus of 0.6 per cent of GDP in 2007/08 to borrowing of 7.5 per cent of GDP by 2009/10. This is the result of two broad factors. Firstly, the infrastructure programme of the public sector requires significant resources to be raised through borrowing. Secondly, the countercyclical widening of the main budget balance in response to deterioration in the economic outlook requires national government to raise significantly more finance. As the economic recovery feeds through into higher tax revenue in 2010/11, the main budget balance will improve, leading to a decline in general government borrowing in later years.

Eskom and Transnet account for the largest share of borrowing

The borrowing of the non-financial public enterprises stabilises at about R90 billion a year over the period, with Eskom and Transnet accounting for the largest share of this amount. Recognising the scale of this investment programme and the need to raise the required finance at the lowest possible cost, fiscal support to Eskom through a loan and guarantees has been agreed.

Table 3.6 Public sector borrowing requirement, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Main budget	**4 936**	**-11 005**	**-18 275**	**22 783**	**95 573**	**83 280**	**67 745**
Extraordinary payments	4 554	4 214	776	5 246	900	–	–
Extraordinary receipts	-6 905	-3 438	-2 871	-8 123	-6 100	-1 000	-1 000
RDP Fund	-224	-4	-48	-200	-200	-200	-200
Borrowing requirement	**2 361**	**-10 233**	**-20 418**	**19 706**	**90 173**	**82 080**	**66 545**
Social security funds	-7 558	-6 414	-8 709	-9 158	-9 488	-11 238	-11 946
Provinces	17	-313	-1 239	9 873	-917	-2 408	-2 749
Extra-budgetary institutions	-4 955	-6 439	-6 988	-3 719	-3 014	-3 034	-3 186
Local authorities	9 928	7 420	14 004	16 394	17 558	18 005	18 995
General government borrowing	**-207**	**-15 979**	**-23 351**	**33 097**	**94 312**	**83 405**	**67 660**
Percentage of GDP	*0.0%*	*-0.9%*	*-1.1%*	*1.4%*	*3.8%*	*3.1%*	*2.3%*
Non-financial public enterprises [1]	-6 858	11 277	11 182	57 362	91 434	90 069	90 103
Public sector borrowing requirement	**-7 065**	**-4 702**	**-12 169**	**90 459**	**185 746**	**173 474**	**157 763**
Percentage of GDP	*-0.4%*	*-0.3%*	*-0.6%*	*3.9%*	*7.5%*	*6.5%*	*5.3%*
Gross domestic product	*1 585 986*	*1 810 664*	*2 067 884*	*2 304 111*	*2 474 214*	*2 686 254*	*2 952 989*

1. Estimates are based on National Treasury projections.