

# **Budget Review**

## **2016**

**National Treasury**  
**Republic of South Africa**

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# 2016 BUDGET HIGHLIGHTS

## ECONOMIC OUTLOOK

- GDP growth is projected at 0.9 per cent in 2016, and will gradually improve to 1.7 per cent in 2017 and 2.4 per cent in 2018, supported by improved global conditions and rising consumer and business confidence.
- Greater availability and reliability of electricity in the outer years should also support stronger growth.
- Consumer price inflation averaged 4.6 percent in 2015 and is expected to reach 6.8 per cent in 2016 before declining to 6.3 per cent in 2017.
- The current account deficit remains stable over the next few years, projected at 4 per cent in 2016 and 3.9 per cent in 2018.
- Government will continue to prioritise raising investment through regulatory reforms and partnerships with independent power producers.
- Public-sector infrastructure bottlenecks will be addressed through reform and capacity building. Capital expenditure by the public sector is projected at R865.4 billion over the next three years.

## BUDGET FRAMEWORK

- The budget deficit will fall from 3.2 per cent in 2016/17 to 2.8 per cent in 2017/18 and 2.4 per cent the following year.
- Debt stock as percentage of GDP will stabilise at 46.2 per cent in 2017/18.
- Government will lower the expenditure ceiling by R10 billion in 2017/18 and R15 billion in 2018/19 by reducing public-sector compensation budgets.
- An additional R18.1 billion of tax revenue will be raised in 2016/17, with an additional R15 billion in each of the subsequent two years.
- Government has responded to new spending needs without compromising expenditure limits. An amount of R31.8 billion has been reprioritised over the MTEF period to support higher education, the New Development Bank and other priorities.

## SPENDING PROGRAMMES

Over the next three years, government will spend:

- R457.5 billion on social grants.
- R93.1 billion on transfers to universities, while the National Student Financial Aid Scheme receives R41.2 billion.
- R707.4 billion on basic education, including R45.9 billion for subsidies to schools, R38.3 billion for infrastructure, and R14.9 billion for learner and teacher support materials.
- R108.3 billion for public housing.
- R102 billion on water resources and bulk infrastructure.
- R171.3 billion on transfers of the local government equitable share to support the expansion of access of poor households to free basic services.
- R30.3 billion to strengthen and improve the national non-toll road network.
- R13.5 billion to Metrorail and Shosholoza Meyl to subsidise passenger trips and long-distance passengers.
- R10.2 billion for manufacturing development incentives.
- R4.5 billion for NHI pilot districts.

## TAX PROPOSALS

- An amount of R9.5 billion will be raised through increases in excise duties, the general fuel levy and environmental taxes.
- Limited fiscal drag relief of R5.5 billion will be implemented for individuals, focusing on lower- and middle-income earners.
- Adjustments to capital gains tax and transfer duty raise R2 billion.
- Government proposes to introduce a sugar tax on 1 April 2017 to help reduce excessive sugar intake.
- A tyre levy will be implemented, effective 1 October 2016.

# 2016 BUDGET

## KEY BUDGET STATISTICS

A full set of 2016 Budget data can be found in the statistical tables at the back of the *Budget Review*. The data on this page may differ from the statistical annex due to classification, definition and rounding.

### BUDGET REVENUE, 2015/16

R billion	
<b>Tax revenue</b>	<b>1 069.7</b>
of which:	
Personal income tax	392.0
Corporate income tax	189.0
Value-added tax	278.1
Taxes on international trade and transactions	46.5
<b>Non-tax revenue</b>	<b>55.8</b>
less: SACU payments	-51.0
<b>Main budget revenue</b>	<b>1 074.5</b>
Provinces, social security funds and public entities	148.5
<b>Consolidated budget revenue</b>	<b>1 223.1</b>
As percentage of GDP	
Tax revenue	26.3%
Main budget revenue	27.7%

### MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2012	2013	2014	2015	2016	2017	2018
	Actual			Estimate	Forecast		
Household consumption	3.4	2.9	1.4	1.4	0.7	1.6	2.2
Gross fixed capital formation	3.6	7.6	-0.4	1.1	0.3	1.4	2.7
Exports	0.1	4.6	2.6	9.5	3.0	4.6	5.2
Imports	6.0	1.8	-0.5	5.3	3.7	4.5	4.9
<b>Real GDP growth</b>	<b>2.2</b>	<b>2.2</b>	<b>1.5</b>	<b>1.3</b>	<b>0.9</b>	<b>1.7</b>	<b>2.4</b>
CPI inflation	5.7	5.8	6.1	4.6	6.8	6.3	5.9
Current account balance (% of GDP)	-5.0	-5.8	-5.4	-4.1	-4.0	-3.9	-3.9

### CONSOLIDATED FISCAL FRAMEWORK

R billion/ percentage of GDP	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Outcome			Estimate	Medium-term estimates		
<b>Revenue</b>	<b>907.6</b>	<b>1 008.1</b>	<b>1 100.0</b>	<b>1 223.1</b>	<b>1 324.3</b>	<b>1 436.7</b>	<b>1 571.6</b>
	27.3%	27.9%	28.6%	30.0%	30.2%	30.2%	30.4%
<b>Expenditure</b>	<b>1 043.4</b>	<b>1 144.1</b>	<b>1 237.7</b>	<b>1 380.9</b>	<b>1 463.3</b>	<b>1 572.1</b>	<b>1 695.2</b>
	31.4%	31.7%	32.2%	33.9%	33.3%	33.1%	32.8%
<b>Budget balance</b>	<b>-135.9</b>	<b>-136.0</b>	<b>-137.8</b>	<b>-157.9</b>	<b>-139.0</b>	<b>-135.3</b>	<b>-123.6</b>
	-4.1%	-3.8%	-3.6%	-3.9%	-3.2%	-2.8%	-2.4%

### DIVISION OF NATIONALLY RAISED REVENUE

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Outcome			Estimate	Medium-term estimates		
<b>Division of available funds</b>							
National	420.2	453.4	490.0	546.8	559.8	594.1	637.8
Provinces	380.9	410.6	439.5	471.8	499.8	542.3	582.9
Local government	76.2	82.6	87.7	99.7	104.9	113.3	125.8
<b>Non-interest allocations</b>	<b>877.4</b>	<b>946.6</b>	<b>1 017.2</b>	<b>1 118.2</b>	<b>1 164.6</b>	<b>1 249.8</b>	<b>1 346.5</b>
<b>Percentage shares</b>							
National	47.9%	47.9%	48.2%	48.9%	48.1%	47.5%	47.4%
Provinces	43.4%	43.4%	43.2%	42.2%	42.9%	43.4%	43.3%
Local government	8.7%	8.7%	8.6%	8.9%	9.0%	9.1%	9.3%

### CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2016/17

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	168.0	19.4	13.9	17.4		<b>218.8</b>
Post-school education and training	9.1	2.0	3.5	54.2		<b>68.7</b>
Health	108.0	46.5	9.2	4.7		<b>168.4</b>
Social protection	11.6	7.1	1.0	147.8		<b>167.5</b>
Employment, labour affairs and social security funds	5.5	9.6	1.1	56.9		<b>73.1</b>
Industrial development and trade	8.2	5.4	8.6	9.7		<b>31.8</b>
Science, technology, innovation and the environment	6.6	5.2	2.1	6.0		<b>19.9</b>
Economic infrastructure and network regulation	14.8	28.1	35.3	1.9	6.4	<b>87.1</b>
Defence and state security	28.1	12.5	0.8	10.9		<b>52.3</b>
Law courts and prisons	28.3	10.7	2.4	0.3		<b>41.7</b>
Police services	66.1	17.0	3.4	1.0		<b>87.5</b>
Human settlements and municipal infrastructure	15.5	10.2	76.9	79.8		<b>182.6</b>
Agriculture, rural development and land reform	11.4	6.2	5.4	3.3		<b>26.4</b>
Arts, sports, recreation and culture	3.4	2.9	1.3	2.3		<b>10.0</b>
General public services	32.1	22.0	4.2	11.0	0.1	<b>73.7</b>
Debt-service costs					147.7	<b>147.7</b>
Contingency reserve						<b>6.0</b>
<b>Total</b>	<b>516.8</b>	<b>204.7</b>	<b>169.0</b>	<b>407.2</b>	<b>154.3</b>	<b>1 463.3</b>

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



# BUDGET 2016/17

## CONSOLIDATED GOVERNMENT EXPENDITURE

R1.46 TRILLION

## SOCIAL SERVICES

R816 BILLION

### ECONOMIC AFFAIRS & AGRICULTURE

R238.4bn

Economic infrastructure and network regulation **R87.1bn**

Employment, labour affairs and social security funds **R73.1bn**

Industrial development and trade **R31.8bn**

Agriculture, rural development and land reform **R26.4bn**

Science, technology, innovation and the environment **R19.9bn**

### EDUCATION

R297.5bn

Basic education **R205.8bn**

University subsidies **R28.0bn**

National Student Financial Aid Scheme **R14.3bn**

Skills development levy institutions **R15.9bn**

Education administration **R14.6bn**

Technical and vocational education and training **R6.9bn**

### DEFENCE & PUBLIC SAFETY

R181.5bn

Police services **R87.5bn**

Defence and state security **R52.3bn**

Law courts and prisons **R41.7bn**

### HEALTH

R168.4bn

District health services **R75.0bn**

Central hospital services **R32.4bn**

Provincial hospital services **R29.4bn**

Other health services **R23.3bn**

Facilities management and maintenance **R8.3bn**

### GENERAL ADMIN

R73.7bn

General public administration and fiscal affairs **R41.6bn**

Executive and legislative organs **R13.4bn**

External affairs and foreign aid **R11.3bn**

Home affairs **R7.4bn**

### LOCAL DEVELOPMENT & INFRA-STRUCTURE

R182.6bn

Municipal equitable share and infrastructure grant **R67.5bn**

Human settlements, water and electrification programmes **R52.1bn**

Public transport **R40.7bn**

Other human settlements and municipal infrastructure **R22.3bn**

### DEBT-SERVICE COSTS

R147.7bn

### SOCIAL PROTECTION

R167.5bn

Old-age grant **R58.9bn**

Child-support grant **R52.0bn**

Disability grant **R20.4bn**

Provincial social development **R17.7bn**

Policy oversight and grant administration **R9.3bn**

Other grants **R9.2bn**



# Foreword

The 2016 Budget has been prepared in a very tough economic environment. The global outlook for economic growth is subdued, weighed down by a prolonged slump in commodity prices and slower growth in China. There is a pronounced slowdown in developing countries, with some in deep recession. South Africa's low savings rate makes the country vulnerable to external shocks, as do domestic structural weaknesses.

Domestic growth forecasts over the medium term – government's three-year budgeting window – have been revised down. A tax revenue shortfall of R4 billion is expected for 2015/16 compared with the most recent forecast in October 2015. In an environment of rising inflation, higher debt and debt-service costs, and increasing public-sector wages, slow revenue growth threatens to widen the budget deficit, diminishing government's capacity to meet the targets of the National Development Plan.

Government is under no illusions about the challenges we face. There is no easy road ahead. Accordingly, the 2016 Budget sets out a more rapid fiscal consolidation to return the public finances to a sustainable path. At the same time, we are supporting the structural reforms and economic transformation needed to achieve and sustain far higher levels of growth in the economy.

Our country's strengths will stand us in good stead over the next several years. South Africa has deep and liquid capital markets. Macroeconomic policy is prudent and transparent. The institutional environment established under the Constitution – from the courts to the Auditor General – ensures that both public and private institutions are subject to scrutiny and accountability. Our proximity to growing African markets continues to provide opportunities to expand investment and exports.

The Budget proposes to add R48 billion to tax revenue by providing limited relief for fiscal drag and increasing the fuel levy, excise taxes and the effective capital gains tax rate, as well as additional revenue measures to be outlined in future budgets. The expenditure ceiling has been reduced by R25 billion over the medium term by targeting compensation budgets of national and provincial government. To respond to new spending needs in higher education, drought relief and its multilateral development commitments, government has reprioritised R31.8 billion. Spending on core social and economic programmes has been protected, and measures to improve spending efficiency instituted.

These proposals will close the budget deficit more rapidly than announced in the 2015 *Medium Term Budget Policy Statement*, stabilising debt at 46.2 per cent of GDP in 2017/18. Government is committed to meeting these targets and will take additional steps to do so as required.

Crucially, government recognises that it cannot address South Africa's economic and development challenges alone. Over the period ahead, we intend to markedly increase active collaboration with business, labour and civil society to bolster the resilience of the economy. Government will partner with the private sector to co-invest in infrastructure and skills development. Investments in additional power-generating capacity and independent power producers will increase electricity supply and improve reliability. Over the next three years, public-sector infrastructure investment will total R865.4 billion.

I would like to thank Cabinet, Parliament's finance portfolio committee, the Ministers' Committee on the Budget and former Minister of Finance Nene for their leadership. I am also grateful to Minister Gordhan – whose return to the finance portfolio gave the country a welcome shot in the arm – and to Deputy Minister Jonas. I extend thanks to my colleagues throughout government for their diligence, thoughtfulness and collaboration in tackling tough issues in a challenging budgeting environment. Finally, I acknowledge my hard-working colleagues in the National Treasury, who remain steadfast in their commitment to the constitutional obligations of this department.



**Lungisa Fuzile**  
**Director-General: National Treasury**





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*Two annexures are available on the National Treasury website ([www.treasury.gov.za](http://www.treasury.gov.za)):*

<b>W1</b>	Explanatory memorandum to the division of revenue
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