4

Fiscal policy

Overview

Economic growth is the prerequisite for reducing poverty and improving livelihoods. By offsetting the effects of the business cycle, countercyclical fiscal policy contributes to growth and job creation. When the economy is doing well, the budget balance improves to build fiscal space, limit increases in the cost of financing and counteract inflationary pressures. When the economy is underperforming, government allows the budget balance to deteriorate, using the fiscal space built up beforehand to fund expenditure and stimulate economic activity.

The countercyclical fiscal stance contributes to economic growth and job creation

Owing to sound management of the fiscus during the preceding six years of strong economic growth (2002-2007), government entered the 2008-2009 recession with healthy public finances and a comparatively low level of debt. This allowed for a flexible response to deteriorating economic conditions. Spending increased to reinforce the social security net during a period of exceptional hardship for many South Africans, and provided an economic stimulus through the infrastructure programme.

To ensure that public expenditure is not crowded out by an ever-rising interest burden, government debt needs to be managed sustainably. Long-term fiscal planning, predictable actions and credible policies create confidence in the future of the economy. South Africa's ability to continue building roads, schools and hospitals will depend on how quickly the economy grows, the long-term level of spending, and the choices made about financing social programmes.

Government debt needs to be managed sustainably

The projected budget deficit in 2010/11 is R142.4 billion, or 5.3 per cent of GDP. As economic growth strengthens, and tax revenue recovers, government will reduce the budget deficit gradually to 3.8 per cent of GDP by 2013/14.

The budget framework

Table 4.1 summarises the medium-term budget framework. Key features of the 2011 Budget include the following:

- Tax revenue increases from 25.2 per cent of GDP in 2010/11 to 26.2 per cent in 2013/14
- Baseline expenditure additions total R94.1 billion
- Real non-interest expenditure growth averages 2.8 per cent a year
- Debt-service costs rise from 2.5 per cent of GDP in 2010/11 to 2.9 per cent by 2013/14
- The budget deficit improves to 3.8 per cent in 2013/14.

Table 4.1 Consolidated government fiscal framework, 2007/08 – 2013/14

R million	2007/08	2008/09 Outcome	2009/10	2010/11 Revised estimate	2011/12	2012/13 Medium-term estimates	2013/14
Revenue	**626 705**	**682 997**	**664 840**	**755 023**	**824 466**	**908 714**	**1 017 187**
Percentage of GDP	*30.1%*	*29.5%*	*27.2%*	*28.3%*	*28.3%*	*28.4%*	*28.8%*
Expenditure	**591 522**	**710 523**	**825 917**	**897 376**	**979 265**	**1 061 582**	**1 151 773**
Percentage of GDP	*28.5%*	*30.7%*	*33.8%*	*33.6%*	*33.6%*	*33.2%*	*32.6%*
Budget balance	**35 183**	**-27 526**	**-161 076**	**-142 353**	**-154 799**	**-152 868**	**-134 586**
Percentage of GDP	*1.7%*	*-1.2%*	*-6.6%*	*-5.3%*	*-5.3%*	*-4.8%*	*-3.8%*
Gross domestic product	*2 078 822*	*2 312 965*	*2 442 593*	*2 666 894*	*2 914 862*	*3 201 299*	*3 536 002*

Government will consolidate the fiscal position in line with economic growth

Over the next three years, as economic growth strengthens, government will consolidate the fiscal position by moderating the rate of expenditure growth. Priority spending will continue to be financed as government stabilises its borrowing. Fiscal policy will maintain this trajectory as long as economic growth continues to strengthen, rebuilding fiscal space to respond to future crises.

National Treasury proposes fiscal guidelines for South Africa

'Nothing is free, absolutely nothing ... it is paid for from revenue collected from those who pay taxes.' – President Jacob Zuma

The current debt crisis in several European countries, which has tested the durability of the currency union, is a stark reminder that fiscal mismanagement can make social programmes unaffordable. During 2010, Parliament asked the National Treasury to investigate how government could sustainably afford its expenditure over the long term. In response, the National Treasury is proposing guidelines for sustainable management of the public finances. The guidelines are informed by three principles:

- Countercyclicality: The budget balance should be set to counteract variations in the business cycle.
- Long-term debt sustainability: Spending levels must ensure that debt and interest costs do not rise indefinitely.
- Inter-generational equity: The long-term costs of spending programmes should be considered.

Developing fiscal policy based on these principles will strengthen parliamentary oversight of the budget process, encourage greater transparency and enhance public accountability. It will also facilitate sustainable progress on the New Growth Path by encouraging investment, a more stable economy and higher growth. To give effect to these principles, the National Treasury proposes that government:

- Adopt an annual target for the structural budget balance consistent with long-term growth, the desired level of public debt and inter-generational considerations.
- Make explicit the costs of existing and new programmes that require a long-term commitment.
- Set out a timeline to bring the budget back on target following large fiscal shocks.

Revenue

Tax revenue, which accounts for most revenue available to government, has become more sensitive to changes in the economic cycle since the tax base was restructured in the early 1990s. As a result, tax revenue tends to accelerate when the economy is doing well, and to slow sharply when the economy is underperforming. If revenue does not cover expenditure, borrowing is a short-term solution, but higher government expenditure as a share of GDP ultimately requires a growing tax base or higher tax rates. At the height of the recession in 2009/10, revenue underperformed expectations by R60.6 billion. Over the medium term, tax revenue is expected to recover as the economy grows and the tax base broadens.

Tax revenue expected to recover as economy grows and tax base broadens

Figure 4.1 Structure of tax revenue, 1996/97 – 2013/14

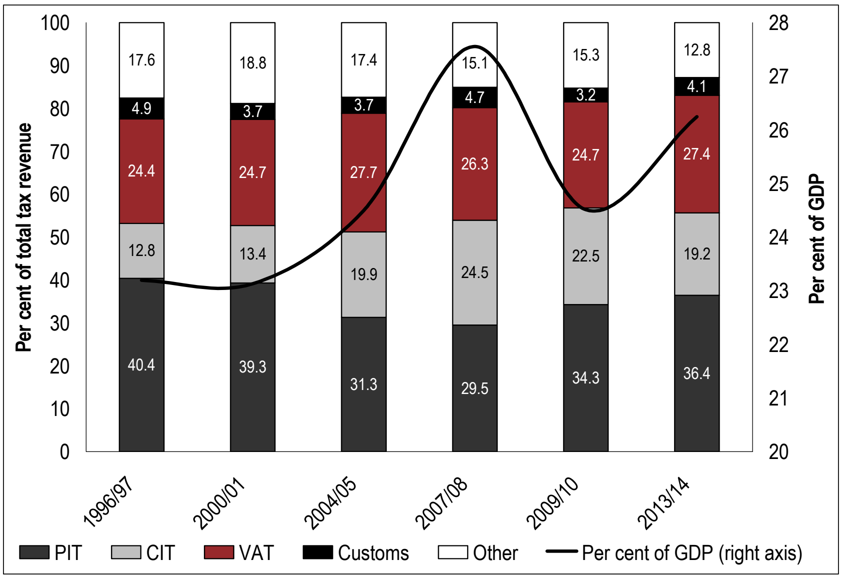


Table 4.2 presents consolidated government revenue outcomes from 2007/08 to the present, and the three-year projection.

Table 4.2 Consolidated government revenue, 2007/08 – 2013/14

R million	2007/08	2008/09 Outcome	2009/10	2010/11 Revised estimate	2011/12	2012/13 Medium-term estimates	2013/14
Tax revenue	**572 815**	**625 100**	**598 705**	**672 200**	**741 620**	**827 310**	**927 960**
Percentage of GDP	*27.6%*	*27.0%*	*24.5%*	*25.2%*	*25.4%*	*25.8%*	*26.2%*
Non tax revenue[1]	12 693	12 616	8 889	12 254	10 001	11 540	12 351
of which:							
Mineral royalties	–	–	–	*3 712*	*4 890*	*5 150*	*5 430*
Estimate of SACU payments[2]	-24 713	-28 921	-27 915	-14 991	-21 763	-32 432	-35 997
Other adjustment[3]	–	–	–	-2 900	–	–	–
Provinces, social security funds and selected public entities	65 910	74 201	85 162	88 460	94 609	102 296	112 873
Budget revenue	**626 705**	**682 997**	**664 840**	**755 023**	**824 466**	**908 714**	**1 017 187**
Percentage of GDP	*30.1%*	*29.5%*	*27.2%*	*28.3%*	*28.3%*	*28.4%*	*28.8%*
Gross domestic product	*2 078 822*	*2 312 965*	*2 442 593*	*2 666 894*	*2 914 862*	*3 201 299*	*3 536 002*

1. Includes mineral and petroleum royalties, mining leases and departmental revenue.
2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the SACU agreement.
3. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement.

Payments to SACU partners have been revised upwards as customs revenue has begun to recover

Non-tax revenue, made up of departmental revenue and mineral royalties, remains about 0.4 per cent of GDP over the forecast period. Changes in interest income and dividend payments account for revisions to departmental revenue estimates since February 2010. Revenue from mineral royalties is expected to be higher than projected a year ago given high commodity prices. Payments to South Africa's Southern African Customs Union (SACU) partners have been revised upwards as a result of a recovery in customs and excise revenue since 2009/10.

Budget revenue also includes revenue from the social security funds, provinces, the RDP Fund and extra-budgetary institutions. According to the medium-term projection, social security fund revenue will benefit from increased contributions to the Unemployment Insurance Fund and Compensation Funds, while a higher fuel levy (see Chapter 5) will boost income for the Road Accident Fund. Provincial and extra-budgetary institution revenue is expected to remain in line with previously published estimates.

The financial crisis and Southern African Customs Union reforms

Botswana, Lesotho, Namibia, Swaziland and South Africa are members of SACU. The customs and excise revenue of each member state is collected in a common revenue pool, distribution of which is governed by a revenue-sharing formula. SACU revenues make up between 20 and 70 per cent of total government income for South Africa's SACU partners.

The global downturn has resulted in a major loss of income to the SACU common revenue pool. As a result, Botswana, Lesotho, Namibia, and Swaziland have taken steps to adjust their public finances:

- On the revenue side, measures include the introduction of VAT (Swaziland), increases in VAT rates and taxes (Botswana, Lesotho, Swaziland), and improved tax administration (Botswana, Lesotho, Swaziland).
- Spending reductions are planned for public-sector wages and non-priority consumption expenditure.

The dependency of South Africa's fellow SACU members on the volatile revenue pool resulted in a decision by the Council of Ministers to review the arrangement. The goals of this review are to identify a more equitable distribution of revenue and to enhance economic integration. An independent study has recommended the following reforms:

- An entitlement based on the taxes that each country generates through customs and excise duties, combined with an adjustment based on the extent to which a member state benefits or is disadvantaged by belonging to SACU.
- A fund to support infrastructure and trade projects that promote regional integration and development.

Expenditure

Fiscal framework adds R94.1 billion to baseline expenditure over the medium term

The fiscal framework adds R20.7 billion to expenditure in 2011/12, R29.6 billion in 2012/13 and R43.8 billion in 2013/14, resulting in average real growth of 2.8 per cent in government non-interest spending over the next three years. These additions to baseline include:

- R26.3 billion to cover the carry-through costs of the 2010 public-sector wage agreement, including a 7.5 per cent cost-of-living adjustment and an R800 monthly housing allowance
- R23.9 billion allocated from the policy reserve for priority expenditure in job creation, skills, health and education
- R40.8 billion in adjustments to baselines for existing programmes, including education, health, public safety and social protection

- R3.1 billion allocated from the contingency reserve to provide flood and drought relief to provinces.

R30.6 billion in savings reprioritised over the MTEF

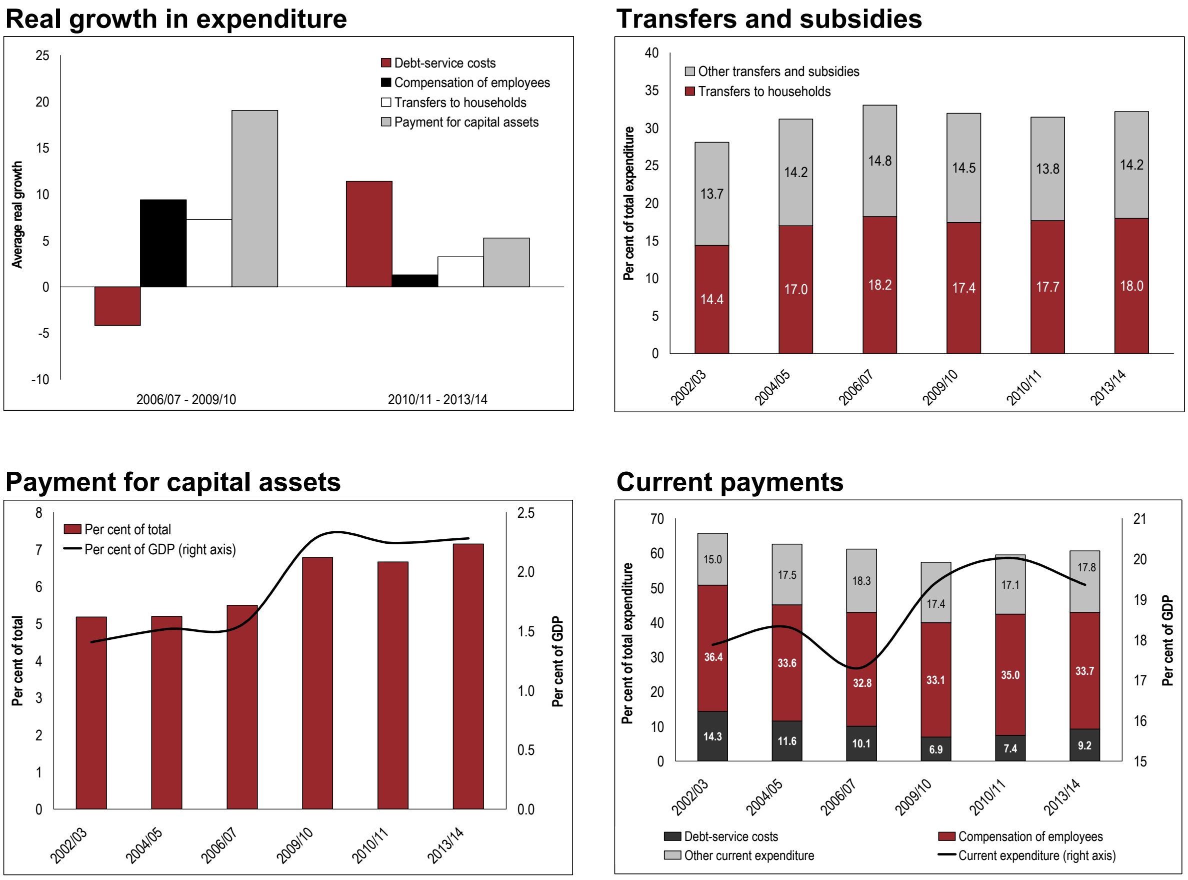
For the past two years government has worked to improve the efficiency of public expenditure. Total savings of R30.6 billion have been identified over the medium-term expenditure framework (MTEF) period and allocated to priority expenditure. Over the next three years, departments will be called on to increase support to effective programmes, and to cut or curtail ineffective ones. These plans are discussed in Chapter 8.

Balancing the composition of expenditure

Government has to balance capital and consumption expenditure

Government expenditure falls into two broad categories: capital spending and consumption spending (including wages, goods and services, and interest payments). Expenditure needs to be balanced appropriately to promote effective public-service delivery, and to ensure that spending contributes to economic growth without fuelling inflation.

Figure 4.2 Consolidated government expenditure



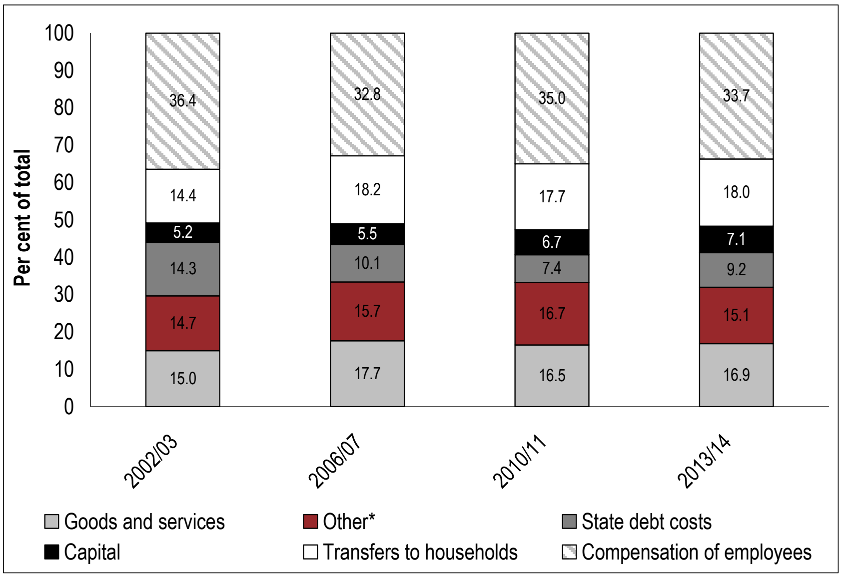
The 2010 public-sector wage negotiations resulted in a 7.5 per cent wage increase, which was 3.4 percentage points higher than the expected inflation rate. This required an extra allocation of R6.5 billion to cover compensation of employees in 2010/11.

Between 2002/03 and 2009/10 prudent management of the fiscus drove down debt-service costs as a percentage of GDP. During the recession, government borrowing increased, and as a result of the higher debt burden, interest costs are projected to be the fastest-growing area of expenditure over the medium term. As debt costs consume a rising share of expenditure over the next three years, government must ensure that it can maintain expenditure on social and economic priorities. A higher wage bill, in conjunction with a rising interest bill, can reduce spending on maintenance, capital investment, and public-service employment growth.

Framework makes provision for 6.6 per cent average annual growth in compensation

To cover wage increases and the additional employment, the proposed fiscal framework makes provision for 6.6 per cent average annual growth in compensation. Over this period, consumer price inflation is projected to average 5.2 per cent.

Figure 4.3 Structure of consolidated government expenditure, 2002/03 – 2013/14



**Other includes rent on land, payments for financial assets and other transfers*

15 million people depend on government transfers to households

Over the medium term, real growth in government transfers to households is projected to average 3.2 per cent. Nearly 15 million people now depend on some form of government grant, and for many households social security payments are the only regular source of income.

Since 2002/03, consolidated government spending on capital[1] has increased from 5.2 per cent of consolidated government expenditure to 6.7 per cent in 2010/11. Over the next three years, the rate of capital expenditure will slow moderately as higher interest costs, wage pressures and growth in social grants claim a greater share of expenditure.

Public-sector infrastructure

To meet present and future demand, and to grow the economy more rapidly, South Africa needs sufficient power to run factories, mines, schools and households; well-maintained road and rail networks to transport people and goods; and ports and pipelines to facilitate trade.

[1] Does not include expenditure on maintenance or capital transfers to municipalities and non-financial public enterprises.

Infrastructure expenditure includes spending on new buildings and fixed structures, as well as maintaining and rehabilitating existing structures. Infrastructure spending by the public sector, including municipalities and state-owned enterprises, supports priority economic and social objectives, and the job-creation goals of the New Growth Path.

Infrastructure programme works in tandem with the job-creation goals of the New Growth Path

Table 4.3 Public-sector infrastructure expenditure and estimates by sector, 2010/11 – 2013/14

R million	2010/11 Revised estimate	2011/12 Medium-term estimates	2012/13	2013/14	MTEF Total	% of total
Economic Services	**228 657**	**216 181**	**219 380**	**228 507**	**664 067**	***82.1%***
Energy	102 782	96 500	98 140	96 769	291 409	*36.0%*
Water and sanitation	20 990	26 836	25 367	28 196	80 400	*9.9%*
Transport and logistics	80 530	67 452	69 096	75 554	212 102	*26.2%*
Other economic services[1]	24 356	25 393	26 777	27 987	80 157	*9.9%*
Social services	**26 249**	**29 519**	**34 932**	**44 268**	**108 719**	***13.4%***
Health	8 546	10 256	15 114	20 624	45 993	*5.7%*
Education	6 757	9 155	10 092	11 487	30 735	*3.8%*
Community facilities	6 045	6 360	5 873	7 952	20 185	*2.5%*
Other social services[2]	4 902	3 749	3 853	4 205	11 806	*1.5%*
Justice and protection services[3]	**3 100**	**3 322**	**7 080**	**10 171**	**20 573**	***2.5%***
Central government administrative and financial services	**2 104**	**3 827**	**7 946**	**3 474**	**15 248**	***1.9%***
Total	**260 109**	**252 850**	**269 337**	**286 420**	**808 608**	***100.0%***
Percentage of GDP	*9.8%*	*8.7%*	*8.4%*	*8.1%*		
Gross domestic product	*2 666 894*	*2 914 862*	*3 201 299*	*3 536 002*		

1. Other economic services includes agriculture, environmental infrastructure, telecommunications, housing and industrial development zones.
2. Other social services includes labour centres, heritage institutions and national libraries.
3. Other justice and protection services includes the Legal Aid Board and private security industry regulatory authorities.

Public-sector spending on infrastructure has increased from 4.6 per cent of GDP in 2006/07 to 9.8 per cent of GDP in 2010/11, and is expected to average 8.4 per cent of GDP over the forecast period, totalling R808.6 billion. Economic services make up 82.1 per cent of infrastructure development over the medium term. Infrastructure projects in this category include power plant construction, transport network expansion and upgrades, and the provision of new sanitation and water infrastructure.

Medium-term public infrastructure spending projected at R808.6 billion

The social services category makes up 13.4 per cent of spending, of which education and health account for 3.8 per cent and 5.7 per cent respectively.

Reforming how government budgets for capital expenditure

Government will apply a systematic approach to appraising public-sector infrastructure projects to ensure maximum value for money invested.

The intention is to create a register of “shovel-ready” projects that have been fully costed and planned (including long-term maintenance), so that when funds become available through the budget, infrastructure investment can flow smoothly.

This approach will apply initially to all projects involving public-private partnerships; over time, it will begin to cover government’s mega-projects, in tandem with improved project appraisal capacity.

Table 4.4 Major infrastructure projects

Project name	Total project cost R billion	Implementation agent	Project objective and completion target date
Energy			
Kusile power station	142	Eskom	Construction of a 4 800MW coal-fired power station (to be completed in 2012).
Medupi power station	125	Eskom	Construction of 4 788MW coal-fired power station (to be completed in 2015).
Ingula pumped-storage scheme	15.6	Eskom	Construction of a 1 332MW hydroelectric power station (first unit to be completed in 2013).
Eskom's return-to-service projects	27	Eskom	Demothballing of three coal-fired power stations - Camden, Grootvlei and Komati (to be completed in 2012).
Transport			
Gauteng freeway improvement scheme	20.7	South African National Roads Agency Limited	Upgrade and lane additions to Gauteng's highway. Phase 1 (2012) and phase 2 (2020).
New multi-product pipeline phase 1	23.4	Transnet	Construction of a 8.7 billion litres per year pipeline (to be commissioned in 2011).
Iron-ore line	11.6	Transnet	Upgrade of the iron-ore line to 60 million tons per year (scheduled for completion in 2013).
Ngqura container terminal	10	Transnet	Improving port capacity by an additional 800 000 20-foot equivalent units (scheduled for completion in 2013).
Water			
Mokolo-Crocodile water augmentation project	15	Trans-Caledon Tunnel Authority	Phase 1 to deliver water (2012) and phase 2 (2015).
Olifants River water resource development project	16.1	Trans-Caledon Tunnel Authority	Construction of a dam and bulk distribution (to be completed in 2016).
Housing			
Cornubia housing development	5.1	The Housing Development Agency and eThekwini Metropolitan Municipality	Construction of 19 313 mixed-income, mixed-density houses (scheduled to be completed 2016/17).
N2 Gateway	2.3	The Housing Development Agency	The creation of sustainable communities through the construction of 22 000 low-income houses (scheduled for completion in 2013).
Hospitals			
Limpopo Academic Hospital	4	Limpopo Department of Health	Development of an academic hospital with tertiary facilities and services (scheduled for completion in 2013).
Nelson Mandela Hospital	4	Eastern Cape Department of Health	Improved health care through the upgrade and rehabilitation of the Nelson Mandela Hospital (scheduled for completion in 2013).
Chris Hani Baragwanath Hospital	4	Gauteng Department of Health	Improved health care through the upgrade and rehabilitation of the Soweto hospital (scheduled for completion in 2013).
Dr George Mukhari Hospital	4	Gauteng Department of Health	Improved health care through the upgrade and rehabilitation of the George Mukhari Hospital (scheduled for completion in 2013).
King Edward VIII Hospital	4	KZN Department of Health	Improved health care through the upgrade and rehabilitation of the King Edward VIII Hospital (scheduled for completion in 2013).
Correctional			
PPP Prisons	8	Department of Correctional Services	Upgrading of accomodation and related services to support the transformation process of correctional services facilities (scheduled for completion in 2013).

Over the forecast period, the bulk of economic infrastructure will be provided by non-financial public enterprises, which are projected to spend R392.6 billion. Provincial infrastructure spending is expected to total R150.3 billion, and municipal infrastructure spending R131.6 billion.

Capital expenditure continues to underperform budgeted amounts. Since 2006/07, provincial capital expenditure has averaged about 86 per cent of allocated capital budgets. The municipal performance has improved from 72 per cent in 2006/07 to 85 per cent in 2008/09, before declining to 80 per cent in 2009/10. Non-financial public enterprises spent 72 per cent of their capital budgets in 2009/10.

Capital spending continues to underperform budgeted amounts

The box below elaborates on the reasons for underspending.

Reasons for underspending on infrastructure

National government	• Lack of critical skills to plan, manage risk and execute projects • Service-level agreements between departments and implementing agents that are difficult to enforce • Lack of flexibility in choosing procurement and project implementation agents that would ensure delivery of projects on time and on budget
Provincial government	• Lack of integrated planning for health, education, housing infrastructure • Poor supply chain management, inadequate risk management • General lack of skills, especially in project management
Local government	• Unrealistic financial targets result in cost overruns and funding shortfalls • Inefficient supply-chain management • Subdued revenue levels • Lack of capacity to plan and meet requirements for conditional grants
Non-financial public enterprises	• Recession – Downward revisions in plans and a postponement of projects, higher borrowing costs, delays in drawing down World Bank loan to Eskom • Signoff deadlines on agreements between departments and commercial project partners not met or treated with urgency • Delays in procurement of inputs • Inclusion of projects on budget that are not yet ready for implementation • Decline in construction material costs, leading to lower budgets

The fiscal deficit

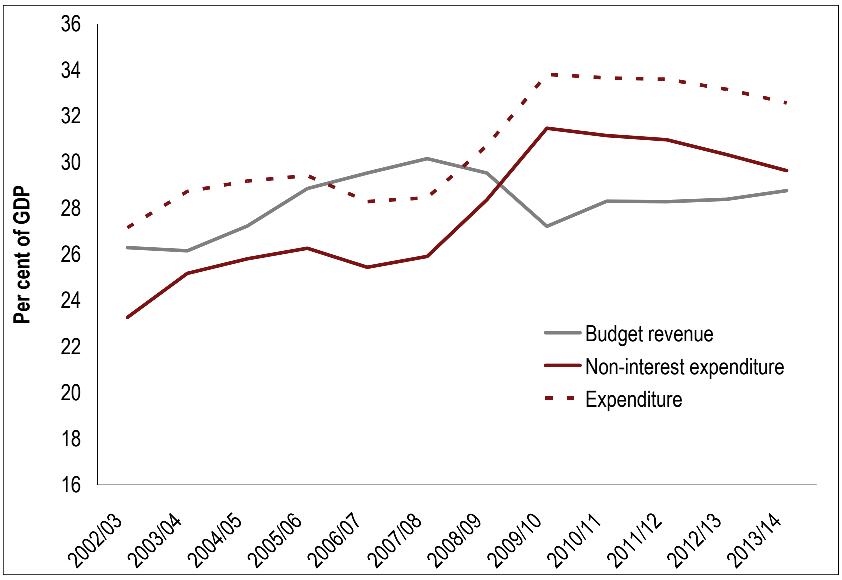
The fiscal framework supports a reduction of debt over time, which will reduce interest repayments and create fiscal space. Government borrowing to fund capital expenditure – such as the Gautrain – increases the overall wealth of the economy. Conversely, borrowing to finance consumption creates debt obligations that must be paid off long after the funds have been spent.

Borrowing to finance consumption is costly and unproductive

Figure 4.4 shows the trajectory of the fiscus back towards long-term sustainability. The current position – the result of higher borrowing during the recession – is not sustainable over the long term. A moderation in the growth of expenditure, combined with a recovery in revenue, will consolidate the fiscus over the medium term. The projected improvement in the budget deficit is in line with the economic forecast.

Moderating expenditure and recovering revenue will consolidate the fiscus over the medium term

Figure 4.4 Revenue and expenditure, 2002/03 – 2013/14

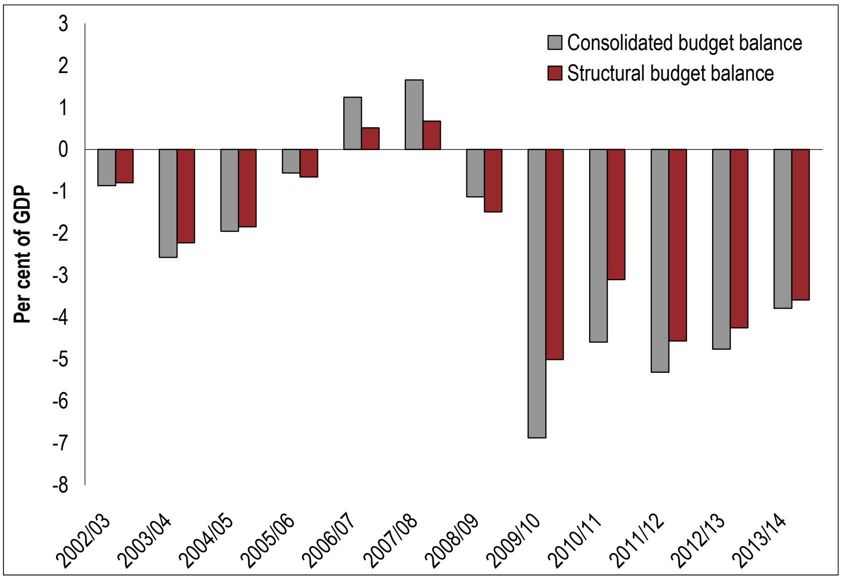


The 2010 Budget projected that debt stock would stabilise at about 44 per cent of GDP in 2015/16. As a result of improved economic growth, debt stock is now expected to stabilise at about 40 per cent of GDP in 2015/16. Any deterioration in the growth outlook, interest rates or the budget balance will prolong the fiscal recovery.

Structural budget deficit expected to improve to 3.6 per cent of GDP by outer year

Figure 4.5 shows the budget balance and the structural budget balance. The structural budget is a representation of what government revenue and expenditure would be if output were at its potential level, with cyclical variations stripped out. Over the next three years the budget deficit is projected to narrow to 3.8 per cent of GDP. Improvements in potential GDP growth should lead to a gradual rise in structural revenue. In combination with more moderate spending growth, this will lead to the structural budget deficit improving to 3.6 per cent of GDP by 2013/14.

Figure 4.5 Budget balance and structural budget balance, 2002/03 – 2013/14

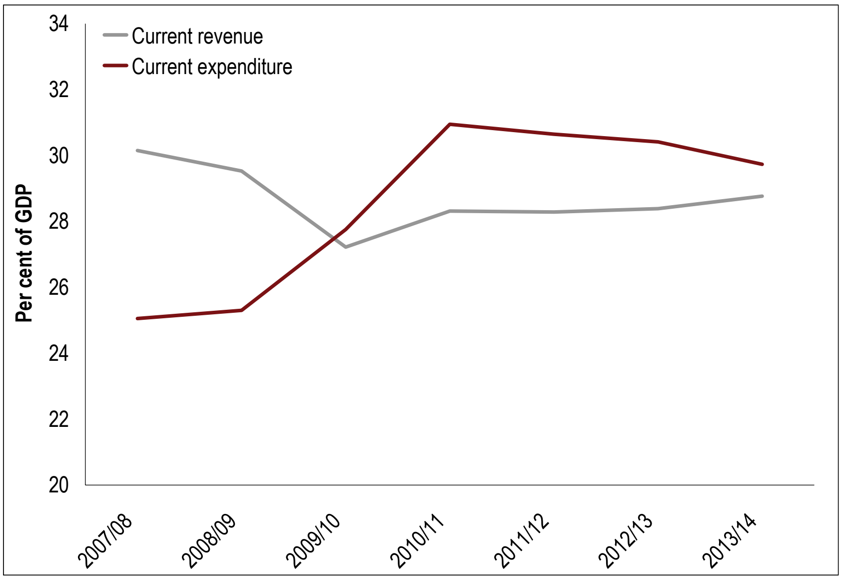


Savings

Over the past 30 years, corporate, government and household savings have gradually declined, and consequently the pool of resources available to fund investment from a domestic base has become smaller.

Savings represent domestic resources available to fund investment

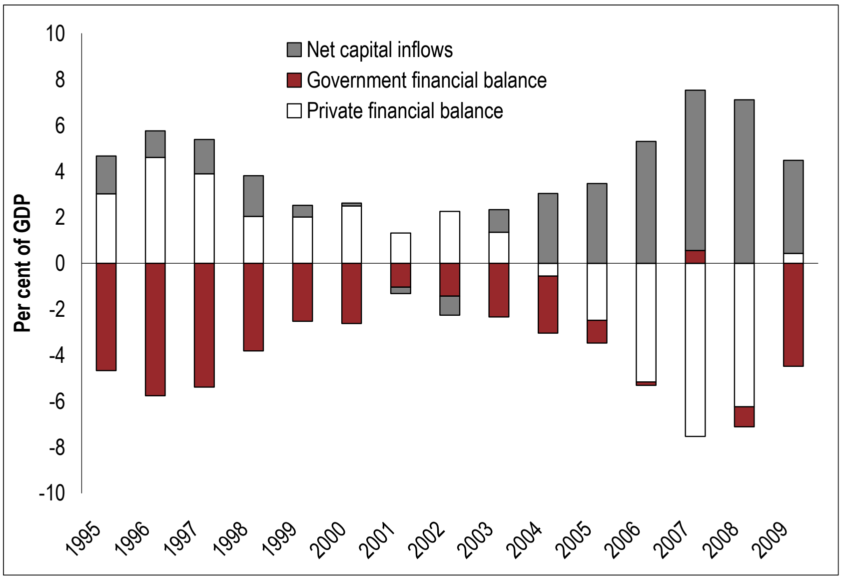
Figure 4.6 Current balance, 2007/08 – 2013/14



Government reduced its dissaving[2] between 2003/04 and 2007/08, and was able to effectively mobilise the savings collected during the growth period to fund revenue-generating capital projects. As government has drawn down savings, the fiscus has become reliant on foreign savings to finance the current balance and the capital investment programme.

South Africa has become more reliant on foreign savings to finance expenditure

Figure 4.7 Private, public and foreign savings, 1995 – 2009



Source: Reserve Bank

[2] An excess of current expenditure, including the depreciation of fixed capital, over current income.

A recovery in the current balance improves government savings

The current balance is the difference between current expenditure and current revenue, and acts as a proxy for government savings. Figure 4.6 shows that government is currently borrowing to finance short-term consumption. Long-term debt is being used to finance higher current expenditure on wages, interest and goods and services. An improvement in the current balance will lead to a recovery in government savings, reducing South Africa's reliance on capital inflows, as shown in Figure 4.7.

Revisions and forward estimates for the consolidated government budget

The budget deficit outcome in 2009/10 was R58 billion higher than projected. This was mainly due to lower-than-projected tax revenue collections of R60.6 billion, partially offset by under-expenditure of R8.4 billion. In 2010/11, a slower-than-anticipated recovery in revenue and continued growth in expenditure is expected to result in a deficit of R142.4 billion. Due to the improved economic and revenue outlook, as well as some savings on debt-service costs, the budget deficit is expected to be R26.2 billion lower than projected at the time of the 2010 Budget.

Table 4.5 Revised estimates of consolidated government revenue and expenditure, 2009/10 and 2010/11

	2009/10			2010/11			% change
R million	Budget estimate	Outcome	Deviation	Budget estimate	Revised estimates	Deviation	2009/10 – 2010/11
Revenue							
Tax revenue	659 304	598 705	-60 599	647 850	672 200	24 350	12.3%
Non-tax revenue	11 602	8 889	-2 713	10 380	12 254	1 874	37.9%
Less: SACU payments	-27 915	-27 915	-0	-14 991	-14 991	–	-46.3%
Other adjustment[1]	–	–	–	–	-2 900	-2 900	
Other[2]	88 245	85 162	-3 083	95 165	88 460	-6 704	3.9%
Budget revenue	**731 235**	**664 840**	**-66 395**	**738 404**	**755 023**	**16 619**	**13.6%**
Percentage of GDP	*29.6%*	*27.2%*		*27.3%*	*28.3%*		
Expenditure							
Current payments	472 376	474 252	1 876	527 892	534 072	6 179	12.6%
of which:							
Debt-service cost	*55 268*	*57 129*	*1 861*	*71 358*	*66 570*	*-4 787*	*16.5%*
Transfers and subsidies	264 611	263 936	-675	284 016	282 269	-1 747	6.9%
Payments for capital assets	61 349	56 017	-5 332	68 163	59 781	-8 382	6.7%
Payments for financial assets	30 000	31 711	1 711	20 893	21 254	362	-33.0%
Contingency reserve	6 000	–	-6 000	6 000	–	-6 000	0.0%
Total expenditure	**834 336**	**825 917**	**-8 419**	**906 964**	**897 376**	**-9 588**	**8.7%**
Percentage of GDP	*33.7%*	*33.8%*		*33.6%*	*33.6%*		
Budget balance[3]	**-103 100**	**-161 076**	**-57 976**	**-168 560**	**-142 353**	**26 207**	**-11.6%**
Percentage of GDP	*-4.2%*	*-6.6%*	*-2.4%*	*-6.2%*	*-5.3%*	*0.9%*	
Gross domestic product	*2 474 214*	*2 442 593*		*2 699 888*	*2 666 894*		

1. *Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement.*
2. *Includes provinces, social security funds and selected entities.*
3. *A positive number reflects a surplus and a negative number a deficit.*

The 2011 Budget adjusts the forward estimates tabled in the 2010 Budget for 2011/12 and 2012/13 to take account of changes in the economic environment and policy priorities, and adds projections for 2013/14. Table 4.6 illustrates the changes to revenue and expenditure forecasts since February 2010.

Table 4.6 Consolidated government budget medium-term estimates, 2011/12 – 2013/14

R million	2011/12 2010 Forward estimate	2011 Budget	Change to baseline	2012/13 2010 Forward estimate	2011 Budget	Change to baseline	2013/14 2011 Budget
Revenue							
Tax revenue	721 477	741 620	20 143	818 298	827 310	9 012	927 960
Non-tax revenue	11 483	10 001	-1 482	12 379	11 540	-839	12 351
Less: SACU payments	-11 211	-21 763	-10 552	-22 781	-32 432	-9 651	-35 997
Other[1]	105 993	94 609	-11 384	114 382	102 296	-12 085	112 873
Budget revenue	**827 742**	**824 466**	**-3 276**	**922 278**	**908 714**	**-13 564**	**1 017 187**
Percentage of GDP	*27.9%*	*28.3%*		*28.0%*	*28.4%*		*28.8%*
Expenditure							
Current payments	580 140	587 702	7 562	623 715	635 953	12 237	684 638
of which:							
Debt-service cost	*88 463*	*76 579*	*-11 884*	*104 022*	*90 808*	*-13 214*	*104 036*
Transfers and subsidies	315 049	315 097	49	337 335	340 806	3 471	363 099
Payments for capital assets	69 418	71 608	2 191	73 567	73 410	-157	80 656
Payments for financial assets	754	767	13	5	8	3	4
Contingency reserve	12 000	4 090	-7 910	24 000	11 405	-12 595	23 375
Total expenditure	**977 361**	**979 265**	**1 904**	**1 058 622**	**1 061 582**	**2 960**	**1 151 773**
Percentage of GDP	*32.9%*	*33.6%*		*32.1%*	*33.2%*		*32.6%*
Budget balance[2]	**-149 619**	**-154 799**	**-5 180**	**-136 344**	**-152 868**	**-16 524**	**-134 586**
Percentage of GDP	*-5.0%*	*-5.3%*	*-0.3%*	*-4.1%*	*-4.8%*	*-0.6%*	*-3.8%*
Gross domestic product	*2 967 560*	*2 914 862*		*3 295 749*	*3 201 299*		*3 536 002*

1. *Includes provinces, social security funds and selected public entities.*
2. *A positive number reflects a surplus and a negative number a deficit.*

Public-sector borrowing requirement

The public-sector borrowing requirement represents the funds needed by the public sector to cover any deficit in financing its own activities.

Public-sector borrowing requirement narrows to 6.3 per cent of GDP by 2013/14

The public-sector borrowing requirement continues to be higher than borrowing by general government, reflecting borrowing by public enterprises to finance capital expenditure. The public-sector borrowing requirement is expected to be 10.5 per cent of GDP in 2010/11, declining to 6.3 per cent of GDP in 2013/14, largely as a result of improvement in the consolidated government budget balance.

The largest contributors to government's capital infrastructure programme are Eskom and Transnet. Borrowing by these enterprises will continue to support their capital programmes. Relatively few municipalities borrow funds to finance their capital budgets; those that do are scaling back their borrowing plans because they have reached or exceeded prudential limits.

Table 4.7 Public-sector borrowing requirement[1], 2007/08 – 2013/14

R million	2007/08	2008/09 Outcome	2009/10	2010/11 Revised estimate	2011/12	2012/13 Medium-term estimates	2013/14
National budget	**-19 352**	**27 158**	**167 518**	**143 361**	**159 066**	**161 713**	**148 715**
Extraordinary payments	776	4 284	671	802	150	–	–
Extraordinary receipts	-1 850	-8 203	-6 435	-3 148	-1 350	–	–
Borrowing requirement	**-20 426**	**23 238**	**161 754**	**141 015**	**157 866**	**161 713**	**148 715**
Social security funds	-8 614	-12 362	-10 624	-10 778	-10 388	-11 578	-11 208
Provinces	-1 062	8 927	189	1 587	-1 094	-3 138	-5 973
Extra-budgetary institutions	-6 155	3 802	3 993	8 183	7 215	5 870	3 052
Local authorities	4 571	13 298	16 723	7 470	9 105	8 152	8 641
General government borrowing	**-31 686**	**36 904**	**172 036**	**147 478**	**162 704**	**161 020**	**143 227**
Percentage of GDP	*-1.5%*	*1.6%*	*7.0%*	*5.5%*	*5.6%*	*5.0%*	*4.1%*
Non-financial public enterprises[2]	35 503	61 804	45 325	133 731	113 718	99 063	78 733
Percentage of GDP	*1.7%*	*2.7%*	*1.9%*	*5.0%*	*3.9%*	*3.1%*	*2.2%*
Public-sector borrowing requirement	**3 817**	**98 708**	**217 361**	**281 209**	**276 422**	**260 083**	**221 959**
Percentage of GDP	*0.2%*	*4.3%*	*8.9%*	*10.5%*	*9.5%*	*8.1%*	*6.3%*
Gross domestic product	*2 078 822*	*2 312 965*	*2 442 593*	*2 666 894*	*2 914 862*	*3 201 299*	*3 536 002*

1. *A negative number reflects a surplus and a positive number a deficit.*
2. *2010/11 – 2013/14 are based on National Treasury estimates.*

Conclusion

South Africa responded to the recession by maintaining social expenditure and continuing to invest in infrastructure, providing a stimulus to economic activity. With a decline in revenue, government raised its borrowing level, bringing the fiscal position from a deficit of 1.2 per cent of GDP in 2008/09 to a deficit of 6.6 per cent of GDP in 2009/10. This was an appropriate response to the economic crisis.

As the economy recovers, government will reduce the budget deficit

As the economy recovers, government will reduce the budget deficit. By consolidating the fiscal position over the medium term, South Africa will be well placed to take advantage of growth opportunities.