# Pre-budget analysis 2016

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

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# Introduction

- The Parliamentary Budget Office offers independent and objective advice and analysis to the Finance and Appropriations committees in both Houses of Parliament on money bills and other bills with financial implications.
- This presentation provides an update on the macroeconomic situation in South Africa, which informs the estimation of the medium term expenditure framework for 2016.
- It will also provide members with an understanding of the revenue collection, expenditure and borrowing trends for the first 9 months of the financial year.
- Provincial expenditure as at end December 2015 are presented.
- An evaluation of performance information of national departments reflects performance for the second quarter and identifies limitations with performance information.
- Finally the report presents a summary of the outcomes of the performance on the MTSF for 2014/15.

# The Macroeconomic background to the fiscal framework

- Since the tabling of the 2015 MTBPS estimated economic growth rate for 2016 has been reduced:
  - South African Reserve Bank from 1.6 to 0.9
  - International Monetary Fund: from 1.3 to 0.9
  - Reuters: from 1.8 to 0.7
- In addition to slow growth South Africa is experiencing:
  - Severe drought
  - Depression in commodity prices
  - Poor mining and manufacturing output
  - A slow-down in exports due to lower demand from major trading partners
  - Depreciation of the Rand by 18 per cent against the US dollar
  - Credit ratings agency Fitch downgraded South Africa's foreign currency debt to one level above non-investment grade
  - The repurchase rate increased from 6.0 to 6.75 per cent.

# Fiscal policy

- Government's central fiscal objective over the medium term is:
  - To stabilise the growth of debt as a share of GDP
  - Continued revenue growth and strict adherence to the planned expenditure ceiling
  - A revised budget deficit of 4.3 per cent for the current financial year is estimated to narrow to 3.5 per cent over the medium term.
  - In the 2015 Budget, government announced a medium-term fiscal policy package to ensure a sustainable foundation for public finances.

# Fiscal framework and borrowing requirements as at end December 2015

| | 2015/16 | | | | |
|---|---|---|---|---|---|
| R thousand | Budget estimate | Adjusted estimate | Year to date spent | % of Budget spent | % of Adjusted Estimates spent |
| **Revenue** | **1 074 309 619** | **1 070 664 479** | **768 231 145** | **71.51%** | **71.75%** |
| **Expenditure** | **1 247 363 701** | **1 246 930 017** | **905 117 153** | **72.56%** | **72.59%** |
| **Appropriation by vote** | **704 516 512** | **706 374 049** | **513 799 935** | **72.93%** | **72.74%** |
| **Direct charges against the National Revenue Fun** | **537 847 189** | **544 755 968** | **391 317 218** | **72.76%** | **71.83%** |
| *Debt-service costs* | *126 440 428* | ***127 902 018*** | *83 125 181* | **65.74%** | **64.99%** |
| *Provincial equitable share* | *382 673 477* | *386 500 009* | *287 005 119* | **75.00%** | **74.26%** |
| *General fuel levy sharing with metropolitan municipa* | *10 658 909* | *10 658 909* | *7 105 939* | **66.67%** | **66.67%** |
| *Other costs* | *18 074 375* | *19 695 032* | *14 080 979* | **77.91%** | **71.50%** |
| **Unallocated Reserves/Estimated under exp./LG re** | **5 000 000** | **(4 200 000)** | **(4 200 000)** | | |
| **Main budget balance** | **(173 054 082)** | **(176 265 538)** | **(136 886 009)** | **79.1%** | **77.7%** |
| **Financing of the net borrowing requirement** | | | | | |
| **Domestic short-term loans (net)** | **13 000 000** | **13 000 000** | **29 286 803** | **225.28%** | **225.28%** |
| **Domestic long-term loans (net)** | **144 809 000** | **144 944 000** | **105 310 985** | **72.72%** | **72.66%** |
| **Foreign loans (net)** | **7 797 000** | **9 464 000** | **(3 354 601)** | **-43.02%** | **-35.45%** |
| **Change in cash and other balances (- increase)** | **7 448 082** | **8 858 000** | **5 642 822** | **75.76%** | **63.70%** |
| **Total financing (net)** | **173 054 082** | **176 265 538** | **136 886 009** | **79.10%** | **77.66%** |

# Revised Fiscal Framework scenarios

- 2 scenarios were developed for the revenue, expenditure and deficit outcome for 2015/16:
  - **Scenario 1: based on a benchmark of 75 per cent (based on notional) for 9 months**
    - Estimated reductions of 7.5 per cent on revised estimated revenue
    - Estimated reduction of 5.9 per cent on estimated expenditure
    - Deficit of 4.5 per cent of GDP
  - **Scenario 2: based on benchmark of 72 per cent for revenue and 73 per cent for expenditure (based on previous trends)**
    - Estimated reductions of 3.6 per cent on revised estimated revenue
    - Estimated reduction of 3.4 per cent on estimated expenditure
    - Deficit of 4.2 per cent of GDP

# Revised Fiscal Framework scenarios (cont.)

- **Based on a 1.0 per cent GDP growth rate and inflation rates of 5.5 and 6.0 per cent different scenarios for an estimated fiscal framework for 2016/17:**
  - Based on scenario 1:
    - Estimated reductions of between 7.7 and 8.1 per cent on revenue collection
    - Estimated reduction of between 5.3 and 6.8 per cent in estimated expenditure
    - Deficit of 4.2 per cent of GDP
  - Based on scenario 2:
    - Estimated reductions of between 3.8 and 4.3 per cent on estimated revenue for 2016/17.
    - Estimated reduction of between 2.7 and 3.2 per cent on estimated expenditure for the 2016/17 financial year.
    - Deficit of 3.9 and 4.0 per cent of GDP

# Pressures on the fiscal framework for 2016/17, not factored into scenarios

- Effect of the drought
  - Claims of R4.2 billion has been received as at November 2015
  - Provincial disaster grant for 2015/16 amounts to R103 million in 2015/16
- Effect of the exchange rate
  - The Rand depreciated by 18 per cent against the US dollar, losing 8 per cent of its value during December 2015
  - A weaker local currency means imported foreign goods and services become more expensive
  - Foreign borrowing becomes expensive
- Effect of the higher education zero fee increases
  - To be determined

# National departmental expenditure

| | As at end December 2015 | | |
|---|---|---|---|
| | Current payments | Payments for capital assets | Total |
| The Presidency | 61.7% | 49.7% | 61.59% |
| Cooperative Governance and Traditional Affairs | 69.3% | 42.2% | 70.65% |
| Public Service and Administration | 64.4% | 215.3% | 71.79% |
| Women | 78.5% | 21.7% | 76.38% |
| Health | 56.3% | 38.9% | 73.48% |
| Defence and Military Veterans | 72.1% | 58.6% | 71.58% |
| Justice and Constitutional Development | 72.8% | 43.3% | 70.91% |
| Police | 73.5% | 52.9% | 72.82% |
| Economic Development | 57.8% | 68.4% | 73.64% |
| Small Business Development | 57.7% | 57.2% | 73.47% |
| Telecommunications and Postal Services | 38.5% | 98.1% | 66.89% |
| Water and Sanitation | 64.1% | 52.9% | 54.99% |
| Human Settlements | 62.1% | 213.5% | 69.42% |

# National departmental performance

- Targets set for quarter 2: 2 314
- Targets achieved in quarter 2: 1 385 (59.9%)
- Technical differences in reporting of expenditure and performance information does not allow for comparison between data sets
- Limitations in performance reports include:
  - Departments do not use the same format for reporting.
  - Performance indicators and targets are not always well defined or measurable, which makes analysis difficult.
  - Indicators are developed without having systems in place to collect the data.
  - Some departments set more than 1 target per indicator. This complicates the reporting on performance per indicator.

# Provincial expenditure

**As at end December 2015**

- Total provincial spending amounted to 72.5 per cent of total provincial budgets.
- Gauteng is the slowest spending province at 70.8 per cent while Northern Cape was on 74.1 per cent
- Spending on Equitable Share was at 74.3 per cent
- Spending on Conditional Grants was at 78.2 per cent

**Estimates for 2016/17**

- MTBPS Estimated Provincial Equitable Share allocations for 2016/17: R412.2 billion
- A 3 per cent reduction (R12.4 billion) will reduce the PES to R399.8 billion

# National Development Plan performance

| Outcome | Number of Targets | Number of Targets achieved | Percentage achieved |
|---|---|---|---|
| 1: Quality Basic Education | 60 | 22 | 37% |
| 2: A long and healthy life for all South Africans | 58 | 26 | 45% |
| 4: Decent employment through inclusive economic growth | 67 | 30 | 45 |
| 5: A skilled and capable workforce to support an inclusive growth path | 50 | 26 | 52% |
| 6: An efficient, competitive and responsive economic infrastructure network | 37 | 17 | 46% |
| 8: Sustainable Human Settlements and Improved Quality of Household Life | 38 | 5 | 13% |
| 9: Responsive, accountable, effective and efficient developmental local government system | 44 | 28 | 64% |
| 12: An efficient, effective and development-oriented public service | 36 | 14 | 39% |

# In Summary

- Since the tabling of the 2015 MTBPS estimated economic growth rate for 2016 has been reduced:
- In addition to slow growth South Africa is experiencing:
  - Natural disaster
  - Internal factors
  - External factors
- Stable fiscal policy over the medium term
- Borrowing requirements as at end December 2015: R136.9 billion
- Estimated reductions in revenue will result in:
  - Reduction in Expenditure
  - Higher borrowing
- National performance data needs attention to be able to use for budget allocations and performance evaluation
- Reduction in PES will put pressure on Education, Health and Social Development.

# Thank You