

Parliamentary

Pre-budget discussion 2017

Budget
Office



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Introduction

- The Parliamentary Budget Office provides 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 fiscal framework
- It also provides members with an understanding of the revenue collection, expenditure and borrowing trends for the first 9 months of the financial year

Strategic direction from SONA

“South Africa needs fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor”

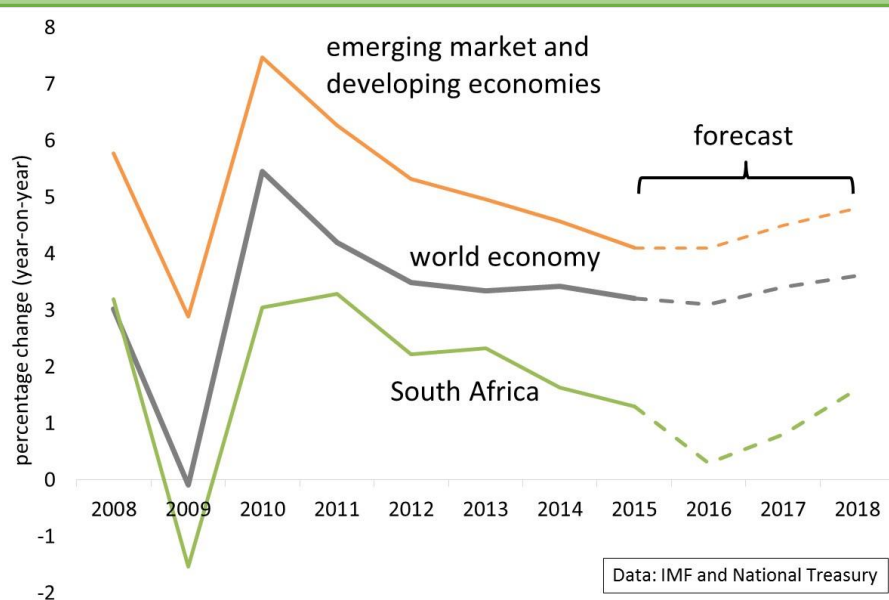
Priorities:

- The Nine Point Plan
- Energy security
- One-stop-shops to promote investment
- Radical socioeconomic transformation:
 - Legislation and regulations
 - Black economic empowerment
 - Budget
- Accelerated Schools Infrastructure (ASIDI)
- Social public treatment centres
- NHI
- Mainstream the empowerment of women and access to economic opportunities

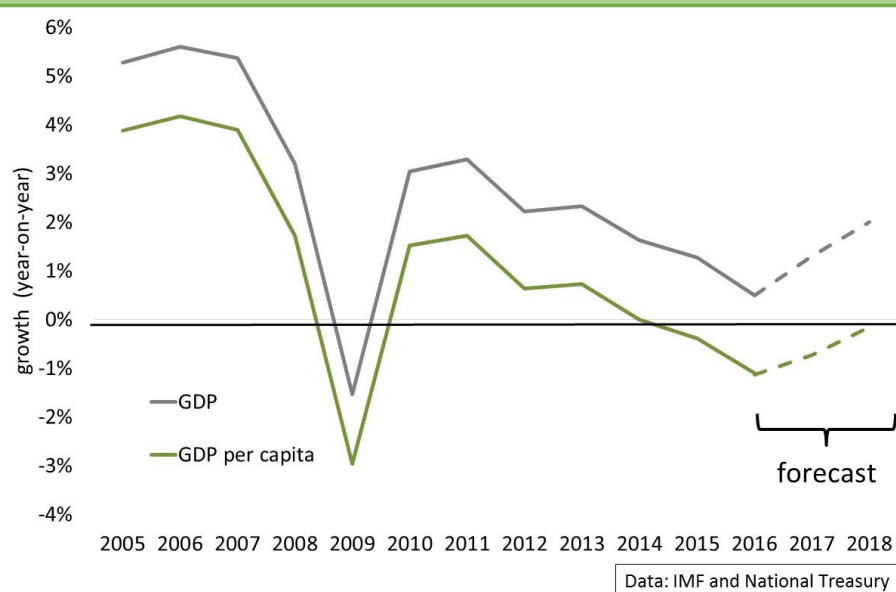
Modest growth recovery expected from 2017

- Recovery is driven by \uparrow commodity prices, recovery in the agriculture sector and \uparrow global growth

Growth outlook poorer than EMs and World

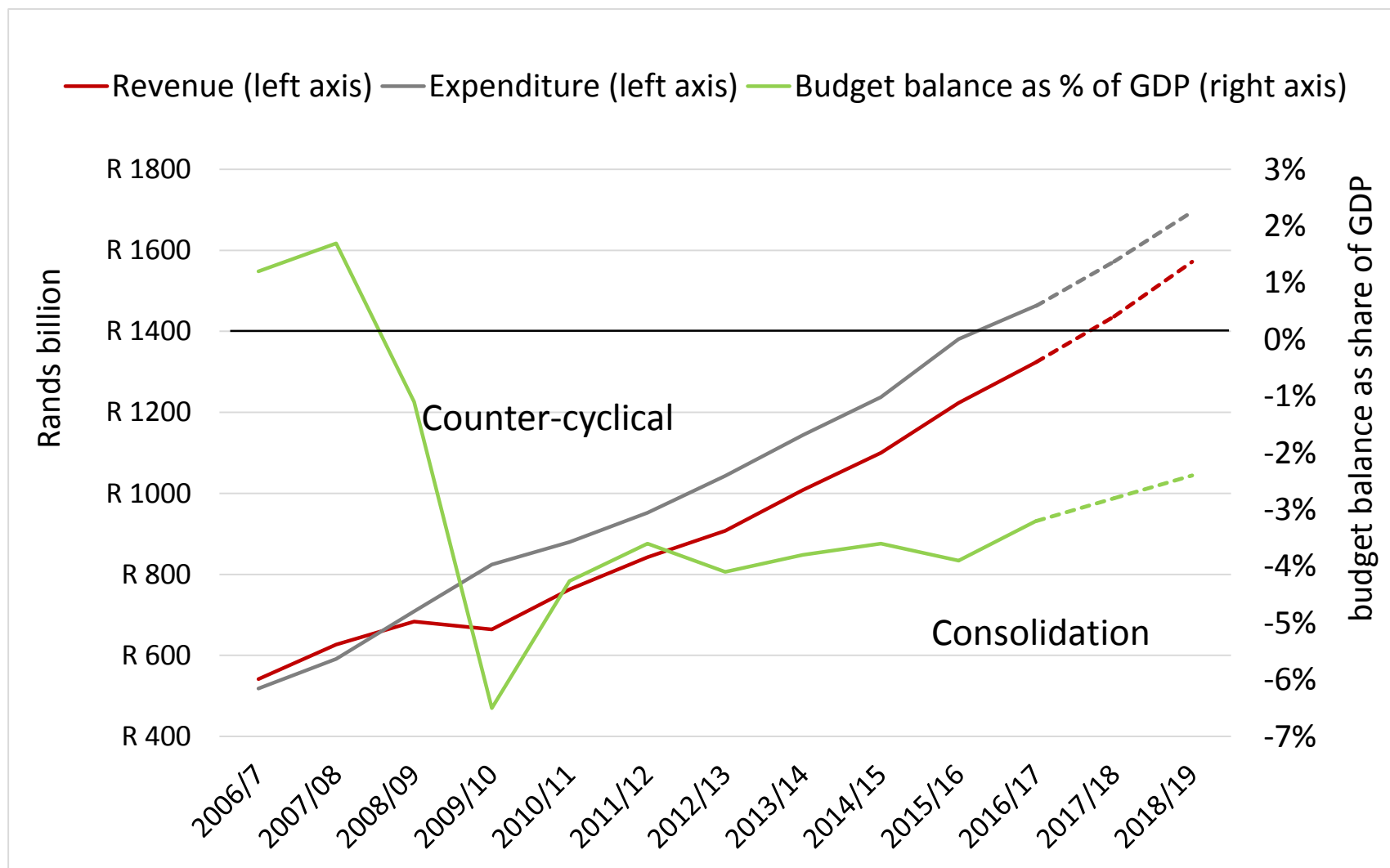


Per capita growth likely to remain negative



- Growth potential continues to be revised downwards
- Unemployment remains high: 26.5% (broad: 35.6%, youth-broad: 47.8%)
- The Rand strengthened (17% since January 2016)
- Inflation is likely to fall below 6% in 2017
- Yields on SA debt have improved by 0.75 percentage points since January 2016

Fiscal framework – MTBPS 2016



Fiscal framework

- Policy adjustments from 2016 MTBPS
 - Continuation of efforts to reduce the budget deficit and to stabilise debt as a share of GDP
 - Projected expenditure reduction in 2017/18 (R20 billion)
 - Projected revenue increase 2017/18 (R28 billion)
- Fiscal framework adjustments in 2016 MTBPS

R billion	Main Budget	Revised budget	% Change
Revenue	1 162,0	1 143,7	-1.6%
Expenditure	1 318,3	1 308,7	-0.8%
Main budget balance	-156,3	-165	-0.7%

Fiscal framework as at end December 2016

R thousand	2016/17				2015/16
	Budget estimate	Adjusted budget	Year to date Quarter 3	% of adjusted budget	% of actual at Dec 2015
Revenue	1,161,996,198	↓ 1,143,701,050	814,920,297	71.3%	71.4%
Expenditure	(1,318,338,084)	↓ (1,308,725,309)	(961,379,720)	73.5%	72.7%
Appropriation by vote	721,148,226	723,132,353	536,594,040	74.2%	73.4%
Direct charges against the National Revenue Fund	590,923,063	589,792,956	424,785,680	72.0%	71.8%
Debt-service costs	147,720,000	↓ 147,689,225	94,480,238	64.0%	64.5%
Provincial equitable share	410,698,585	410,698,585	308,023,950	75.0%	74.3%
General fuel levy sharing	11,223,831	11,223,831	7,482,553	66.7%	66.7%
Other costs	21,280,647	21,280,647	14,798,939	69.5%	74.3%
Provisional allocation not assigned to votes	266,795	266,795	-		
Contingency reserve	6,000,000	6,000,000	-		
Main budget balance	(156,341,886)	(165,024,259)	(146,459,423)	88.8%	80.8%

Discussion

1. The effect of global and domestic factors on the macro-economy, budget and fiscal framework
2. The appropriateness of government's economic policy given the country's fiscal objectives, growth and development priorities
3. The appropriateness and adequacy of government's fiscal policy stance given the country's current growth and development priorities:
 - The level and composition of government debt
 - The level, composition and division of government spending
 - The structure of government revenue system
4. Potential economic and fiscal risks
5. Would any changes to the fiscal policy framework support employment, investment and growth and help reduce poverty and inequality?

Tax Revenue for 2016/17

Disappointing PIT collection the main culprit for the shortfall

Tax component (% share of total tax revenue)	Nominal growth estimate in the 2016 Budget Review	Year-to-date nominal growth	Variance
Personal income tax (36.27%)	13.64%	9.37%	-4.27%
VAT (26.27%)	7.17%	6.89%	-0.29%
Corporate income tax (17.86%)	3.71%	7.07%	3.36%
Fuel levy (5.2%)	16.00%	13.21%	-2.79%
Taxes on international trade and transactions (4.39%)	17.31%	2.79%	-14.52%
Total Tax Revenue	9.79%	7.67%	-2.12%

 (R23 billion shortfall)

Treasury's Average Forecast Error

(2016/17) R billion	Before 2009	After 2009
Budget Review	47.92	16.63
MTBPS	33.23	10.25

So what are the possibilities?

Additional revenue of R28 billion required in 2017/18

- **Personal Income Tax (36.27% of total tax revenue)**

- Increase marginal rates
- Additional bracket
- Limiting fiscal drag relief
- Increase capital gains inclusion rate
- Modifying deductions/exemptions

- **Value-added Tax (26.27%)**

- Increase rate offset by additional zero ratings
- Multiple VAT rate system
- Reviewing zero rated items

- **Corporate Income Tax (17.86%)**

- Increase rate
- Modifying deductions/exemptions

- **Fuel Levy (5.20%)**

- **Excise (Sin) Taxes (3.28%)**

- **Wealth Taxes (1.38%)**

- Estate duty
- Additional Wealth Tax
- Other

- **Other**

- Skills development levy (**1.48%**)
- Sugar Tax
- Carbon Tax

Discussion

- Taking equity, efficiency and policy objectives into consideration, how does Treasury go about raising the additional tax revenue?

Spending pressures and priority spending for 2017 MTEF

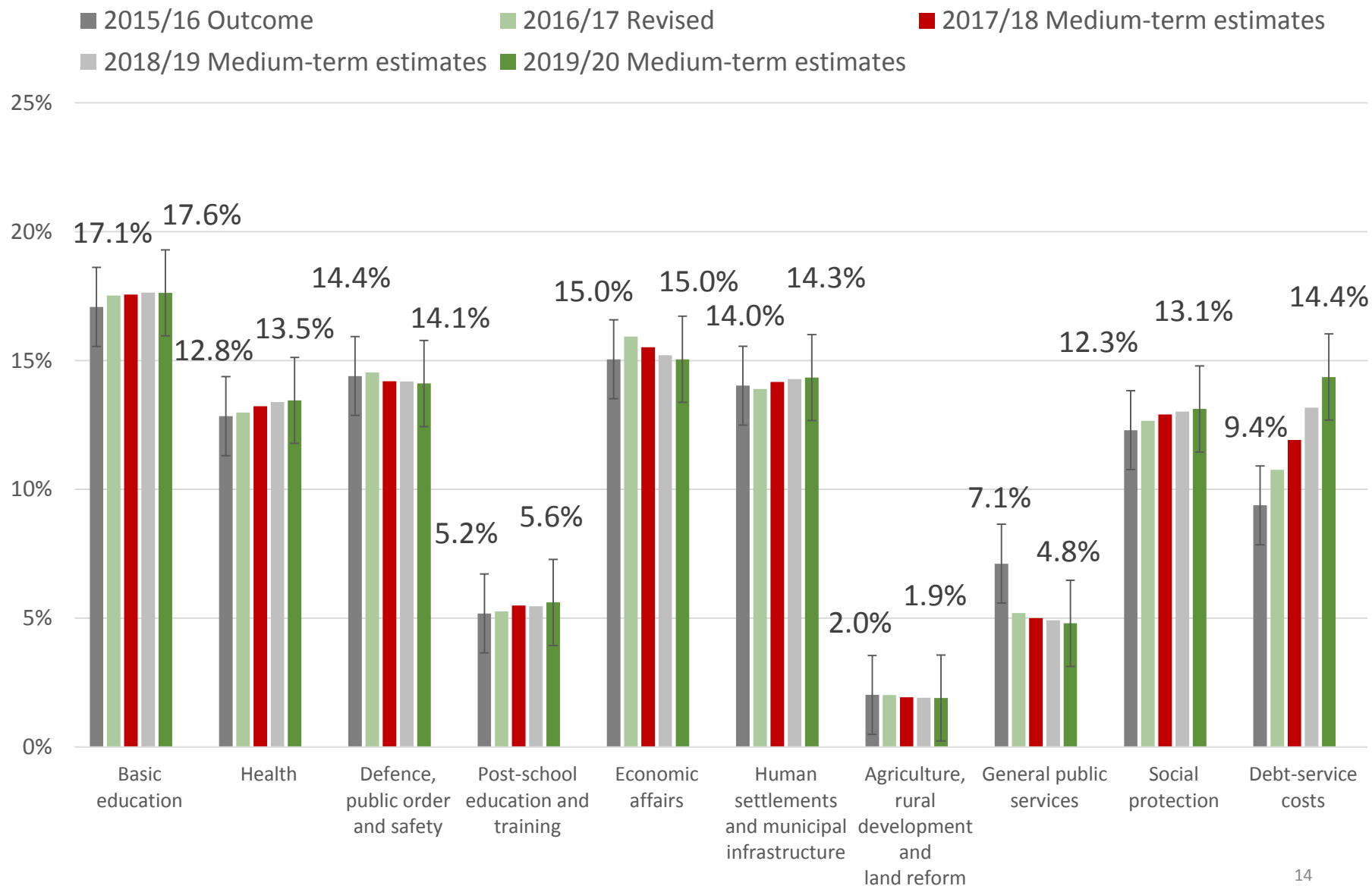
Pressures on the budget

- Health sector
 - Higher salaries
 - Rising utilisation of services
 - Higher import prices for medicines
- The local equitable share
 - Basic electricity and water for the poor
- Congestion and conditions of the national and provincial road networks
- Basic social infrastructure in rural areas
- The national school nutrition programme
- Increase of the child support grant
- An additional R17.6 billion is needed for higher education

Priority allocations as per the 2016 MTBPS

- Social services
- Infrastructure
- Post-school education and training
- University subsidies
- Financial Aid Scheme (NSFAS) underfunded university students
- Public works programmes that contribute directly to employment
- Grants that support people living with HIV/AIDS
- Greater emphasis to be placed on improving spending quality and implementing cost-containment measures

Proportion of allocations per function



South Africa needs fundamental change in the structure, systems, institutions, managements.... So where do we start?

Efficiency measures

- Consultants or professional services
- Travel and accommodation
- Catering
- Social events
- Entertainment allowances
- Communication and advertising
- Hiring of venues
- The size of delegations to events

Should government not have a more structured approach?

- Sector specific
- Communication
- Spending reviews

What happened during the national adjustments process?

Declared unspent (R1 308 million) of which:

- R243.3 million from Compensation of Employees
- R317.8 million shifted from Compensation of Employees

Reallocation of savings due to cost containment measures

- Travel and communication for ministerial outreach
- Vehicles for Judges and Ministers

Approval mechanism

- Executive
- National Treasury
- Parliament (Money Bills Amendment Procedure and Related Matters Act and Appropriation Act)

Discussion

1. Do allocations address the pressures and support the government's strategic direction?
2. What can government do to ensure that government spending is more efficient and effective?
3. What are the priority areas and have we effectively allocated the budget according to these priorities?
4. What are the obstacles to effective allocation?
5. Should efficiency measures be more targeted?
6. Appropriate allocation of budget between the three spheres of government given roles and responsibilities?
7. The role of Metros be in rural development?
8. Can the adjustment-budget-process be improved?

Thank You

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