

2017 Budget Analysis

Parliamentary

Budget
Office



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Purpose

- The Money Bills Amendment Procedure and Related Matters Act enables Parliamentary Committees to amend Money Bills
- The PBO supports Parliament in its oversight role by providing advice and analysis on Money Bills and related matters
- This presentation analyses the revised MTEF, considering its responsiveness to address the country's social and economic challenges within current fiscal environment

Background

- The role of the budget:
 - Promote distribution
 - Direct scarce resources toward catalytic investments in human and physical capital
- Economic performance:
 - The budget depends on the economy to generate the resources to finance these investments
 - South Africa had several years of very low growth
- The 2017 Budget:
 - Calls for fiscal consolidation

Background (cont.)

- Mainstream economics separates fiscal and monetary policy since the 1970/80s
- The view of modern mainstream economics is that government spending and debt influences inflation and aggregate demand

What if government borrows more to support much needed transformative household consumption and investment?

One example:

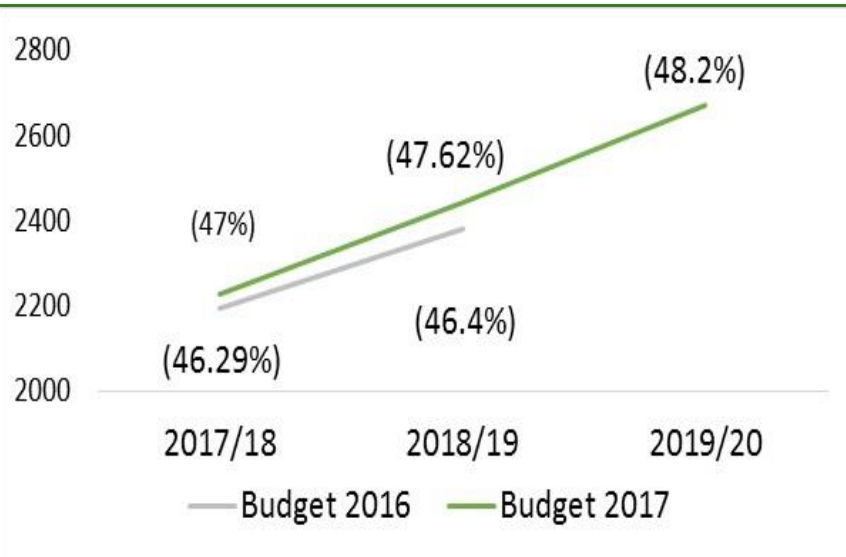
- Government borrows R1.00 to support a R1.00 increase in household consumption or infrastructure investment
- The average multiplier for sectors that would benefit from this spending is 1.6
- The increase to GDP of that R1.00 consumption should be R1.60
- The contribution to the growth rate is greater than the interest rate

Strategic direction

- The 2017/18 budget aims to give effect to the transformation action agenda by financing government programmes to:
 - Ensure that many more people live in dignity every year
 - Radically improve access to services and economic participation across all racial lines
 - Energise growth and create jobs
 - Increase investment and development at all spheres of government

Fiscal framework: key proposals

Slower fiscal consolidation (Rbn)



additional PIT bracket

limited PIT bracket relief

↑ fuel levy

↑ dividend withholding tax

R36. bn

**contingency reserve
2017/18-2019/20**

R220.9 bn

**gross borrowing
requirement for 2017/18**

↑ R28 bn
revenue

↓ R20 bn
expenditure
ceiling

2017/18

↑ R15 bn
revenue

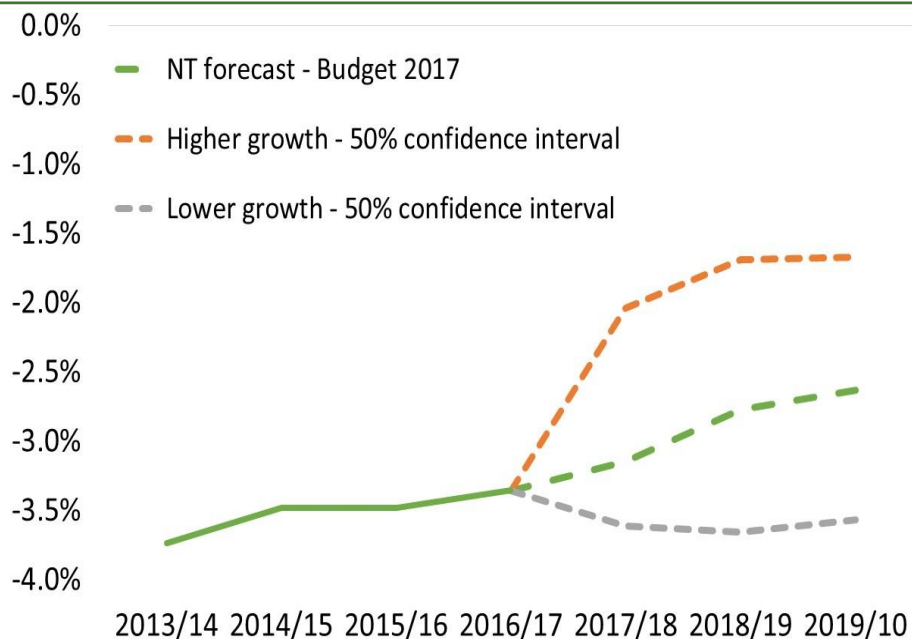
↓ R31 bn
expenditure
ceiling

2018/19

Fiscal goals depend on growth

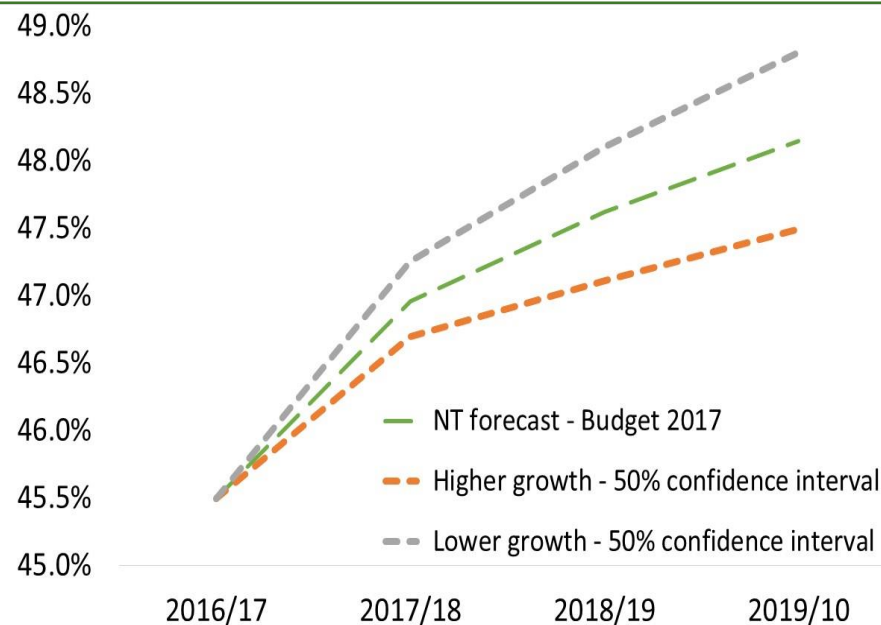
- Main fiscal policy goal: contain budget deficit and slow pace of debt accumulation
- NT GDP forecasts more accurate than IMF, World Bank and BER (PBO, 2016)
- Lower growth → may require additional consolidation measures (revenue and expenditure) to realise current fiscal policy objectives - adverse effects on service delivery, investment and realisation of social objectives
- Higher growth → additional fiscal consolidation measures may not be necessary, other
- Upcoming public sector wage negotiations present a risk

Budget balance as a share of GDP (%)



Data: National Treasury and PBO

Net debt as a share of GDP (%)



Data: National Treasury and PBO

Tax collection

- In 2016/17, for the first time since 2009/10, tax revenues are expected to grow slower than the economy
- 2016/17 gross tax revenue budget was R1.175 trillion
- Revised revenue shortfall is estimated at R30.4 billion
- Is there room for improvement in tax collection efficiency?

Revenue proposals – 2017/18

New PIT bracket
(45%) income >
R1.5mn
↑R4.4 bn

PIT
↑R16.5 bn

Limited relief for PIT bracket
creep
↑R12.1 bn

↑ dividend withholding tax
15% → 20%
↑ 6.8 bn

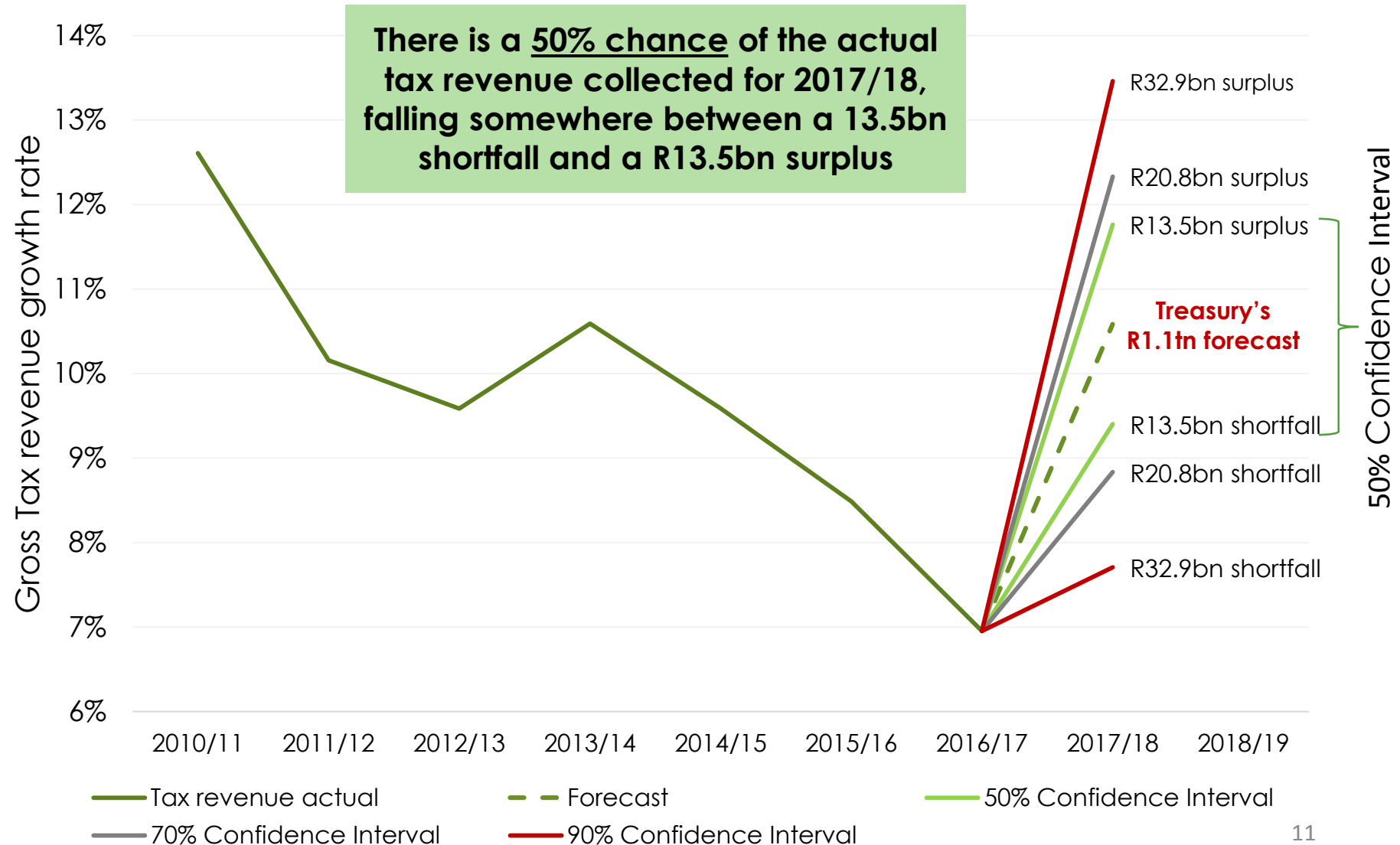
↑ transfer duty threshold
↓ R448 mn

↑ general fuel levy
↑ R3.2 bn

↑ excise duties on tobacco &
alcohol
↑R1.9 bn

- Change in taxes affects growth, consumption, income distribution and progressivity of the tax system
- The least-harmful suite of revenue changes is required
- Low economic growth, high unemployment, high food prices and poor corporate profitability must be considered
- ↑ PIT will dampen consumption and growth
- The new PIT brackets and ↑ dividend withholding tax furthers the progressive nature of the PIT system
- Higher fuel cost - 22% of South Africans use mini bus taxi to get to work

Tax Revenue for 2017/18 – Uncertainty



Tax Expenditure (incentives)



PIT expenditure main areas		VAT expenditure main areas	
R50 billion		R 48 billion	
Pension and Retirement	51 %	19 Basic food items	40 %
Medical Aid	38 %	Fuel (petrol + diesel + paraffin)	37 %
Other		Other	
CIT expenditure main areas		Customs & Excise main areas	
R 4.8 billion		R 24 billion	
Small Business Corp	43 %	Motor Vehicles	77 %
ETI and Learnership subsidies	41 %	Diesel Refund	16%
Other		Other	

VAT proposal for 2018

R million	4yr average with fuel	4yr average without fuel	Estimated contribution
Value-added tax			
Zero-rated supplies	46 909	29 015	
<i>19 basic food items</i>	19 336	19 336	
<i>Petrol</i>	15 371	–	15 371
<i>Diesel</i>	1 884	–	1 884
<i>Paraffin</i>	639	–	639
<i>Municipal property rates</i>	9 474	9 474	
<i>Reduced inclusion rate for commercial accommodation</i>	204	204	
Exempt supplies (public transport and education)	1 130	1 130	
Total value-added tax	48 039	30 145	17 894

Expenditure proposals for transformation

- Redistribution to low and middle income households:
 - No student fee increases for lower income families
 - The threshold for transfer duties increased
- Increase in social grants to the most vulnerable:
 - Old age grants
 - Disability and care dependency grants
 - Foster care grants
 - Child support grant
- Redistribution through the division of revenue:
 - 3 new conditional grants
 - Increases in current grants
 - Reprioritisation

Functional changes since 2016 MTBPS

	2016/17	2017/18	2018/19	2019/20
R million				
Basic education	-1 773	-1 816	-630	-480
Health	1 637	3 085	2 511	2 941
Defence, public order and safety	579	777	150	318
Post-school education and training	355	942	-267	512
Economic affairs	-5 988	-1 312	2 216	4 415
Human settlements and municipal infrastructure	-1 299	-1 843	-1 936	-1 871
Agriculture, rural development and land reform	-317	-411	-497	-443
General public services	2 135	918	-565	-830
Social protection	-194	85	223	199
Debt-service costs	-1 408	-1 290	-153	144
Consolidated expenditure	-6 272	-864	1 052	4 907

Economic changes since 2016 MTBPS

	2015/16 Outcome	2016/17 Revised estimate	2016/17	2017/18	2018/19	2019/20
R million						
Current payments	798 900	873 876	-185	1 582	3 666	5 774
Compensation of employees	472 779	512 240	-2 782	935	1 667	1 352
Goods and services	190 855	208 276	3 727	2 032	2 883	3 684
Transfers and subsidies	441 362	471 908	1 774	175	2 054	9 293
Provinces and municipalities	108 160	112 736	-364	1 894	2 006	283
Departmental agencies and acc	26 101	24 852	-22	-1 245	-1 323	-1 073
Higher education institutions	27 479	30 651	147	397	-1 095	-3 806
Public corporations and private enterprises	30 695	31 941	1 148	-2 838	-3 174	3 393
Households	218 673	239 779	1 211	1 643	4 475	9 226
Payments for capital assets	102 586	93 013	-8 105	-3 008	-4 590	-10 043
Consolidated expenditure	1 373 106	1 445 205	-6 272	-864	1 052	4 907

Estimated changes to headcounts



Measures addressing fiscal risks

Fiscal risks

- Wage Bill
- Inefficiencies in expenditure
- Financially troubled public entities
- Contingent liabilities
 - PPPs
 - Government guarantees
 - Multilateral institutions

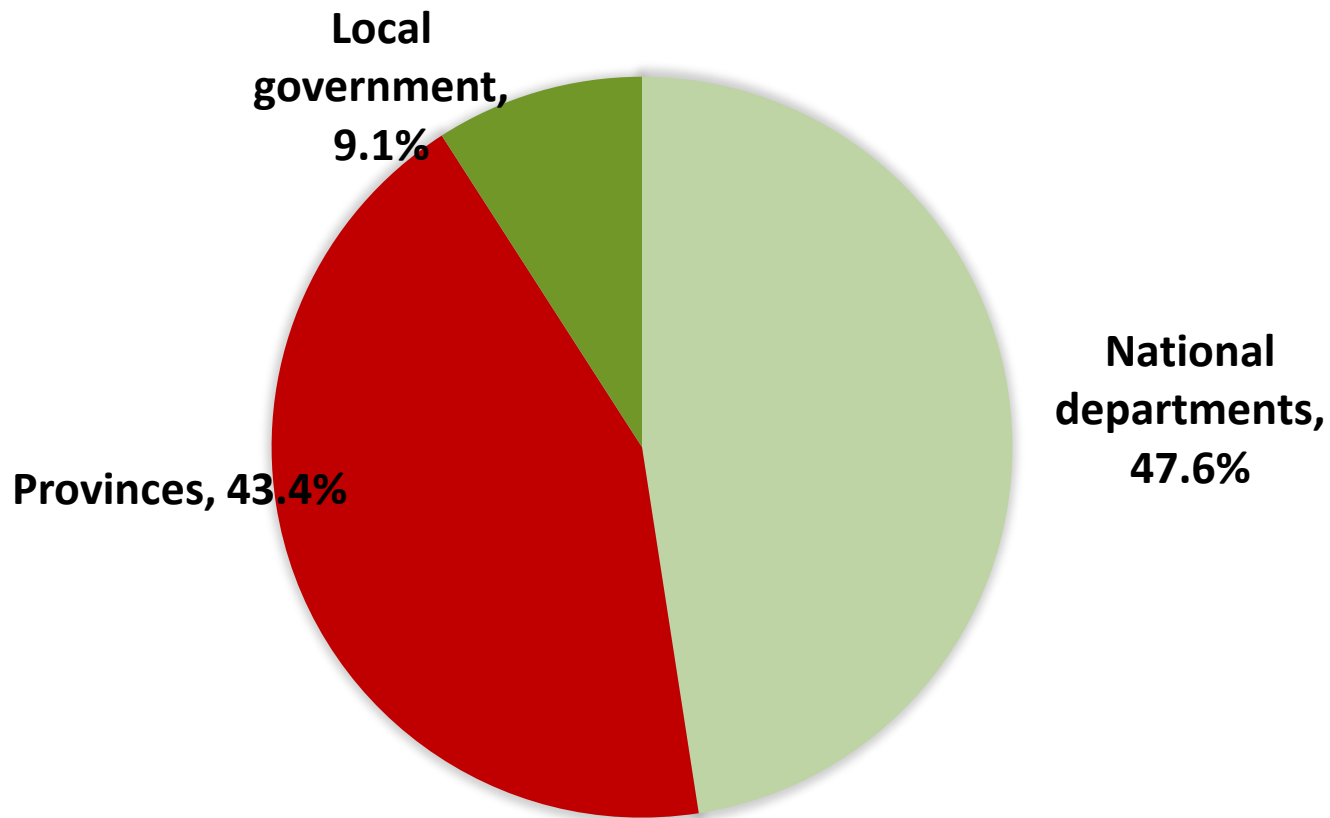
Measures

- Reduce appointments in non-critical positions to stabilise headcounts
- Improve budget execution
- Improve In-year monitoring
- Procurement reforms
- Budget neutral assistance by National Treasury

High oversight expectations of Parliament

Division of nationally raised revenue

Main budget expenditure of R1 409.2 billion



Thank you

Estimated changes to headcounts

	Number of posts estimated for 31		Number and cost of personnel posts filled/ planned for on funded establishment											
	Funded posts	Additional	2015/16		2016/17		2017/18		2018/19		2019/20		2016/17 - 2019/20	
			Number	Unit cost	Number	Unit cost	Number	Unit cost	Number	Unit cost	Number	Unit cost	Average personnel growth rate (%)	Average unit cost growth rate (%)
Parliament	1345	–	1389	895	1389	942	1389	966	1389	1002	1389	1078	–	4.6%
Cooperative Governance and Traditional	469	2	442	584	546	587	539	629	482	704	488	749	-3.7%	8.4%
International Relations and Cooperation	5 255	34	5 006	616	4 873	630	4 618	631	4 404	673	4 051	710	-6.0%	4.0%
National Treasury	1267	68	1218	602	1222	653	1172	682	1124	719	1161	749	-1.7%	4.7%
Planning, Monitoring and Evaluation	350	–	301	588	332	624	434	620	468	668	468	708	12.1%	4.3%
Public Works	594	688	1287	339	934	505	795	612	790	656	785	711	-5.6%	12.0%
Social Development	917	123	873	481	871	522	836	570	786	624	782	674	-3.5%	8.9%
Labour	2 892	22	3 081	333	3 014	365	3 094	396	3 073	429	2 977	474	-0.4%	9.1%
Science and Technology1	–	–	493	611	478	656	449	703	432	759	416	848	-4.5%	8.9%
Small Business Development	205	23	156	597	201	571	217	633	205	690	205	743	0.7%	9.2%
Water and Sanitation	4 301	195	3 512	387	3 682	418	3 540	467	3 403	505	3 388	546	-2.7%	9.3%
Arts and Culture	481	65	468	458	475	502	393	592	396	640	393	694	-6.1%	11.4%

Expenditure per function

