



# Financial and Fiscal Commission: Submission on the 2018 Fiscal Framework and Revenue Proposals

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*For an Equitable Sharing of National Revenue*

26 February 2018

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## List of Acronyms

CPI	Consumer Price Index
FFC	Financial and Fiscal Commission
GDP	Gross Domestic Product
HSDG	Human Settlements Development Grant
INEP	Integrated National Electrification Programme
LGES	Local Government Equitable Share
MIG	Municipal Infrastructure Grant
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NSFAS	National Student Financial Aid Scheme
PES	Provincial Equitable Share
PSET	Post School Education and Training
REER	Real Effective Exchange Rate
SOE	State Owned Enterprises
USDG	Urban Settlements Development Grant
VAT	Value Added Tax

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## **1. BACKGROUND**

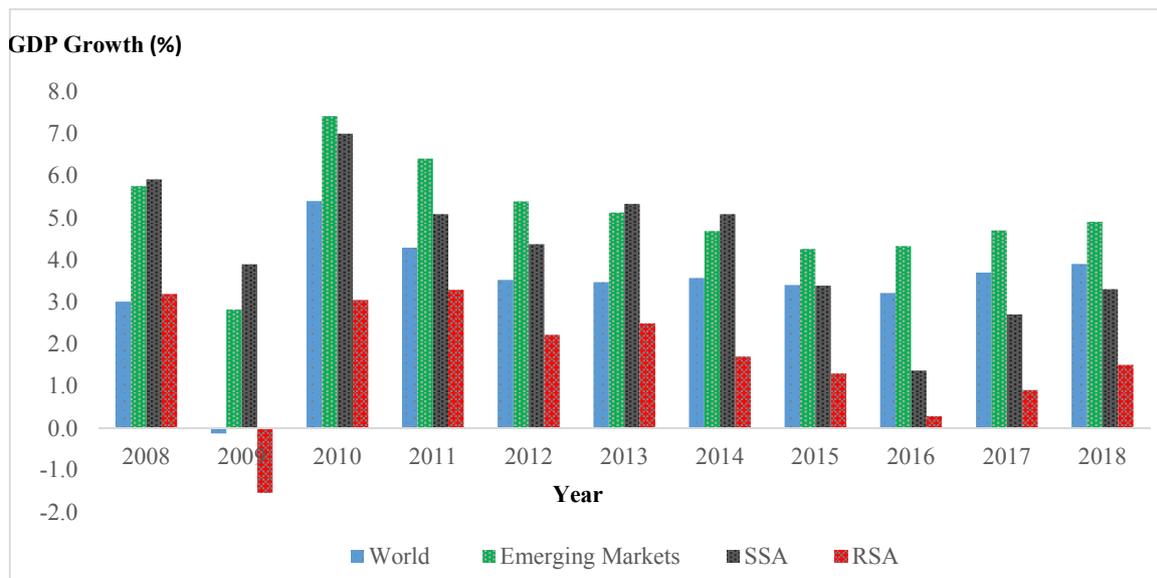
- 1.1. This submission is made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009) which requires Parliamentary Committees to consider any recommendations of the Financial and Fiscal Commission (FFC) (hereafter the Commission) when considering Money Bills. It is also made in terms of the FFC Act (1997) as amended which requires the Commission to respond to any requests for recommendations by any organ of state on any financial and fiscal matter.
- 1.2. The submission reflects on the fiscal framework and revenue proposals for 2018. By the fiscal framework we refer to consolidated general government revenue, expenditure and deficit anticipated. Consolidated general government balances are the broadest definition of public sector revenues and expenditures, and include national, provincial and local government revenues and expenditures as well as those of social security funds and extra-budgetary government institutions.
- 1.3. Three key factors have predominantly shaped the 2018 fiscal framework, namely: a muted economic growth outlook, the anticipation of a significant revenue shortfall (amounting to R48.2 billion in 2017/18) which has negatively affected the budget deficit and the post-MTBPS announcement of fee-free higher education and training for households earning below R350 000. Together these factors have precipitated the need for expenditure cuts, a revision and reprioritisation of spending plans and adjustment of the state's tax instruments.
- 1.4. The economy is currently mired in low growth. From a fiscal policy standpoint, the low and fragile growth acts as a dead weight on the country's ability to raise tax revenues. The continued deterioration of tax buoyancy weakens the effectiveness of the tax system to support the objective of ensuring the sustainability of fiscal policy. Furthermore, continued decline in tax buoyancy limits the degree to which government can utilise taxes as a stabilisation tool that mitigates against cyclical variations in gross domestic product (GDP) over the course of the business cycle. In the midst of low growth, successive budgets have merely pushed out the dates at which the size of the budget deficit would diminish as a percentage of GDP, which in turn has resulted in a pushing out of the dates at which the public debt to GDP ratio would top out.
- 1.5. The key risk to address from the Commission's perspective is hence the threat to the stability of the fiscal system. The principal fiscal risk, is the inability to control an upward trend in the ratio of public debt to GDP.
- 1.6. More germane to this submission is that an unstable fiscal framework compromises subnational governments. The success of South Africa's Intergovernmental Fiscal Relations system is built on the twin pillars of buoyant revenue collection and a stable fiscal framework. This reduced fiscal space (or lack thereof) as a result of low growth and ensuing revenue collection limits severely measures to protect frontline service delivery for the most vulnerable.
- 1.7. The rest of the submission consists of three sections covering the following areas:

- Section 2: Overview of the economy and public finances
- Section 3: Fiscal framework and revenue proposals
- Section 4: Concluding remarks

## **2. OVERVIEW OF ECONOMY AND PUBLIC FINANCES**

### **Economic Outlook**

- 2.1. The 2018 Fiscal Framework is enacted in an environment in which South Africa needs to balance ongoing efforts of fiscal consolidation against the need to address a significant revenue shortfall without stifling the country's fragile recovery. The changes in the country's political environment following the ruling party's elective conference in December 2017 have sparked hopes that government will provide policy certainty in terms of its growth, development and transformation initiatives. Political changes within the executive arm of government along with a stated commitment to restoring sound corporate governance practices at state owned enterprises (SOEs), tackle corruption and improve efficiency of spending by an underperforming civil service is expected to provide for a moderate pickup in economic activity. Improved sentiment around plans to address the country's low growth phase is expected to boost real GDP growth to around 1.5 percent in 2018, up from 0.9 percent in 2017 and 0.4 percent higher than the 1.1 percent growth forecast provided in the October 2017 Medium Term Budget Policy Statement (MTBPS).
- 2.2. Notwithstanding the slight recovery in GDP, economic performance remains relatively muted in the face of positive developments in the world economy. The global cyclical upswing that started in mid-2016 has continued to strengthen on the back of accelerating growth across the world's advanced economies – Germany, United States, Japan, Canada and Europe, as well as emerging powerhouses in Asia – India, China and Korea. The reversal in global economic performance has prompted optimism that the cyclical pickup will stimulate output as well as provide opportunities for countries to overcome the lingering effects of the 2008 financial crises and embark on macroeconomic initiatives aimed at enhancing productivity and welfare improving structural reforms.
  - Despite more favourable commodity export prices and strong recovery by the agricultural sector from the crippling drought of 2015-2016, heightened policy and political uncertainty has constrained South Africa's ability to benefit from the firming up in global economic activity. This inability to leverage on interlinkages with a growing global economy has meant that South Africa's growth has lagged behind those of its emerging market peers and is expected to be below the trend for Sub-Saharan Africa, where increasing mineral output stemming from rising commodity prices, slowing inflation and conditions favourable to financing of infrastructure initiatives are expected to improve GDP growth to 3.3 percent in 2018 (see Figure 1).

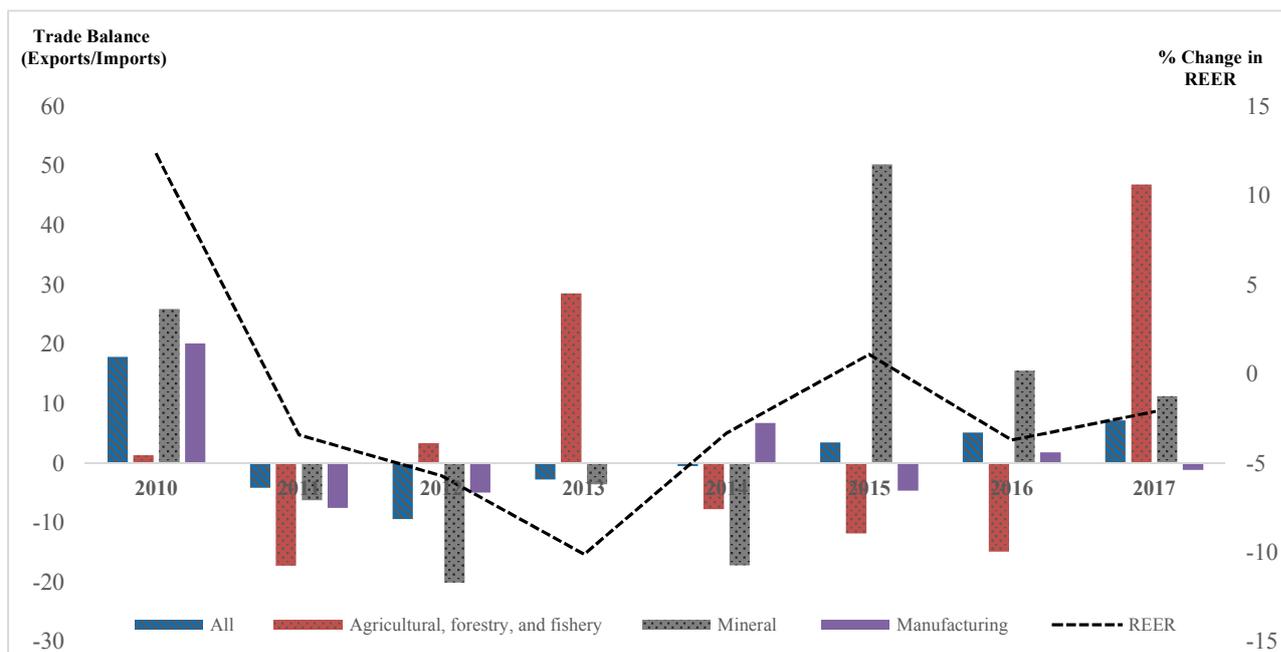
**Figure 1: South Africa's Relative Growth Performance, 2008 - 2016**

Source: International Monetary Fund World Economic Outlook Database and Own Calculations.

2.3. Slow growth has been reinforced by relative weakness in major drivers of economic expansion. The National Development Plan (NDP) has identified the export sector as a key driver of plans to place the country on a higher growth trajectory. Attainment of the targeted volume growth of 6 percent a year, particularly in manufacturing, is considered crucial for the low-skilled job creation needed to substantially reduce high unemployment. Improvements in South Africa's terms of trade in the first three quarters of 2017 contributed to a higher trade surplus. The recorded surplus underpinned the narrowing of the current account deficit to 2.3 percent of GDP over the first three quarters of 2017.

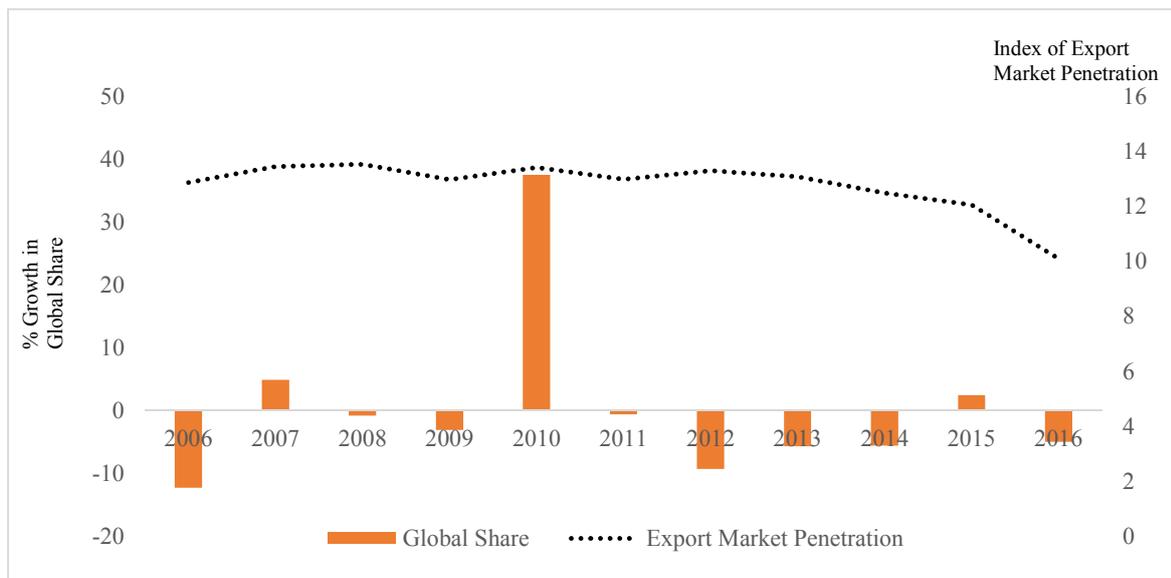
- While improvements in the current account deficit is welcomed, it has not occurred at a sufficient and sustainable scale to address the slow pace of export growth in the post-global financial crises period. Despite tangible depreciation in the real effective exchange rate (REER) of the Rand, the pace of export growth has slowed down considerably with real export growth (in US Dollars) declining by an average of 2.7 percent between 2012 and 2017. As a result, the trade balance in key labour-absorbing export industries has remained negative for much of the post-2011 period (see Figure 2).

**Figure 2. REER and Trade Balance in Key Sectors, 2010-2017**



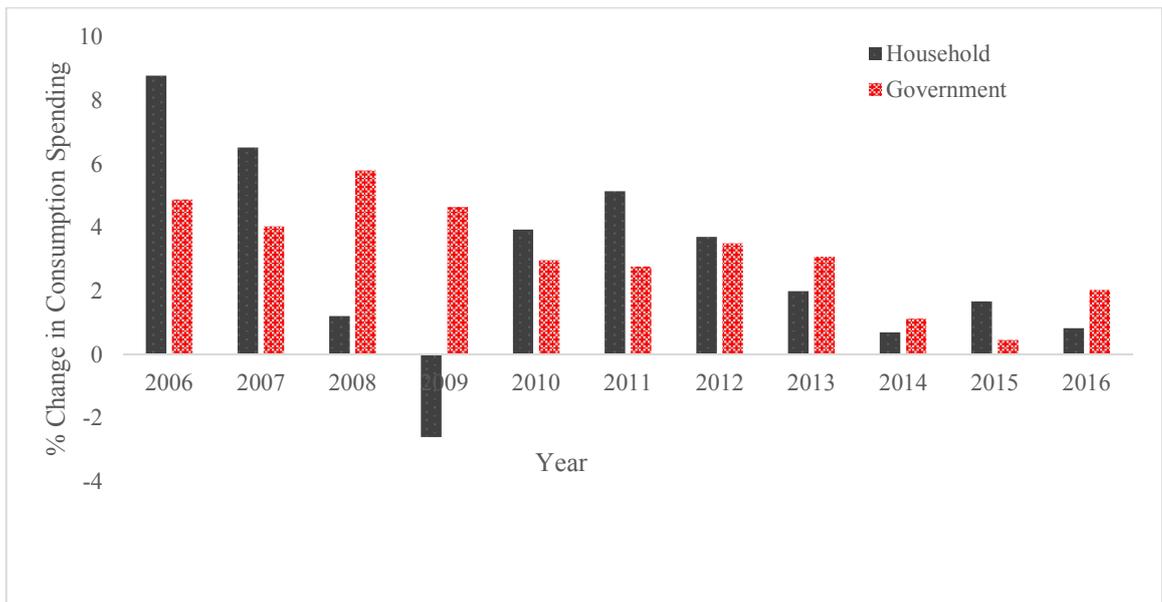
Source: *Quantec International Trade Data*.

- Weak external demand and softer commodity prices following China’s reduced reliance on import-and resource-intensive investment largely accounts for the relatively poor export performance between 2012 and 2015. However, with the rebound in global economic activity, persistent infrastructure bottlenecks, limited competition in product markets, and binding rigidities in labour –market regulations have all combined to reduce the sensitivity of South Africa’s exports to depreciation in the real effective exchange rate. In the absence of committed implementation of enacted policies to address key competitiveness factors related to economic performance, government efficiency, business efficiency and infrastructure, South Africa has missed out on opportunities to rebalance the economy and enjoy the potential benefits of higher export growth stemming from a relatively weaker Rand. The result of constrained growth is stagnation in South Africa’s share and penetration in global export markets (see Figure 3)

**Figure 3. South Africa's Share of Global Trade and Export Market Penetration, 2006-2016**

Source: World Integrated Trade Solutions (WITS) Database.

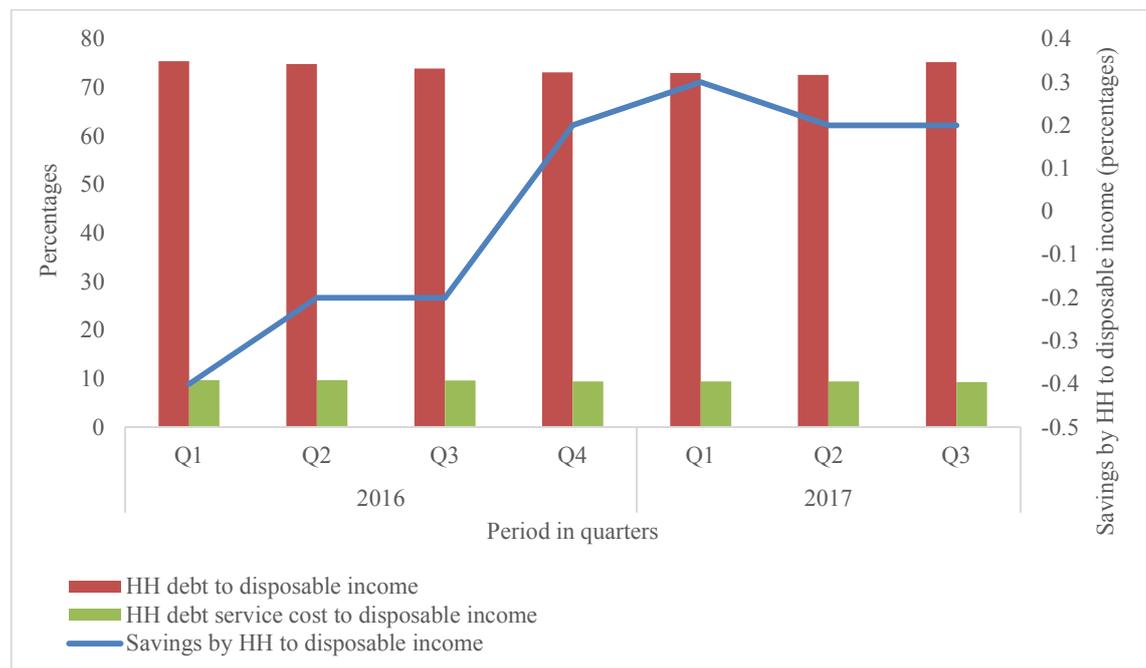
- 2.4. Domestic demand has remained largely insufficient in picking up the slack in external demand for South Africa's output. In the first quarter of 2017, the economy experienced its second (technical) recession in a decade, an event that had a marked impact on the levels of consumption expenditure. Concerns regarding security of employment, declining confidence in financial prospects and low growth in real wages (averaging a very modest 1.2 percent since 2012) have contributed to fairly subdued performance in private consumption expenditure. The potential for consumption-led growth has been further dampened by the fact that households remain highly indebted (with household debt to disposable income averaging 78 percent since 2012) while at the same time public sector consumption was being curtailed by fiscal consolidation efforts since 2015 (see Figure 4).

**Figure 4. Growth in Household and Government Consumption Spending, 2006-2016**

Source: South African Reserve Bank (SARB) Statistical Database.

- Growth in the real disposable income of households moderated from 4.5 percent in the second quarter of 2017 to 2.7 percent in the third quarter. Household debt to disposable income marginally declined from 73 percent in the first quarter of 2017 to 72.5 percent in the third quarter of 2017. Similarly household debt service costs to disposable income declined slightly from 9.4 percent in the first quarter of 2017 to 9.3 percent in the third quarter of 2017 (see Figure 5). This implies that households are highly indebted and are spending a significant fraction of their disposable income to service debt leaving very little income for savings. In the medium to long-term, highly indebted households may need to cut back on spending to repay the debt, thus negatively affecting growth. Household savings, on the other hand, could be the most essential domestic source of funds to back capital outlay thus substantially boosting economic growth in the long run.

**Figure 5. Household Debt to Disposable Income, Debt Service to Disposable Income and Savings to Disposable Income, 2016Q1-2017Q3**

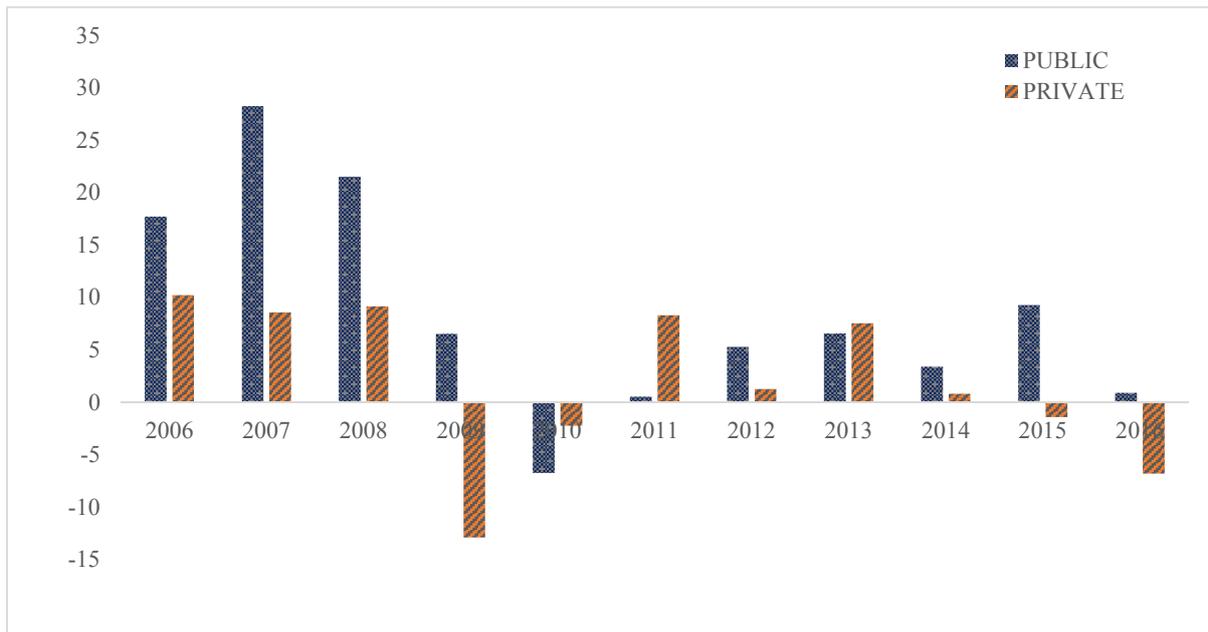


Source: South African Reserve Bank, 2017.

## Investment

2.5. Weakness in investment growth remains particularly acute in both the public and private sectors. Relative to its peak of over 16 percent in 2006, overall investment recorded a negative growth of 2.6 percent in 2016. At a disaggregated level, the period since 2012 has been characterised by a marked slowdown in the growth rate of capital formation by government and public corporations, while the brief boost in private sector capital formation between 2011 and 2013 has been replaced by significant disinvestment (see Figure 6). The slowdown in investment spending is particularly worrying given its strong correlation with significant declines in firm capacity utilisation and future productive capacity. The lack of new capacity addition by the private sector will translate into a lack of new of formal-sector jobs, adversely affecting government's objective of reducing high levels of unemployment.

Figure 6. Growth in Capital Formation, 2006-2016



Source: South African Reserve Bank (SARB) Statistical Database.

- Low investment and consumer confidence has resulted from increasing uncertainty regarding the direction of policies and weakening governance including lack of control for corruption. This is reflected in the gradual worsening during the past few years of the Doing Business Index and the Control of Corruption Index (see Table 1)

**Table 1. South Africa's Doing Business Rankings (DBR) and World Governance Indicators (WGI)**

Doing Business Rankings (ranks of total number of countries ranked)			
	2010	2013	2016
Overall	34 of 183	41 of 189	74 of 190
World Governance Indicators			
	2005	2010	2015
World government effectiveness	72	66	65
WGI control of corruption	70	61	58

Source: International Monetary Fund, 2017

- New mining and land legislation proposals as it relates to the interpretation of existing legislation have amplified perceived uncertainty in as far as land and mining are concerned, thus impacting negatively on investment. These changes

include among others: the Land Expropriation bill which aims to allow government to equalise racial imbalances in land ownership through the Land Commission that will assist in determining just and legitimate compensation in land transfers; the proposed new Mining Charter which calls for companies to keep black ownership at a minimum of 26 percent; a new Mineral and Petroleum Resources Development bill, which proposes to give government a 20 percent free stake in new energy projects and the ability to buy further shares.

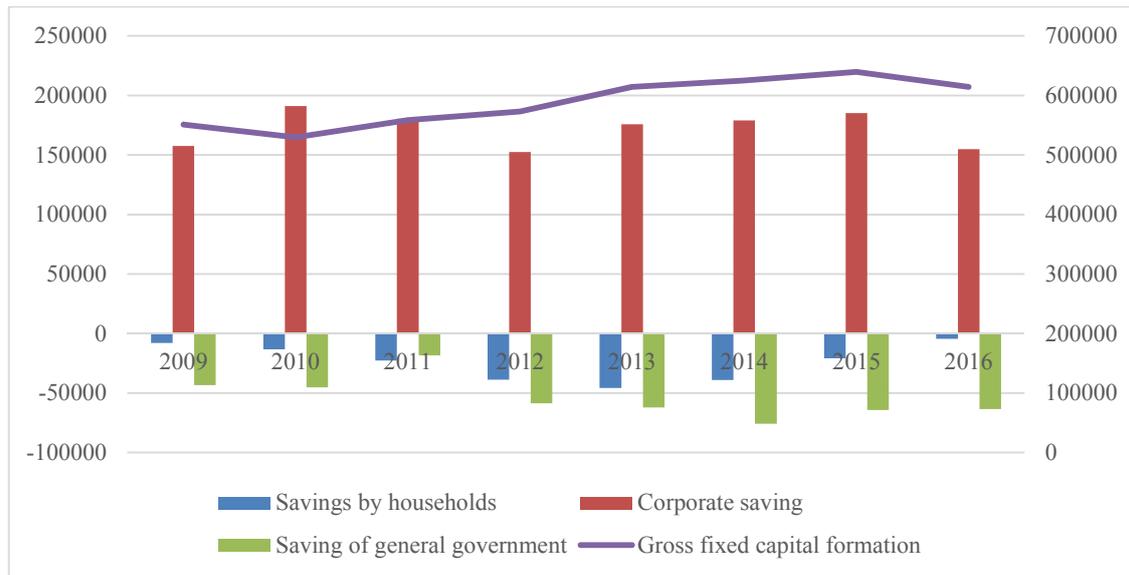
- An uptick in private investment is forecasted as policy uncertainty and low business confidence improves. While the level of confidence in the economy is expected to remain fragile given changes in the political environment, the cooling off in political tensions could boost private investment. The immediate priority in boosting investment thus requires reassuring business and consumers regarding the future direction of policies. Improving perceived governance weakness and investor confidence could also assist in attracting foreign direct investment.

## Savings

2.6. Domestic savings are too low to finance additional investment because both households and government spend more than their income. South African gross savings were equivalent to 16 percent of GDP in 2016 which is too low for new investment particularly because 14 percent GDP are savings required to maintaining existing capital owing to the high capital intensity of the economy. Disquietingly, the economy continues to be characterised by low household savings rates. Savings by households to disposable income has been negative since 2006, peaking at -2.2 percent in 2013. It decelerated to -0.2 percent in 2016. Gross saving by households remained at 1.6 percent of GDP in both the second and third quarters of 2017 as nominal disposable income and nominal final consumption expenditure increased at the same pace.

- Net savings by household and government have been negative since 2009. Net savings by households decelerated from (-R7.8 million) in 2009 to (-R45.7 million) in 2013 before accelerating to (-R4.5 million). Net savings by government decelerated from (-R43.2 million) in 2009 to (R75.8 million) in 2014 before accelerating to (-R63.5 million) in 2016. In contrast to household and government savings, corporate savings remained positive between 2009 and 2016. It increased from R157.5 million in 2009 to R191.1 million in 2010 and remained over R150 million throughout the period under review. Gross fixed capital formation, at seasonally adjusted annualised rates, remained subdued over this period reflecting the low level of savings particularly by households and government. It only marginally increased for R550.1 million in 2009 to R614 million in 2016 as shown in Figure 7 below. Urgent steps would be required to boost savings by government and households in order to finance additional investment and enhance growth

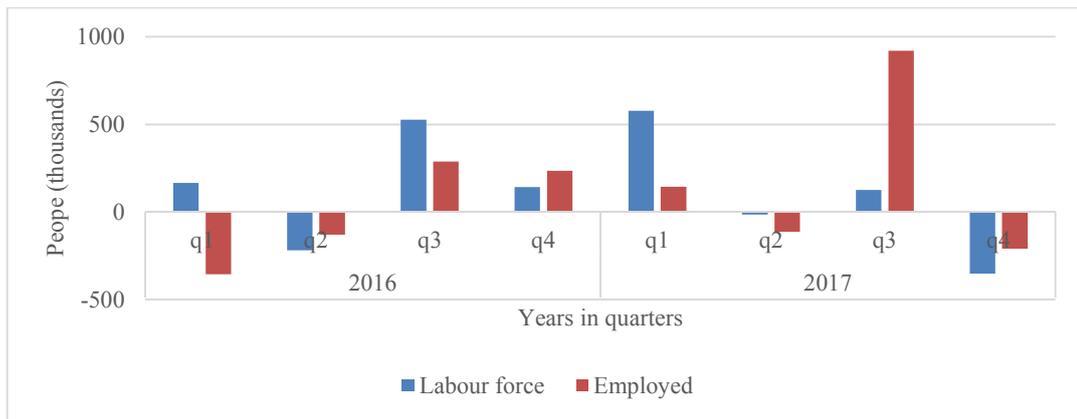
**Figure 7. Savings by Households, Government and Corporate Against Gross Fixed Capital Formation, 2009-2016**



Source: South African Reserve Bank, 2017.

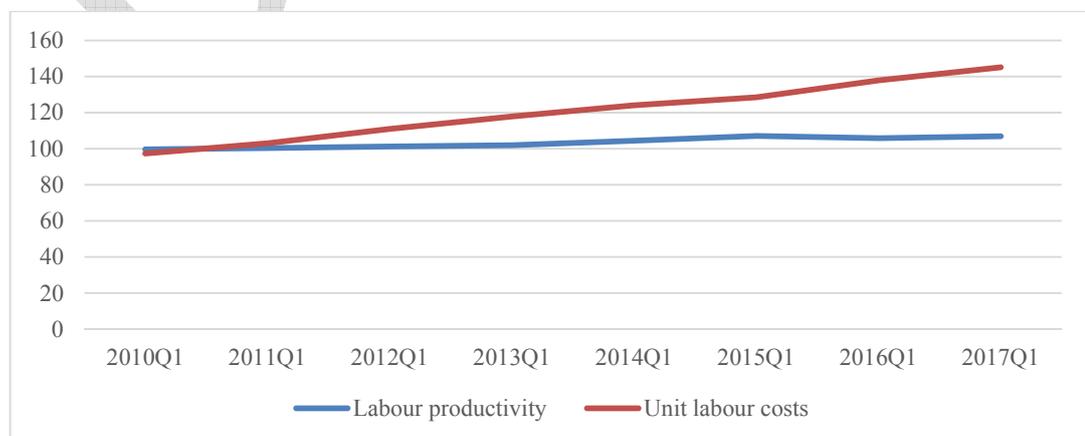
## Employment

2.7. Economic growth remains too low to generate sufficient employment opportunities. Since 2016, 818 000 people have entered the labour force, but only 141 000 additional jobs have been created. This means that only 17.24 percent of additional jobs were created for the new entrants into the labour force. As shown in Figure 8, 201 000 people entered the labour force in 2017, but only 102 000 additional jobs were created. The unemployment rate accelerated to a 14-year peak of 27.7 percent in the first half of 2017 before decelerating marginally to 26.7 percent. There are currently 5.8 million people unemployed.

**Figure 8. Labour Force and the Number of People Employed, 2016Q1-2017Q3**

Source: Statistics South Africa, 2017.

- Living costs in the country are relatively high thus necessitating wages to be above a certain level to be attractive for workers. Skills shortages also means that skilled and productive labour demands higher wages. Furthermore, the collective bargaining system results in higher wages for unionized workers, which means that wages are growing faster than productivity in many sectors. A higher wage means that unit cost of labour is also high thus impacting negatively on employment.
- Productivity growth in the non-agricultural sectors increased from 97.4 in the first quarter of 2011 to 106.9 in the first quarter of 2017. This means that South Africa is producing less output per employed person. Resulting from high wage growth over this period, the unit labour cost increased more than labour productivity in quarter-to-quarter and seasonally adjusted terms from 97.4 in the first quarter of 2011 to 145.2 in the first quarter of 2017 (see Figure 9).

**Figure 9. Labour Productivity and Unit Labour Costs, 2011Q1-2017Q2**

Source: South African Reserve Bank, 2017.

- Government has initiated various employment programmes such as Jobs Fund, Expanded Public Works Programme and Employment Tax Incentive Program. However, for these programmes to be value-adding, they need to be closely monitored, and their performance assessed against objectives so they can improve and become more cost-effective. Evaluating and continuously improve the performance of entrepreneurship, training, and active labour market programmes would also assist in addressing unemployment

## Debt

2.8. By the end of the 2018 medium term expenditure framework (MTEF) period, net loan debt will amount to R3.03 trillion which is equivalent to 52.2 percent of GDP. Table 2 illustrates total national government debt along with projected real growth over the 2018 MTEF period. The bulk of debt – 90 percent of gross loan debt – is funded through domestic loans which are projected to grow by a real annual average of 3.0 percent between 2018/19 and 2020/21. The fastest growing component of government debt are foreign-denominated loans which are expected to grow by a real annual average of 6.6 percent over the 2018 MTEF period.

**Table 2. Total National Government Debt, 2016/17-2020/21**

<i>End of period</i>	2016/17	2017/18	2018/19	2019/20	2020/21	Real Annual Average Growth over 2018 MTEF
<i>R billion</i>	Outcome	Estimate	Medium-term estimates			
<b>Domestic loans</b>	<b>2,020</b>	<b>2,286</b>	<b>2,502</b>	<b>2,712</b>	<b>2,940</b>	<b>3.0%</b>
<i>Short-term</i>	277	310	324	347	377	1.1%
<i>Long-term</i>	1,743	1,976	2,178	2,365	2,563	3.3%
<i>Fixed-rate</i>	1,300	1,449	1,584	1,700	1,818	2.2%
<i>Inflation-linked</i>	443	527	594	665	745	6.3%
<b>Foreign loans</b>	<b>213</b>	<b>220</b>	<b>269</b>	<b>271</b>	<b>310</b>	<b>6.6%</b>
<b>Gross loan debt</b>	<b>2,233</b>	<b>2,506</b>	<b>2,771</b>	<b>2,983</b>	<b>3,250</b>	<b>3.3%</b>
Less: National Revenue Fund bank balances	-225	-221	-244	-215	-220	-5.0%
<b>Net loan debt</b>	<b>2,008</b>	<b>2,285</b>	<b>2,527</b>	<b>2,768</b>	<b>3,030</b>	<b>4.1%</b>
<b>As percentage of GDP:</b>						
Gross loan debt	50.7	53.3	55.1	55.3	56.0	
Net loan debt	45.6	48.6	50.3	51.4	52.2	

Source: Budget Review, 2018.

### **3. FISCAL FRAMEWORK AND REVENUE PROPOSALS**

#### **Overview of the Fiscal Framework**

- 3.1. Table 3 shows the consolidated government fiscal framework. Over the next three years (2018/19, 2019/20 and 2020/21), it indicates a consolidated revenue target of R4.837 trillion relative to projected expenditure of R5.416 trillion.
- 3.2. Over the 2018 MTEF period, revenue is expected to show strong real growth of 4.5 percent in 2018/19, before evening out to 2.3 percent in 2019/20 and 2.2 percent in 2020/21. In response to revenue collection shortfalls and additional spending pressures, various adjustments have been made to tax policy measures in a bid to boost revenue and realise the projected 4.5 percent growth level predicted for 2018/19. Proposed tax policy adjustments are expected to raise R36 billion in additional revenue in 2018/19 with the main feature of the adjustments being a 1 percent increase in Value Added Tax (VAT).
- 3.3. On the expenditure side, whilst real growth in expenditure is expected to slow down dramatically from 5.8 percent in 2017/18 to 1.7 percent in 2018/19, growth is expected to recover to the 2 percent range over the outer years (2019/20 and 2020/21) of the MTEF period.
  - Growth in expenditure is driven by strong real increases in debt service costs projected to grow by a real annual average of 4.6 percent over the period. Growth in non-interest spending, which comprises funding to the three spheres of government to effect delivery of basic services, mimics the overall expenditure trend in that it slows significantly in 2018/19 (from 5.7 percent in 2017/18 to 1.4 percent), before strengthening to the 2 percent range over the outer two years of the 2018 MTEF period. Slowing down growth in non-interest expenditure to 1.4 percent is achieved through an array of baseline reduction and expenditure cuts which have seen significant reductions in infrastructure spending through conditional grants to subnational governments. Traditional priority spending programmes such as basic education, public health care, social protection and community development will continue to drive expenditure over the 2018 MTEF period. From a functional perspective the fastest growing item (apart from interest payments) will be post school education and training (PSET) and this is directly as a result of the additional funding that will go to the National Student Financial Aid Scheme (NSFAS) in respect of fee-free higher education and training which will be phased in, starting with fee exemptions for households earning below R350 000 per annum in 2018. The Commission welcomes the phased introduction of fee-free higher education and training as it ensures minimal disruption to fiscal balances. The Commission hopes that due diligence to ensure that higher education institutions will be able to cope (from a human capital and infrastructure perspective) with the increased load of students, especially at such short notice, has been done upfront to ensure smooth transition.

- 3.4. Exacerbated by poor revenue collection performance, the deficit widened to 4.3 percent of GDP in 2017/18, significantly overshooting Budget 2017 projections of a 3.1 percent of GDP deficit. At the time of the 2017 MTBPS, projections were that the deficit would remain at an elevated level of 3.9 percent of GDP throughout the 2018 MTEF period. Budget 2018 suggests a stronger emphasis on fiscal consolidation efforts that should see the narrowing of the deficit through reigning in of expenditure and tax policy adjustments. Projections are the deficit will be reduced to 3.6 percent of GDP in 2018/19 and further to 3.5 percent of GDP by the end of the 2018 MTEF period in 2020/21.

**Table 3. Consolidated Fiscal Framework, 2014/15-2020/21**

R'billion/Percentage of GDP	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Outcome			Revised	Medium Term Estimates		
<b>Revenue</b>	<b>1,095.3</b>	<b>1,215.3</b>	<b>1,285.7</b>	<b>1,353.6</b>	<b>1,490.7</b>	<b>1,609.7</b>	<b>1,736.9</b>
	28.3%	29.5%	29.2%	28.8%	29.7%	29.9%	29.9%
<b>Expenditure</b>	<b>1,235.0</b>	<b>1,366.3</b>	<b>1,441.8</b>	<b>1,558.0</b>	<b>1,671.2</b>	<b>1,803.0</b>	<b>1,941.9</b>
	31.9%	33.1%	32.7%	33.2%	33.3%	33.4%	33.4%
<i>Non Interest Expenditure</i>	1,113.6	1,227.8	1,285.0	1,387.6	1,483.4	1,596.9	1,718.0
	28.8%	29.8%	29.2%	29.5%	29.5%	29.6%	29.6%
<i>Debt Service Costs</i>	109.6	121.4	136.3	153.4	169.3	187.6	206.4
	3.0%	3.1%	3.3%	3.5%	3.6%	3.7%	3.7%
<b>Budget Balance</b>	<b>-139.7</b>	<b>-151.0</b>	<b>-156.1</b>	<b>-204.3</b>	<b>-180.5</b>	<b>-193.3</b>	<b>-205.0</b>
	-3.6%	-3.7%	-3.5%	-4.3%	-3.6%	-3.6%	-3.5%
<b>Primary Balance</b>	<b>-25.8</b>	<b>-13.2</b>	<b>-5.9</b>	<b>5.5</b>	<b>20.3</b>	<b>45.7</b>	<b>60.6</b>
	-0.7%	-0.3%	-0.1%	0.1%	0.4%	0.9%	1.1%

Source: 2018 Budget Review, National Treasury.

### Non-Interest Allocations: Division of Revenue

- 3.5. Table 4 summarises the division of non-interest allocations amongst the three spheres of government by comparing allocations at the time of the 2017 MTBPS versus what is contained in the 2018 budget. Anticipation of muted economic growth, the shortfall in revenue collection and importantly, the post-MTBPS pronouncement on fee-free higher education and training for households earning below R350 000 per annum has meant that the 2018 MTEF division of revenue amongst the three spheres varies to what was projected at the time of the 2017 MTBPS. After accounting for national debt, there are estimated receipts of R4.274 trillion to share amongst the three spheres over the next three years comprising the 2018 MTEF.

**Table 4. Division of Revenue over the 2018 MTEF Period**

	Total 2018/19-2020/21 (R'billion)		Real Annual Average Growth Rate (%)	
	2017 MTBPS	2018 Budget	2017 MTBPS	2018 Budget
<b>National Departments</b>	<b>2,045.8</b>	<b>2,051.1</b>	<b>0.9%</b>	<b>1.5%</b>
<b>Provincial Allocations</b>	<b>1,857.4</b>	<b>1,840.3</b>	<b>1.6%</b>	<b>1.3%</b>
Equitable Share	1,522.1	1,517.7	1.6%	1.5%
Conditional Grants	335.4	322.4	1.8%	0.4%
<b>Local Government Allocations</b>	<b>397.0</b>	<b>382.9</b>	<b>2.6%</b>	<b>1.9%</b>
Equitable Share	207.4	207.4	4.1%	5.2%
General Fuel Levy Sharing with Metropolitan Municipalities	39.7	39.7	0.4%	0.4%
Conditional Grants	149.9	135.9	1.1%	-2.3%
<b>Total</b>	<b>4,300.3</b>	<b>4,274.3</b>	<b>1.4%</b>	<b>1.4%</b>

Source: 2017 MTBPS; 2018 Budget Review. Commission Calculations

- 3.6. Despite the strained fiscal environment and cuts to total provincial and local government allocations, the Commission notes that Government has managed to maintain real, albeit marginal, growth in the resources allocated to the three spheres. On the whole, there has been a clear prioritisation of funding to municipalities. On aggregate, allocations to the local government sphere will grow by a real annual average of 1.9 percent over the 2018 MTEF period whilst slower growth is projected in the cases of the national and provincial spheres of government which are projected to grow by a real annual average of 1.3 percent and 1.5 percent respectively.
- 3.7. Overall, the Commission particularly welcomes the real growth in the equitable share allocation to provinces and especially municipalities over the 2018 MTEF period. The provincial equitable share (PES) allocation is projected to grow by 1.1 percent in 2018/19 whilst the local government equitable share (LGES) allocation will grow significantly by 7.5 percent in 2018/19, 4.2 percent in 2019/20 and 3.9 percent in 2020/21. It is anticipated that these increases will enable subnational governments to deliver on their basket of constitutionally mandated basic services, particularly in the case of municipalities where funding is aimed at supporting the rollout of basic services to indigent households.
- In accordance with Section 154(1) of the Constitution, the Commission calls on national and provincial government to play a supportive role to municipalities so as to ensure that the capacity to effectively spend these resources, thus amplifying its redistributive impact in terms of expanding access to basic services to the poorest of the poor, is realised.
  - More generally and as recommended in 2017, the Commission would like to reiterate the need for provinces and municipalities to continuously evaluate each aspect of their spending plans to ensure any inefficiencies in service delivery systems are eliminated – this is particularly important in big spending areas such as health, education, electricity, water and sanitation and will assist in ensuring that spending programmes are effectively implemented.

- 3.8. Over the 2018 MTEF period, conditional grant allocations to provinces and municipalities will bear the brunt of government's need to cut and reprioritise spending. Conditional grant cuts to both provinces and municipalities are most severe in 2018/19 and are projected towards the end of the 2018 MTEF period (2020/21). In the case of provinces, conditional grant transfers will decline by 1.3 percent in 2018/19, thereafter growing by 0.3 percent and 2.1 percent in 2019/20 and 2020/21 respectively. In the case of municipalities, the reductions are more severe: in 2018/19 and 2019/20 local government conditional grants will decline by 5.8 percent and 2.0 percent respectively, before recovering to grow marginally by 1 percent in 2020/21.
- Whilst the need for cuts and reprioritisation are understood, it is important to note that this is not ideal because conditional grants have been key in the funding and provision of infrastructure and reduction of infrastructure backlogs in provinces and municipalities. Cuts will affect key grants that aid infrastructure development in education (School Infrastructure Backlogs Grant), energy (Integrated National Electrification Programme Grant (INEP)) and general municipal infrastructure (Municipal Infrastructure Grant (MIG)). Government has acknowledged that these cuts will necessitate delays in completion of infrastructure projects and has called on subnational governments, especially municipalities to utilise own revenue to fund capital projects. More detail on the reductions to conditional grants and their anticipated effects, are provided as part of section 3.10 through to 3.15.
- 3.9. Table 5 provides detail regarding the extent of indirect transfers by the national sphere to provinces and local government. Indirect transfers to municipalities though generally twice as large as those to provinces, will experience the largest reductions. In 2018/19, indirect grants to municipalities will decline by 16.1 percent in real terms relative to the 5.1 percent reduction to provincial indirect grants. Over the rest of the 2018 MTEF period, real growth in indirect grants to municipalities remains marginal. Notable is the projected real growth of 9.6 percent to provincial indirect grants in 2019/20. As in previous submissions, the Commission reiterates its caution around the use of indirect grants and the negative incentives it gives rise to, especially in relation to the dilution of accountability and upkeep of infrastructure developed through the use of indirect grants. As recommended in its Submission for the 2016/17 Division of Revenue, the Commission is of the view that the use of indirect grants should be a measure of last resort whilst continuing to build capacity in provinces and especially, municipalities, to undertake their functions.

**Table 5: Overview of Revenue Allocations within National Departments, 2015/16 to 2020/21**

R'billion	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Real Annual Average Growth over the 2018 MTEF
<b>National Departments</b>	<b>490.0</b>	<b>546.1</b>	<b>555.7</b>	<b>599.9</b>	<b>628.6</b>	<b>685.9</b>	<b>736.6</b>	<b>1.5%</b>
<i>of which:</i>								
Indirect transfers to Provinces	5.4	3.5	3.6	3.8	3.8	4.4	4.7	1.9%
Indirect transfers to Local Government	8.1	10.4	8.1	7.8	6.9	7.3	7.7	-5.3%

Source: Commission compilations based on Budget Review 2017 and 2018.

### Bearing the Burden of Fiscal Consolidation

- 3.10. While the Commission understands the necessity of consolidation and expenditure moderation, it is of concern that the composition of expenditure reductions disproportionately affects capital transfers which are essential in laying the foundation for future growth. Capital expenditure constitutes 47 percent of the total cuts followed by current transfers (33 percent) and goods and services (20 percent). An indiscriminate cut in capital spending is likely to result in project implementation delays and reinforce infrastructure and access backlogs. The Commission is of the view that government should develop a transparent framework for capital expenditure cuts to avoid widening capacity constraints, especially within local economies.
- 3.11. Baseline allocation for compensation of employees (CoE) has been spared from expenditure reductions in the 2018 budget with the hope that both national and provincial government will continue to exercise caution in managing headcounts. The inherent assumption is that current wage negotiations will not breach the wage spending ceiling set in 2016. However, CoE expenditure targets should not be attained at the expense of front line employees. The Commission is concerned about the growing incidents of funding shortages to employ newly qualified health care professionals despite the evident and dire skill shortages in the health sector.
- 3.12. Despite overall real increases in respect of provincial conditional grants and the PES over the 2018 MTEF, significant reductions have been implemented. Over the 2018 MTEF period reductions in both the PES and conditional grants amount to R18.3 billion (R5.6 billion in 2018/19, R6.3 billion in 2019/20 and R6.7 billion in 2020/2021). Major reductions are with respect to the human settlements, education and health sectors where reductions amount to R11.3 billion over the MTEF (See Table 6).
- Within the human settlements sector, the Human Settlements Development Grant (HSDG) has been reduced over the 2018 MTEF to make provisions for two newly introduced earmarked conditional grants, namely the title deeds restoration and provincial emergency housing. While earmarking funding for these two priorities implies that this funding is utilized within the sector, it could

have a negative impact with respect to the set targets of housing unit delivery per annum. Recently, there has been an increasing trend of earmarked funding within the South African intergovernmental fiscal relations system and the Commission has decided to undertake research on the extent of this type of funding and whether earmarking improves service delivery. For the purpose of fiscal consolidation, the HSDG has been further reduced by R7.2 billion over the 2018 MTEF which will further reduce housing outputs.

- With respect to the education sector, an amount of R3.6 billion has been reprioritised from the Education Infrastructure Grant and a reduction of R51.9 million from the HIV and Aids (Life Skill Education) Grant will be effected over the 2018 MTEF. The main reason for reducing the baseline is underspending. While the Commission supports that funding be shifted to performing programmes, it emphasises the importance of simultaneously identifying the root cause of poor performance and underspending and addressing those challenges.
- With respect to the health sector, the Health Facility Revitalisation Grant baseline has been reduced by R511 million over the 2018 MTEF (R100 million in 2018/19 and R411 million over the remaining two years of the MTEF).

**Table 6. Summary of Major Provincial Conditional Grants Reductions**

Sector	Name of the grant	Reduction over the MTEF
<b>Human Settlements</b>	Human Settlements Development Grant	R7.2 billion
<b>Health</b>	Health facilities revitalization grant	R511 million
<b>Education</b>	Education infrastructure grant	R3.6 billion

Source: National Treasury, 2018 – Division of Revenue.

- 3.13. The performance of the three major provincial grants that will be reduced is shown in Table 7 which shows that these grants have been performing well in the past. Therefore, given their key role in their respective sectors, infrastructure delivery trends within these sectors will be significantly negatively affected by the cuts.

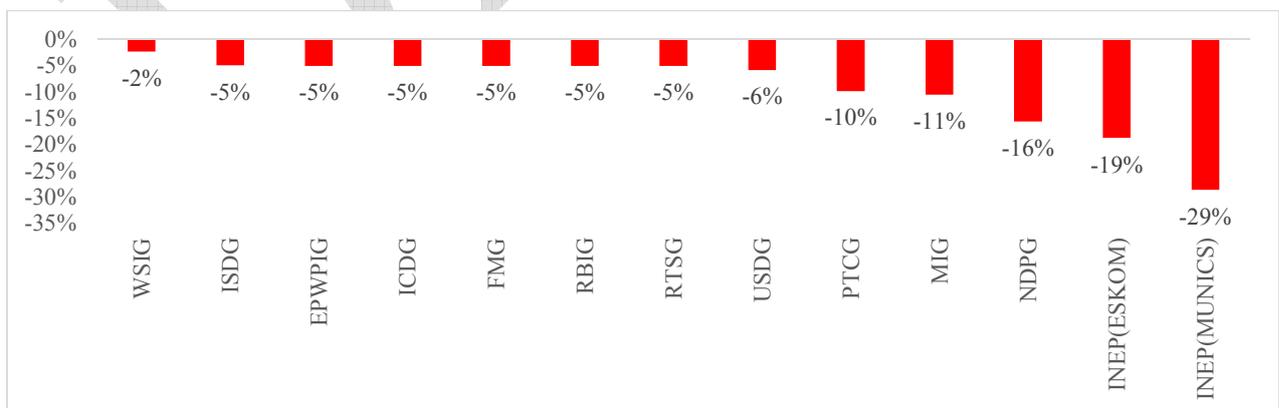
Table 7. Spending Performance of Provincial Conditional Grants, 2012/13-2016/17

Grant	2012/13	2013/14	2014/15	2015/16	2016/17
Comprehensive agricultural support program	0.0%	100.0%	94.7%	100.0%	98.8%
Education infrastructure	96.6%	98.6%	95.9%	101.1%	98.0%
National school nutrition programme	98.0%	98.1%	100.0%	100.0%	95.4%
Comprehensive HIV, AIDS, TB	100.0%	100.0%	100.0%	100.0%	100.0%
National tertiary services	0.0%	0.0%	0.0%	0.0%	100.0%
Human settlements development	99.4%	97.1%	99.4%	97.3%	100.0%
Provincial roads maintenance	83.7%	95.4%	100.0%	104.2%	92.6%
Public transport operations	100.0%	82.1%	98.0%	100.0%	96.3%
Health facility Revitalization	81.0%	88.7%	100.0%	101.4%	95.1%

Source: Commission compilations based on past Division of Revenue Bills: 2012 -2018.

3.14. The local government sphere has been relatively cushioned from the consolidation burden with expenditure cuts targeted at conditional grants only. The largest cuts will be experienced by four grants, including the Municipal Infrastructure Grant (MIG), Public Transport Network grant, INEP and the Urban Settlement Development Grant (USDG). These four grants account for almost 93% of the total local government grant reductions over the MTEF. The bulk of the reductions in rand value terms come from the MIG with a R5.6 billion cut over the 2018 MTEF or R1.5 billion in 2018/19. Over the 2018 MTEF period, the MIG will account for 35 percent of all conditional grant reductions (or 41 percent of all direct conditional grant reductions). Figure 10 depicts the cuts to local government conditional grants. Again, infrastructure grants will suffer disproportionately more compared to capacity development grants which have demonstrated poor outcomes over the years.

Figure 10. Percentage Reductions to Local Government Conditional Grants



Source: National Treasury, 2018.

3.15. Overall the cuts seem to be targeted at bigger grants (in terms of value) while ignoring some of the more widely accepted assessment criteria such as historic performance of

the grant and the contribution to the development thrust (growth, poverty or employment impact) of the country. For example, the three better performing grants: the USDG, the Public Transport Network Grant and MIG have been reduced by large proportions despite their good spending performance. Part of consolidation process going forward should also include terminating smaller grants which are not performing.

### **Revenue and Tax Proposals**

- 3.16. Tax collection is falling behind, thus rendering the attainment of the collection target set out in the 2017 Budget, difficult. The 2017 MTBPS projected a consolidated government revenue shortfall of R50.8 billion compared to the February 2017 Budget estimate for the fiscal year, 2017/18. This was the largest expected revenue under collection since 2009. The shortfall could be attributed to slowdowns in all the main tax components suggesting that both technical (economic slowdown) and behavioural (non-compliance, e.g., avoidance) factors were at play.
- 3.17. The 2018 Budget projects a revenue shortfall of R48.2 billion in 2017/18. A combination of expenditure cuts and revenue increases is expected to plug the revenue shortfall. An increase in the VAT rate, limited personal income tax bracket adjustments and other revenue raising measures are expected to raise R36 billion while the MTBPS baseline expenditure will be reduced by R26 billion.
- 3.18. Worryingly, the revenue shortfalls are expected to extend to the outer years of the MTEF period, with gross tax revenue projected to fall short of the 2017 Budget estimates by R84.3 billion in 2018/19 and by R106 billion in 2019/20. The projections are an indication of a deceleration in tax buoyancy and importantly in tax elasticity (subject to discretion).
- 3.19. South Africa has enjoyed a tax-paying culture. The country has not suffered from tax revolts and protests, suggesting that tax collectors have largely benefitted from a compliant culture built up over many years and which translated into higher compliance aligned with organisational improvements at South African Revenue Services (SARS). However, anecdotal evidence suggests that corruption and wasteful expenditure in the public sector have eroded taxpayer morality and resulted in slippage in compliance.
- 3.20. According to the annual tax statistics, assessed data for individual taxpayers for the 2012 tax year shows that of the 5.9 million taxpayers liable to submit returns, 5.1 million (86.9 percent) did so. In 2013, of the 6.5 million taxpayers expected to submit returns, 5.2 million (79.8 percent) did so. In 2014, of the 6.6 million taxpayers expected to submit returns, 4.9 million (74.9 percent) did so. In 2015, of the 6.6 million taxpayers expected to submit returns, 4.8 million (71.9 percent) did so. In 2016, of the 6.3 million taxpayers expected to submit returns, 4.8 million (75.4 percent) did so. This means that there has been a slippage in compliance from 86.9 percent in 2012 to 75.4 percent in 2016. The World Bank and PWC's Paying Taxes reports show that South Africa's overall ranking on the ease of tax compliance has slipped from 19 in 2015 to

46 in 2018. In respect of time to complete a company income tax audit (31.6 weeks), the country falls short of regional and global averages (21.8 weeks and 27.3 weeks respectively).

- 3.21. In terms of behavioural patterns, the literature suggests that taxpayers' behavioural responses to changes in audits and penalties as deterrent measures to non-compliance show that the effect of high penalty rates is not significantly different from the effect of low penalty rates. The effectiveness of the deterrence policy is highly dependent on the frequency of audits and the tax authority's ability to detect underreporting<sup>1</sup>.
- 3.22. The literature supports various measures that could be considered for boosting compliance such as: (a) improving the institutional quality of the tax administration as a means of increasing the intrinsic motivation to pay taxes; (b) addressing the trust deficit between government, tax authorities and tax payers to maintain a high level of compliance; (c) promoting social norms on tax compliance; (d) shifting from an enforcement-oriented tax authority to a more service-oriented approach, providing information and assistance to taxpayers to increase tax compliance; (e) using moral suasion in tax collection efforts and (f) using the public benefit character of the state as a main motivator for tax compliance<sup>2</sup>.
- 3.23. The current and projected weak revenue collection is exacerbated by a number of economic factors including slower output growth in key sectors that have traditionally supported buoyant revenue collection (such as finance, retail trade and telecommunications), the moderation in wage settlement rates, slower growth in aggregate household income due to job losses, weak household consumption that negatively affects VAT collections and the notable slowdown in the growth rate of imported goods.
- 3.24. Tax buoyancy, which is an indicator of sensitivity of tax revenues to changes in economic growth, has fallen from a peak of 1.37 in 2014/15 to 1.07 which is below the long-term average of 1.08 in 2016/17. As an important indicator of tax revenue performance, the decelerating tax buoyancy ratio means that the sluggish economic growth is impacting negatively on tax performance. The tax-to-GDP ratio, is an important indicator to measure the tax effort of government. The South African tax-to-GDP ratio showed a gradual upward trend from 23.9 percent in 2010/11 to 26 percent in 2015/16. However, it has stagnated and remained at 26 percent in 2016/17

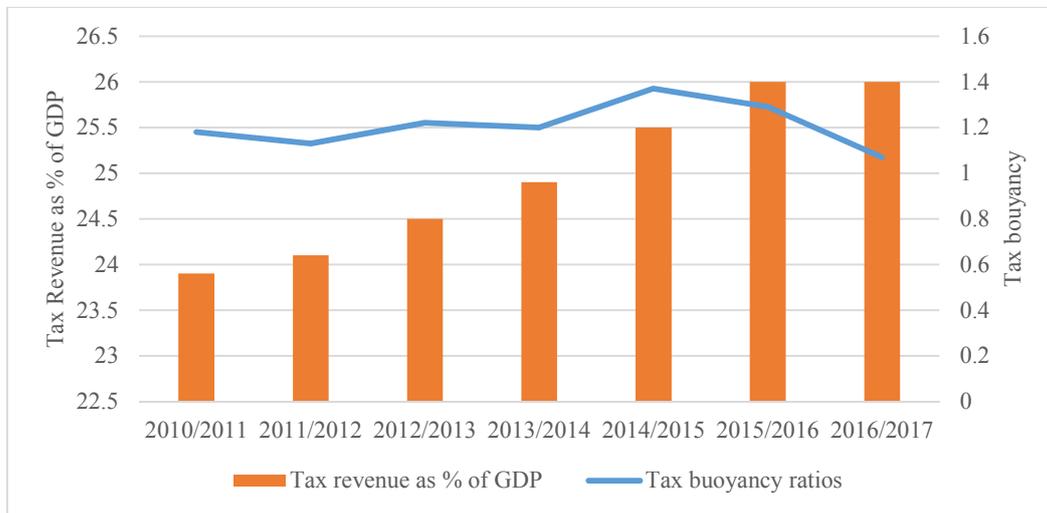
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<sup>1</sup> See Dare, C., Jansen, A. & du Plessis, S. 2017. Taxpayers' behavioural responses to changes in audits and penalties: The case of South Africa.

<sup>2</sup> See Frey B.S. and Torgler B. (2007): 'Tax morale and conditional cooperation; Torgler B., Schaltegger C.A. and Schaffner M. (2003): 'Is forgiveness divine? A cross-culture comparison of tax amnesties'; Traxler C. (2010): 'Social norms and conditional cooperative taxpayers'.

as shown in Figure 11 below. This means that tax effort is also now being affected by the sluggish growth.

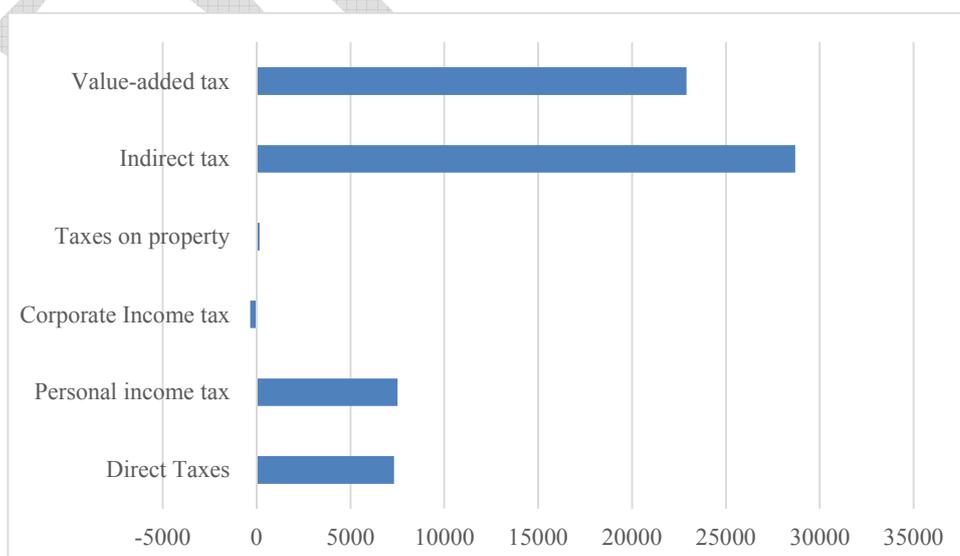
**Figure 11. Tax revenue as a percentage of GDP and tax buoyancy ratios, 2010/11-2016/17**



Source: Statistics South Africa, 2017.

- 3.25. The 2018 Budget proposes revenue measures that are expected to raise R36 billion in 2018/19. The largest contribution is R22.9 billion from the one percentage point increase in VAT. In addition, R6.8 billion will be raised from lower-than-inflation increases to the personal income tax rebates and brackets, certain wealth taxes, fuel levy and ‘sin’ taxes. Figure 12 shows the estimated changes in revenue resulting from the proposed measures.

**Figure 12. Tax proposals on 2018/19 Revenue**



Source: National Treasury, 2018.

- 3.26. The Commission understands the necessity to increase VAT given the magnitude of the revenue shortfalls and circumstances South African economy finds itself in and basis this on two main reasons. First, in previous research, the Commission has published research based on an economic impact analysis study carried out that shows that a promising avenue for tax change is higher consumption taxes coexisting with a progressive income tax system, combined with more welfare transfers. The study shows that higher consumption taxes have the potential to make the tax system more efficient and to encourage savings and investment (as opposed to consumption). Higher consumption taxes have often been resisted because they will raise the tax incidence on the poor. However, this is completely reversed in the proposal by directly recycling the raised VAT revenues to poor households. This finding has important implications for current discussions on 2018 Budget tax policy, suggesting that the potential for poverty reduction is more pronounced when VAT revenues are recycled or what Government has termed pro-poor allocations on the expenditure side of the Budget to increase the social wage (e.g. through social grants). This would cushion the impact of a VAT increase on low income groups, along with a continued regime of zero rating which is, by and large, well targeted<sup>33</sup>. Hence the proposal is supported on these two basis. Second, to rating agencies, a VAT increase would also be considered as a signal of structural reform.
- 3.27. More broadly, a range of tax-base-broadening measures, together with structural reforms aimed at enhancing economic growth, would still be required to plug the revenue shortfalls. For example, both internationally and domestically, increasing inequality has focused the policy debate on wealth taxes. For South Africa this could take the form of initiating discussion around a land tax and/or property tax over and above the regime currently in place. Given that the Davis Tax Committee has called for public submissions on increasing existing wealth taxes such as estate duty and property taxes, as well as the possible introduction of a new wealth tax instrument, Budget 2018 could have made announcements in respect of future wealth taxes as this increases policy certainty as well as garnering citizenry trust when measures are announced for public discussion in advance. Finally, Parliament is in the process of considering the Carbon Tax Bill. Like the sugar tax (health levy), the carbon tax is primarily aimed at effecting behaviour change. The Commission looks forward to assisting Parliament with processing these important tax bills in future. The Commission is of the view that progressively varying the combination of taxes to support economic growth, while concurrently supporting fiscal sustainability, will be a more sustainable stance to adopt in plugging the revenue shortfalls. The only sustainable solution is to broaden the tax base.

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<sup>33</sup> The published study can be accessed as: Mabugu, R., Fofana, I., and Chitiga, M., (2015) "Pro-Poor Tax Policy Changes in South Africa: Potential and Limitations", *Journal of African Economies* (2015), **24(2)**: 73-105, Oxford University Press. [doi: 10.1093/jae/eju038](https://doi.org/10.1093/jae/eju038)

### Unallocated Resources and Economic Classification

- 3.28. Unallocated reserves (see Table 8) are meant to serve as a fiscal buffer for government in times of unplanned emergencies. In previous submissions, the Commission raised concern about the danger of excessive drawdowns on these resources with a risk of low reserves should an emergency arise.
- 3.29. When comparing projections contained in the 2017 MTBPS with figures as per Budget 2018, the allocation in respect of the contingency reserve has increased by R10 billion over the 2018 MTEF. The amounts being put aside are R8 billion in 2018/19, R8 billion in 2019/20 and R10 billion in 2020/21. While the Commission welcomes these increases, the amounts being put aside may not be sufficient for government to mitigate the increased uncertainty in the growth outlook, especially if risks identified to the expenditure ceiling materialise. These risks include the contingent liabilities of SOEs, drought in several provinces, higher than anticipated wage settlement agreements and further ratings downgrades. The Commission is of the view that a policy of setting the contingency reserve at a sustainable level in an environment of increased uncertainty and rising social demands is necessary in order to act as a fiscal buffer to protect public finances. The Commission also calls for government to actively manage these risks to avoid any adverse impact on the fiscus as a result of these risks materialising.

**Table 8. Adjustments to Unallocated Reserves, 2015/16-2020/21**

R'billion	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budget 2015	5	15	45			
MTBPS 2015		2.5	9	15		
Budget 2016		6	10	15		
MTBPS 2016			6	10	20	
Budget 2017			6	10	20	
MTBPS 2017				3	5	8
Budget 2018				8	8	10

Source: Budget Review (2014, 2015, 2016), MTBPS (2013, 2014, 2015, 2016).

- 3.30. Table 9 provides details of the economic classification of consolidated government expenditure. Over the period reviewed (2017/18 to 2020/21), transfers and subsidies record the highest real annual average growth rate. Disaggregating this average growth to real year-on-year growth, the following trends are notable:

- The compensation budget is increasing in real terms over the 2018 MTEF period. The growth of the compensation budget over this period suggests government could be budgeting for a wage bargaining agreement that is within a 1 percent range above the consumer price index (CPI). These projections make allowance for a minimal increase in headcounts. Frontline services, especially in the provincial sphere are under pressure as government shed approximately 35 000

employees between 2013 and 2017. Should the wage bargaining agreement be in excess of the predicted range, government's fiscal position could worsen, leading to a higher debt to GDP ratio. The Commission is of the view that both government and unions should aim to reach a settlement that supports government's current fiscal position as this would be in the best interests of the country. The Commission also reiterates a previous recommendation that the personnel costs of employees should be linked to productivity.

- Spending on goods and services is increasing, on average, by 0.9 percent over the 2018 MTEF period. In 2018/19, goods and services decline by 1 percent in real terms as a result of baseline reductions amounting to R5.2 billion. This is largely in order to accommodate new priorities such as fee-free higher education and training. Government has been implementing cost containment measures since 2012/13 to curb spending on non-core goods and services. For the period 2012/13–2016/17, spending reductions on non-core goods and services amounted to R1.9 billion.
- Transfers and subsidies form the second largest category of the government budget after compensation of employees, with allocations amounting to R512 billion in 2018/19. Transfers and subsidies increase by 2.97 percent in real terms over the 2018 MTEF period. This is largely as a result of significant increases to households amounting to 6 percent annual real growth over the 2018 MTEF period. Transfers to households include above inflation increases to social grants in order to cushion the poor against the effects of the VAT increase.

**Table 9. Real Growth in Government Consolidated Expenditure by Economic Classification**

	2017/18	2018/19	2019/20	2020/21	Real Annual Average Growth Rate
Compensation of employees	548.9	587.1	630.5	677.3	1.8%
Goods and services	223.7	233.7	251.2	269.1	0.9%
Transfers and subsidies	511.7	554.7	603.3	651.8	2.97%
Payments capital assets	83	93.8	97.7	103.3	2.2%
<b>Real Year on Year Growth (%)</b>		<b>2017/18 - 2018/19</b>	<b>2018/19- 2019/20</b>	<b>2019/20- 2020/21</b>	
Compensation of employees		1.5%	2.1%	1.9%	
Goods and services		-1.03%	2.19%	1.63%	
Transfers and subsidies		2.9%	3.5%	2.5%	
Payments capital assets		7.51%	-1.14%	0.23%	

Source: Budget Review 2017.

## 4. CONCLUDING REMARKS

- 4.1. Budget 2018 has been crafted under difficult circumstances where government has had to balance the funding of expanding policy commitments whilst trying to plug revenue shortfall.
- 4.2. The less than ideal sluggish current growth rates mean that significant structural measures are required to narrow the budget deficit, and stabilize the debt-to-GDP ratio over the medium term, while cushioning the negative effects on the poor and funding new priorities such as free higher education and thereby stabilising the fiscal framework. These have come in the form significant tax increases as well as deep expenditure cuts. Unpalatable choices (such as significant increases in personal income tax, corporate income tax and VAT) could no longer be deferred. The crucial point is that these measures should not be seen as once off, but recurring into foreseeable future as pressures from funding priorities such as free education will not be once off but increase into the future as the program is rolled consecutively into future years.
- 4.3. The centrepiece of tax policy adjustments has been the 1 percent increase in VAT.
  - Given the magnitude of the revenue shortfalls, the Commission appreciates the necessity of increase in VAT and calls on expediting efforts underway to restore the efficiency of revenue collection.
- 4.4. In terms of reigning in expenditure, government has opted to maintain real increases in equitable share allocations whilst infrastructure-related conditional grants to provinces and specifically, municipalities, have been sacrificed.
  - The rationale or principles underpinning the expenditure cuts to conditional grants, especially local government conditional grants, needs to be refined. The cuts seem to be targeted at bigger grants (in terms of value) while ignoring some of the more widely accepted assessment criteria such as historic performance of the grant and contribution to the development thrust (growth, poverty or employment impact) of the country. Grants such as the USDG, the Public Transport Network Grant and MIG have been reduced by large proportions despite their relatively good spending performance.
  - Whilst the need for cuts and reprioritisation within the current environment is understood, it is important to note that conditional grants have been key in the funding and provision of infrastructure and reduction of infrastructure backlogs in provinces and municipalities. The disproportionate cutting of these infrastructure-related funding instruments means economic growth will be compromised in the future. Government should, as a result, design a plan to reprioritise them in coming years need to be put in place simultaneously.

- 4.5. Robust economic growth is likely to be the only guarantor of the medium to long term fiscal sustainability. In the short term, efforts should be on restoring confidence, balancing fiscal and political sustainability as this enables the country to capitalise on the global economic upswing. The Commission looks forward to continued strengthening of its relationship with Parliament and engaging with the legislature concerning in particular long term interventions that can contribute to sustained economic growth.

**For and on behalf of the Financial and Fiscal Commission**

Professor Daniel Plaatjies

Chairperson

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