

2018 Pre-MTBPS

Parliamentary

Budget
Office



Outline of presentation

- Introduction
- Macroeconomic outlook
- Policy and spending priorities
- Revenue & Expenditure
- Other matters for discussion
- Fiscal Risk
- Conclusions

Introduction

- The Parliamentary Budget Office (PBO) 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
- The aim of the presentation is to stimulate discussions on the medium term budget in terms of the current context of:
 - Macro-economy
 - Policy priorities
 - Funding priorities
 - Progress in performance
 - Progress in the implementation of the budget

Macroeconomic outlook

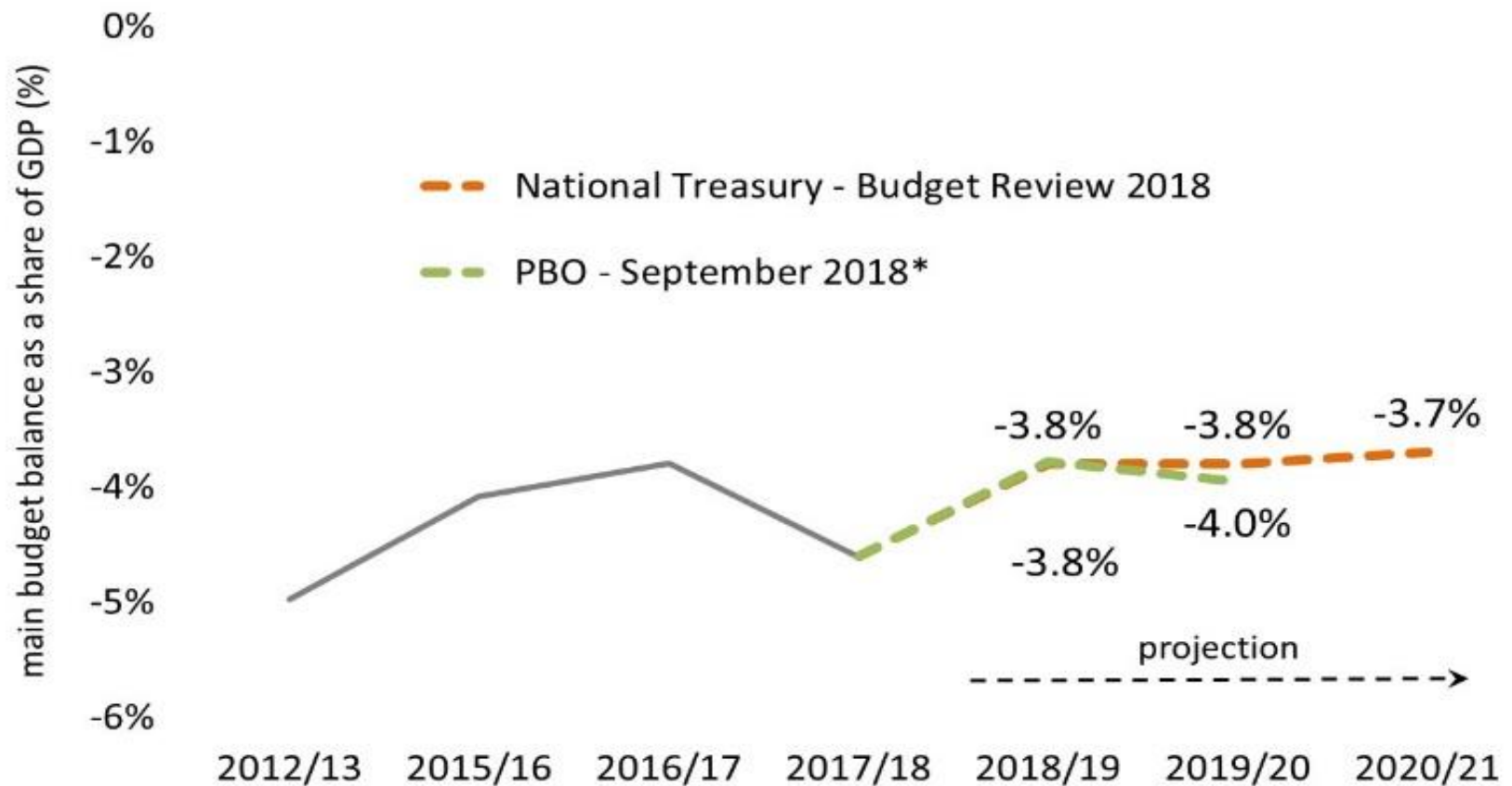
Global economic situation

- Optimism about the global recovery over the last year has been replaced with uncertainty and pessimism in terms of:
 - Interest rate increases in Europe and the US
 - High levels of corporate and household debt
 - High levels of inequality & low levels of aggregate demand
 - Ongoing trade wars
- The end of monetary stimuli is important for understanding current problems in emerging economies:
 - Previous high levels of capital inflows boosted equity & bond markets and exchange rates, which led to growth in private and public debt
 - Reversal of high levels of capital inflows creates instability and risks of default and contagion
 - Emerging markets, incl. South Africa, have been negatively affected by recent sharp depreciation in the exchange rate

Deteriorating growth outlook

GDP growth outlook - calender year*	2018	2019	2020
<i>National Treasury - Budget 2018</i>	1.5%	1.8%	2.1%
South African Reserve Bank - January 2018	0.9%	1.4%	1.6%
South African Reserve Bank - September 2018	0.7%	1.9%	2.0%
Bureau for Economic Research - February 2018	1.4%	1.9%	-
Bureau for Economic Research - September 2018	0.9%	1.9%	-
Reuters econometer (median) - February 2018	1.4%	1.7%	2.0%
Reuters econometer (median) - September 2018	0.8%	1.7%	2.0%
GDP growth outlook - fiscal year*	2018/19	2019/20	2020/21
<i>National Treasury - Budget 2018</i>	1.5%	1.9%	2.1%
Reuters econometer (median) - February 2018**	1.8%	-	-
Reuters econometer (median) - September 2018**	1.0%	1.8%	-
*Growth projections correspond to publication date and not forecast date ** Fiscal year projections are computed using quarterly growth rates			

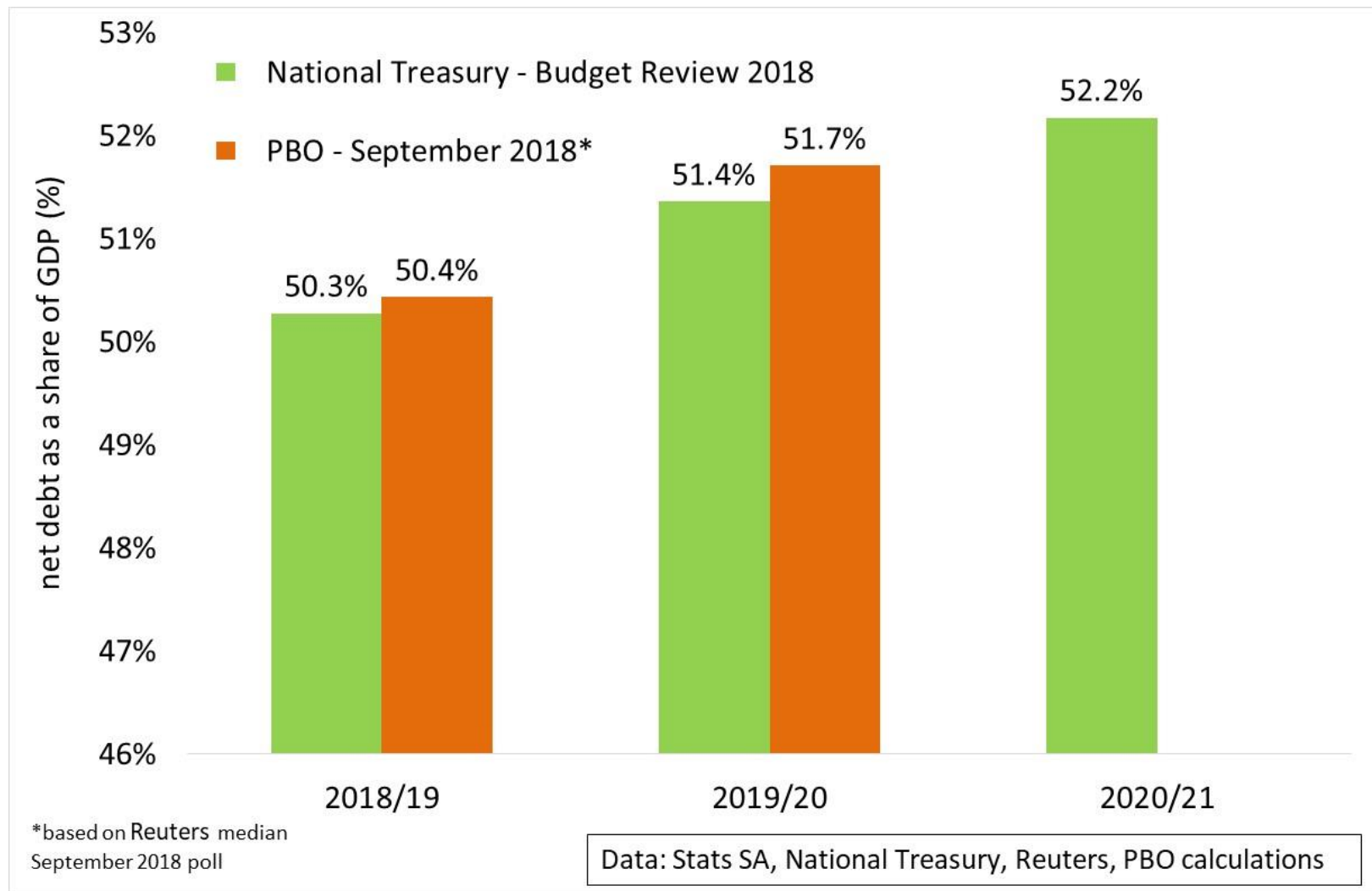
Lower growth implies slightly larger budget deficit in 2019/20



*based on Reuters median September 2018 poll

Data: Stats SA, National Treasury, Reuters, PBO

Lower growth also implies higher debt-to-GDP over the medium-term

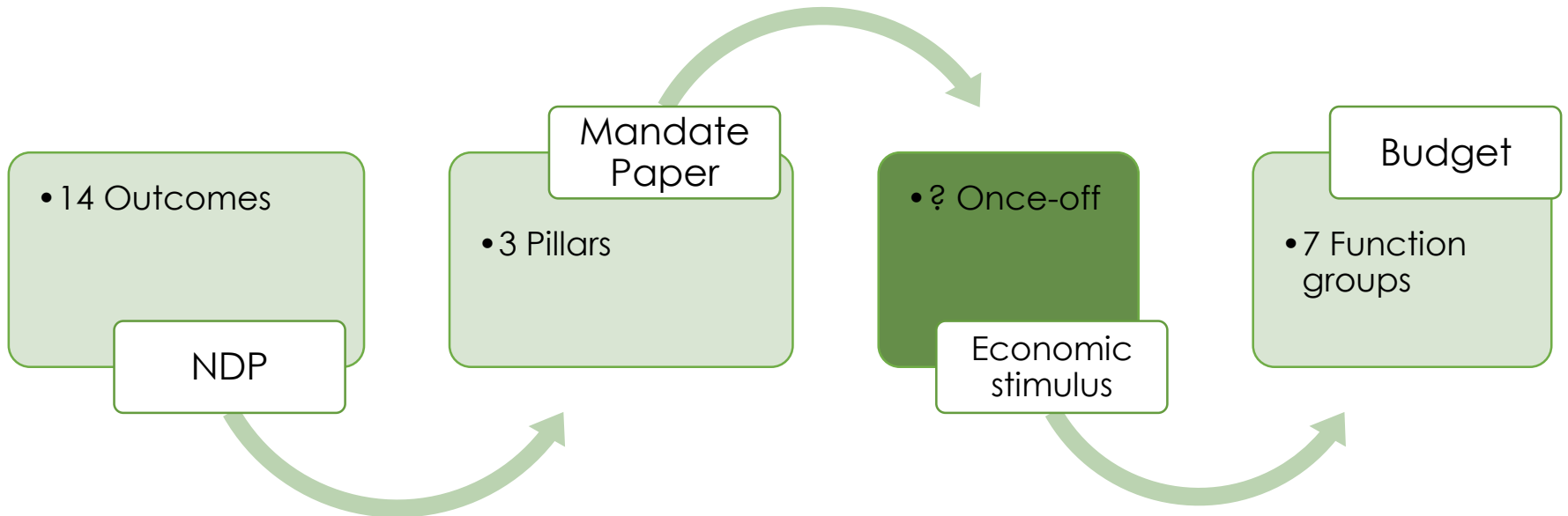


Policy priorities and progress

- National Development Plan
- Executive Mandate Paper
- Economic Stimulus and Recovery Plan
- PBO analysis and assessments

Source data: Budget Review 2018 – Slides 15 and 16

Prioritisation process



National Development Plan

NDP Outcome	Challenges	Risk of not meeting targets by 2019
Outcome 1: Basic Education	<ul style="list-style-type: none"> • Training of teachers • Strengthening of support agencies • Funding for infrastructure and staff • Reaching the most vulnerable children and families 	<ul style="list-style-type: none"> • Proportion of principals appointed based on competency assessment • Percentage of schools visited for monitoring and support • Proportion of National Education Collaboration Trust (NECT) activities implemented (in 8 districts)
Outcome 2: A long and healthy life for all South Africans	<ul style="list-style-type: none"> • Skilled, committed & competent staff • A complex, quadruple burden of diseases • An ineffective & inefficient health system • Serious concerns about the quality of public health care • Ineffective operational management at the coalface • Spiraling private health care costs (not prioritised) 	<ul style="list-style-type: none"> • Provincial Human Resource Plans not available • Although the reform of systems has been prioritised, real time data is not available for monitoring the burden of disease • The spiraling of private health care costs has not been prioritised in the 2014-2019 MTSF • Health Conditional Grants shows duplication of funding for the same purpose • The programme structures of the national & provincial spheres of government are not totally aligned
Outcome 5: A skilled and capable workforce to support an inclusive growth path	<ul style="list-style-type: none"> • Low pass rate of NSFAS funded students, however, there is no clear monitoring and reporting on this • Inadequate education outcomes in Basic Education, which lead to the need for students to be enrolled in foundation programmes (417 students) • A mismatch between the demand and supply of labour 	<ul style="list-style-type: none"> • Enrolment numbers • Certification rates in NC(V) L4 programme offered by TVET colleges • Qualifications for scarce skills for example: • 36 000 graduates in Engineering (cumulative from 2014-2016 versus a target of 57 000 (cumulative from the 2014 to-2018 academic year) • The pass rate for artisan learners trade test passage at INDLELA is 50 % (as at March 2018), which is below target of 65%

National Development Plan

Outcome 6: An efficient, competitive and responsive economic infrastructure network

- Mainly Strategic integrated projects and review of regulations, funding and investment
- Monitoring and evaluation difficult:
 - SIP 8: Green energy, 9: Electricity transmission and distribution, 15: Access to communication and 17: Regional integration – underway or planning of projects
 - SIP 10: Electricity transmission and distribution and SIP11: Agri-logistics and rural infrastructure funded without any specific projects identified-Durban port in planning phase
 - Inconsistency between MTSF and POA

3 Pillars of Mandate Paper for 2019

Economic Services	Social Services	Admin. & Protection Services
<ul style="list-style-type: none"> • Expand investment in: <ul style="list-style-type: none"> ○ Knowledge infrastructure ○ Human settlements ○ Ecosystem infrastructure, protection and repair • Land redistribution • Direct job creation especially for youth (CWP) • Support small and micro-business • Growing investment in new communication, data technology and systems 	<ul style="list-style-type: none"> • Expansion Early Childhood Development care and learning facilities • Expansion of post school education system • TVET College partnerships • The functioning of SETAs • NHI Bill and the creation of the NHI Fund. • Reprioritise specific health programmes towards: <ul style="list-style-type: none"> ○ School health ○ Maternal health and ante-natal and family planning services ○ Services to the elderly, mentally ill patients and people with disabilities 	<ul style="list-style-type: none"> • Electronic management systems • An integrated plan to fight crime • Increased funding for SANDF <p>Prioritisation for Budget 2019 are:</p> <ul style="list-style-type: none"> • A larger contingency reserves to finance critical priorities of the new administration • Focus on instruments and levers that would sustain and support economic growth.

Economic stimulus

Infrastructure projects of R400bn

- Provincial and national roads
- Human settlements
- Water infrastructure
- Schools and Student accommodation
- Public transport
- Short-term municipal investments

57 priority pilot municipalities

- Sewerage purification & reticulation
- Refuse sites
- Electricity reticulation
- Water reservoirs

IDC increase approvals by R20bn over 12 months to target productive sectors

- Mining,
- Manufacturing: clothing and textile
- Industrial infrastructure
- Sectors in distress

Support for public employment programmes

Support for agriculture

- Increase access to infrastructure
- Land Bank, IDC & commercial bankers finance
- 30 year leases signed with farmers
- Advisory panel to guide Inter-Ministerial Committee on Land Reform

Reprioritise expenditure & new project funding of R50bn

- Addressing immediate challenges in health & education

Strategic Integrated Projects

R million	2017/18 Prelimin outcome	2018/19	2019/20 Forecast	2020/21	Total Forecast
SIP category					
SIP 1: Unlocking the northern mineral belt with Waterberg as cataly	295	595	1 094	997	2 687
SIP 2: Durban-Free State Gauteng logistics and industrial corridor	10	110	–	–	110
SIP 3: South eastern node and corridor development	11 158	9 712	13 071	12 777	35 560
SIP 4: Unlocking economic opportunities in the North West province	419	348	397	471	1 216
SIP 5: Saldanha-Northern Cape development corridor	66	–	331	378	709
SIP 6: Integrated municipal infrastructure project	22 530	20 254	20 211	20 987	61 452
SIP 7: Integrated urban space and public transport programme	52 083	49 123	51 515	54 580	155 218
SIP 10: Electricity transmission and distribution for all	4 036	3 464	3 645	3 846	10 955
SIP 11: Agri-logistics and rural infrastructure	11 739	12 075	12 555	12 818	37 448
SIP 12: Revitalisation of public hospitals and other health facilities	6 373	6 707	6 988	7 372	21 066
SIP 13: National school build programme	12 432	11 609	11 875	12 709	36 194
SIP 14: Higher education infrastructure	3 520	3 689	3 883	4 082	11 654
SIP 16: SKA and Meerkat	694	709	770	812	2 291
SIP 18: Water and sanitation master plan	4 729	5 224	5 680	6 823	17 727
Total	130 086	123 619	132 016	138 654	394 288

Reprioritisation in 2018 Budget

Change over the MTEF period

R'million	2018/19	2019/20	2020/21	Total
Learning and Culture	10 121.80	22 571.10	26 617.10	59 310.00
Health	476.00	1 068.50	1 750.00	3 294.50
Social Development	-84.10	552.80	2 541.60	3 010.30
Economic development	-4 622.30	698.10	726.20	-3 198.50
General Public Service	-3 647.50	-4 121.40	-3 659.40	-11 428.10
Peace and Security	-5 151.90	-5 257.30	-5 894.20	-16 303.70
Community Development	-9 297.50	-10 063.40	-10 335.20	-29 696.20
Total change over the MTEF	-12 205.50	5 448.40	11 746.10	4 988.30

How will fiscal stimulus affect current 2018 MTEF government spending proposal?

Revenue and Expenditure

- National
- Provincial

Source: National Treasury

Summary of revenue and expenditure

R thousand	2018/19		
	Budget estimate	Year to date	Percentage of Total
Revenue	1 321 146 117	489 218 162	37.0%
Expenditure	1 512 200 152	620 644 672	41.0%
Appropriation by vote	814 508 927	340 044 473	41.7%
Direct charges against the NRF	683 691 225	280 600 199	41.0%
<i>Debt-service costs</i>	<i>180 123 990</i>	<i>71 876 940</i>	39.9%
<i>Provincial equitable share</i>	<i>470 286 510</i>	<i>195 952 728</i>	41.7%
<i>General fuel levy sharing with metropolitan municipalities</i>	<i>12 468 554</i>	<i>4 156 184</i>	33.3%
<i>Skill Levy and SETAs</i>	<i>16 929 383</i>	<i>7 009 966</i>	41.4%
<i>Other costs</i>	<i>3 882 788</i>	<i>1 604 381</i>	41.3%
Provisional allocation for contingencies not assigned to	6 000 000	-	
Contingency reserve	8 000 000	-	

2018/19 revenue seems on-track

R million	NT Budget Review 2018	PBO Pre-MTBPS (September 2018)	Surplus (shortfall) compared to NT Budget projections		
Taxes on income and profits <i>of which:</i>	772,991	762,430	(10,562)	↓	-1.4%
<i>Personal income tax</i>	505,845	507,119	1,275	↑	0.3%
<i>Corporate income tax</i>	231,219	219,382	(11,837)	↓	-5.1%
Skills development levy	16,929	17,812	883	↑	5.2%
Taxes on property	17,311	16,431	(880)	↓	-5.1%
Domestic taxes on goods and services <i>of which:</i>	484,826	495,979	11,153	↑	2.3%
<i>VAT</i>	348,110	358,369	10,259	↑	2.9%
<i>Health promotion levy</i>	1,685	2,867	1,182	↑	70.2%
Taxes on international trade and transactions	54,050	55,359	1,309	↑	2.4%
Other	(1,143)	(1,143)	-		-
Gross tax revenue	1,344,965	1,346,868	1,903	↑	0.1%
Non-tax revenue	24,470	24,470	-		-
Less: SACU payments	(48,289)	(52,301)	(4,012)	↓	8.3%
Main budget revenue	1,321,146	1,319,037	(2,109)	↓	-0.2%
Main budget expenditure	1,512,200	1,512,200	-		-
Main budget balance	(191,054)	(193,163)	(2,109)	↓	1.1%
Main budget balance (% of GDP)	-3.8%	-3.8%	-		-
Tax buoyancy	1.51	1.76	-		-

Expenditure to date (Apr. – Aug. 2018)

R thousand	Current payments	Transfers and subsidies	Payments for capital assets	Percentage of Total 2018	Percentage of Total 2017
1 The Presidency	33.9%	3534.2%	21.4%	33.91	36.20
3 Communications	28.7%	45.0%	54.5%	43.51	44.71
6 International Relations and Cooperation	38.8%	64.2%	21.2%	40.56	40.56
8 Planning, Monitoring and Evaluation	28.7%	49.3%	35.1%	38.68	35.50
9 Public Enterprises	30.8%	3218.2%	72.3%	31.39	38.71
14 Basic Education	18.1%	59.7%	53.0%	54.84	52.18
16 Health	20.8%	43.9%	11.4%	41.67	42.96
23 Police	40.5%	52.3%	16.7%	39.70	40.63
26 Energy	42.1%	41.3%	65.0%	41.41	49.04
27 Environmental Affairs	40.5%	30.2%	62.5%	34.30	33.37
28 Labour	32.9%	46.6%	8.4%	37.65	40.57
32 Telecommunications and Postal Services	38.9%	72.7%	12.2%	56.55	12.37
34 Trade and Industry	39.5%	27.0%	28.8%	29.12	30.97
35 Transport	29.9%	35.4%	42.6%	35.25	45.96
36 Water and Sanitation	55.7%	36.8%	32.6%	39.82	37.92
Total appropriation by vote	39.0%	43.5%	28.6%	41.75	41.41

First Quarter Provincial Receipts and Expenditure

Provincial departments	2018/19		
	Budget	Payments by Quarter	
	Main Budget R'000	First Quarter R'000	% Actual Payments %
Receipts			
Transfers from National Revenue	570 613 819	142 615 025	25.0%
Provincial own receipts	18 911 751	4 778 076	25.3%
Total receipts	589 525 570	147 393 101	25.0%
Payments by provincial departments			
Education	240 851 180	57 863 272	24.0%
Health	194 621 923	48 512 442	24.9%
Social Development And Sports	20 633 658	4 273 615	20.7%
Transport	42 641 897	8 346 483	19.6%
Other	92 795 289	19 473 549	21.0%
Total payments	591 543 948	138 469 361	23.4%
Payments by economic classification			
Current payments	480 144 187	111 767 721	23.3%
Compensation of employees	361 148 628	83 498 548	23.1%
Goods and services	118 995 559	28 269 174	23.8%
Transfers and subsidies	71 701 562	20 289 099	28.3%
Payments for capital assets	39 691 843	6 403 055	16.1%
Total payments	591 543 947	138 469 361	23.4%

Expenditure on Provincial Grants

	2018/19		
	Budget	Payments to Date	
National departments administering conditional grants	Division of Revenue Act, No. 1 of 2018	Actual Payments	% Actual Payments
Schedule 5 grants	R'000	R'000	
Agriculture, Forestry and Fisheries (Vote 24)	2 381 106	231 489	9.7%
(a) Comprehensive Agricultural Support Program	1 750 810	191 891	11.0%
(b) Ilima/Letsema Projects Grant	552 423	34 157	6.2%
(c) Land Care Programme Grant: Poverty Relief	77 873	5 441	7.0%
Arts and Culture (Vote 37)			
Community Library Services Grant	1 423 684	200 816	14.1%
Basic Education (Vote 14)	7 601 268	1 844 355	24.3%
(a) HIV and AIDS (Life Skills Education) Grant	243 235	29 550	12.1%
(b) Learners with Profound Intellectual Disabilities	185 471	21 331	11.5%
(c) Maths, Science and Technology Grant	370 483	44 263	11.9%
(d) National School Nutrition Programme Grant	6 802 079	1 749 211	25.7%
Health (Vote 16)	25 937 391	5 839 061	22.5%

Expenditure on Provincial Grants

	2018/19		
	Budget	Payments to Date	
National departments administering conditional grants	Division of Revenue Act, No. 1 of 2018	Actual Payments	% Actual Payments
Schedule 5 grants	R'000	R'000	
Health (Vote 16)	25 937 391	5 839 061	22.5%
(a) Comprehensive HIV, AIDS and TB Grant	19 921 697	4 773 122	24.0%
(b) Health Facility Revitalisation Grant	5 815 694	1 061 590	18.3%
(c) Human Papillomavirus Vaccine Grant	200 000	4 349	2.2%
Human Settlements (Vote 38)	18 685 175	2 929 343	15.7%
(a) Human Settlements Development Grant	18 166 520	2 901 905	16.0%
(b) Title Deeds Restoriation Grant	518 655	27 438	5.3%
Public Works (Vote 11)	823 984	165 633	20.1%
(a) EPWP Integrated Grant for Provinces	416 036	86 240	20.7%
(b) Social Sector EPWP	407 948	79 393	19.5%
Social Development (Vote 17)	561 633	74 405	13.2%
(a) Early Childhood Development Grant	490 800	57 717	11.8%
(b) Substance Abuse Treatment Grant	70 833	16 688	23.6%
Sub-Total	58 001 627	11 341 719	19.6%

Other matters for discussion

Potential effect of stimulus package on the economy

- At present details of stimulus allocations are scant
- Unclear if stimulus will be “deficit neutral”
 - 50% of R50bn to be reprioritised
- Increasing public spending by roughly R45bn could add around 1 percentage point to GDP
- Immediate & medium-term impact unclear
 - Lead-times associated with effecting spending will determine in which year impact will be felt
 - Structural proposals (e.g. ports pricing, spectrum allocation) could support growth over the medium to long term
- Economic effect differs by type of spending, e.g.,
 - Consumption vs capital spending,
 - Spending on locally produced vs imported goods, etc.

Questions about the Economic Stimulus & Recovery Package

- Growth and change in the South African financial system and corporate structure could impact on success of the stimulus
 - Will the proposed approach stimulate adequate levels of new private fixed investment and jobs in the economy
 - Has there been consideration that a successful stimulus may be short-lived because a recovery in aggregate demand and investment may put pressure on the balance of payments

Questions about the Economic Stimulus & Recovery Package

- At the level of fiscal policy:
 - What are the reasons for continuation of fiscal consolidation?
 - Why should budget prioritisation and stimulus occur within current fiscal framework?
- Has there been an engagement with new economic consensus that:
 - Increased government expenditure should be more effective during periods of low economic growth
 - Fiscal consolidation and austerity should delay recovery and cause higher debt to GDP ratios
 - Fiscal consolidation may have long-run negative impacts on output performance of an economy, particularly when imposed during a period of poor economic performance

Fiscal risks

- Fiscal risks delay attainment of fiscal objectives
- Fiscal risks cause variances in anticipated
 - Revenue collection
 - Government spending
 - Debt levels
- Monitor fiscal risks for better fiscal planning

Fiscal risks

Fiscal Risk	Potential implications
Increasing global political, trade and financial uncertainty and poor economic performance	<ul style="list-style-type: none">- Lower global aggregate demand- Financial instability and contagion- Higher interest rates- Poor economic performance
Low domestic economic growth	<ul style="list-style-type: none">- Fiscal objectives not achieved,- Higher deficit and debt-to-gdp,- Lower tax revenue,- Reprioritise expenditure
Weak financial health of SOEs, e.g. Eskom, SABC, SAA and etc.	<ul style="list-style-type: none">- State guarantee requests- Increase in contingent liabilities- More recapitalisation SOEs
Underspending Infrastructure and service delivery budgets	<ul style="list-style-type: none">- Weak infrastructure- Job creation and- Provision of basic services
Poor planning and governance in the public sector	<ul style="list-style-type: none">- Increased irregular and fruitless and wasteful expenditure- Delays in service delivery- Lower levels of services and infrastructure per rand spent

Conclusion

- Global economic outlook indicates that prospects for recovery in growth through foreign investment and trade may be constrained in medium-term
- Reversals of capital flows from developing countries pose macroeconomic stability risks through contagion & exchange rate
- Overall slightly lower economic growth is expected this year followed by improvement over following 2 years
- In spite of lower expected growth, PBOs recent projected revenues are within National Treasury's projections in 2018 Budget Review
- PBO analysis of NDP outcomes shows challenges to meeting targets by 2019
- Stimulus suggests reprioritization of spending to areas with the largest impact on economic growth, aggregate demand and job creation
- Overall Revenue and expenditure are within the notional benchmark
- Specific provincial conditional grant spending on national priorities is slow
- Continuous monitoring of fiscal risks and potential impact on the economy and fiscus required for better fiscal planning