2019 pre-MTBPS

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

The Parliamentary Budget Office (PBO)

- The Parliamentary Budget Office (PBO) was established in terms of Section 15 of the Money Bills and Related Matters Act 2009 as amended in 2018;

- The PBO assists MPs with the implementation of the Money Bills and Related Matters Act; in particular the Finance and Appropriations Committees of both Houses of Parliament as well as other Committees subject to availability;

- The 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 presented by the Executive; and any other documentation or reports with fiscal implications.

Outline

- Introduction
- Policy priorities
- Global economy, macroeconomic overview and fiscal Policy
- First five-months actual performance and outlook
- Revenue discussion
- Expenditure discussion
- Update on provincial public finances
- Conclusion

Introduction

- The MTBPS is an update on the budget
- The MTBPS provides an update on government finances and the economic status of the country, such as:
  - Changes to spending
  - Changes to revenue collection
  - It does not introduce new taxes
- It makes changes to expenditure estimates
  - Unforeseen
  - Emergency
  - Reprioritisation
- It sets out government's priorities over the MTEF
  - **It could be used to introduce the new government growth strategy**
- It proposes allocations to departments, provinces and local government

Roles of Committees: Medium Term Budget Policy Statement

<table>
<tr><th>Finance Committees</th><th>Appropriations Committees</th></tr>
<tr><td>Current year revised fiscal framework and the proposed fiscal frameworks for the next three financial years:
a. Chapter on Economic Overview
b. Chapter on Fiscal Policy</td><td>Spending priorities of national government for the next three financial years</td></tr>
<tr><td rowspan="3">Explanation of the macro-economic and fiscal policy position, the macro-economic projections and the assumptions underpinning the fiscal framework:

a. Chapter on Economic Overview
b. Chapter on Fiscal Policy
c. Also take into account:
- Fiscal Risk Statement</td><td>Proposed division of revenue between the spheres of government for the next three financial years</td></tr>
<tr><td>Proposed substantial adjustments to conditional grant allocations to provinces and municipalities, if any</td></tr>
<tr><td>Review of actual spending by each national department and each provincial government between 1 April and 30 September of the financial year in which the statement is tabled</td></tr>
</table>

Policy priorities

- National Development Plan
- President's Strategic Direction
- 2019 Budget Provisions

National Development Plan

- The President acknowledged in the June 2019 SONA that in the 2014-2019 MTSF not nearly enough progress has been made in meeting the NDP targets.
- This means that government needs to prioritise and focus on implementation.
- PBO's research findings on the contributing factors to the slow progress includes challenges with:
  - Mechanisms adopted for the implementation of the NDP
  - The design of the 2014-2019 MTSF
  - The integration of the NDP activities into standard processes of government
  - The alignment of the planning and budgeting structures
  - The reporting, monitoring and evaluation

Policy Priorities

Seven priorities (SONA – June 2019)	Five fundamental goals (for the next decade) from SONA-June 2019	NDP: MTSF Outcomes
Economic transformation and job creation	• The economy to grow at a much faster rate than the population. • Two million more young people to be employed.	• Outcome 4 Economy
Education, skills and health	• Schools to have better educational outcomes and every 10-year-old being able to read for meaning.	• Outcome 1 Quality basic education • Outcome 2 Health • Outcome 5 Skills
Consolidating the social wage through reliable and quality basic services	• No person in South Africa will go hungry	• Outcome 7 Rural Development • Outcome 9 Local Government • Outcome 13 Social Protection
Spatial integration, human settlements and local government		• Outcome 8 Human Settlements • Outcome 9 Local Government
Social cohesion and safe communities	• Violent crime to be halved	• Outcome 3 Safety • Outcome 14 Nation Building
A capable, ethical and developmental state		• Outcome 12 Public Service
A better Africa and World		• Outcome 11 International
		• Outcome 6 Infrastructure
		• Outcome 10 Environment

Budget 2019: Provisional Allocations

- Over the MTEF, R23 billion was set aside for reconfiguring Eskom.
    - Additional funds for 2019/20 and 2020/21 were allocated
- In some cases, allocations were conditional on finalising policies or building capacity.
    - To implement turnaround plans for municipalities in financial distress.
    - For SA Connect Phase 2 requires an implementation model to roll broadband out to public buildings.
    - To establish a Township and Rural Enterprise Fund
    - For road maintenance
    - To fund one monthly ATM withdrawal for each social-grant beneficiary
    - Competition Commission to investigate cartels and anticompetitive behaviour

National Health Insurance Bill

- No additional funding required for the 2020 Budget
- Amounts of R75 million, R125 million and R175 million will be considered for potential reprioritisation as part of the budget process.
- The Human Resources Capacitation Grant will be used to appoint staff to ensure implementation of the Fund already increases from R330 million spending in 2018/19 to R600 million in 2019/20 to R1 billion in 2020/21 and R1.1 billion in outer years.
- The cost for scaling up a set of interventions in the longer term, including the removal of user fees, is estimated to amount to around R30 billion per year.

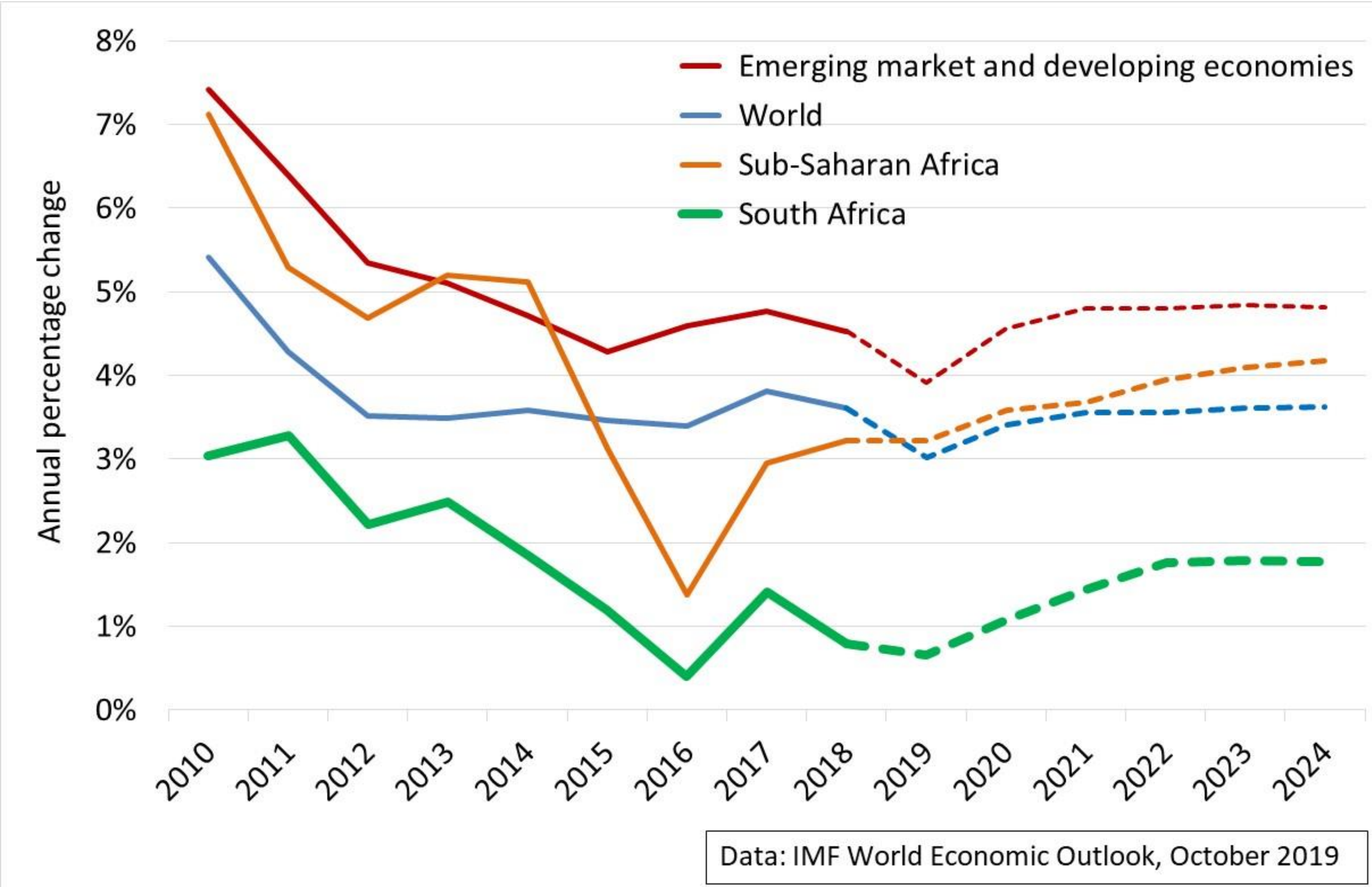
Global Economy, Macroeconomic Overview and Fiscal Policy

- Economic Performance and Outlook
- Fiscal Policy
- Channels for Fiscal Expansion

Global economy: poor outlook and macroeconomic policy fixes

- Macroeconomic outlook for the global economy has worsened
  - UN's WESP Jun. 2019 revised their estimate of world gross product growth to 2.7% in 2019 (from 3.0% in 2018)and 2.9% in 2020
  - IMF's WEO Oct. 2019 revised global growth down to 3.0% in 2019 and 3.4% in 2020
  - Reasons given include, lower demand, slowing industrial production, weakened international trade activity, lower commodity prices, lower fixed investment levels
- Reintroduction of monetary stimulus in EU (renewed QE), US (lowering of interest rates) and around the world
- However, interest rates are at an all time low across the world and monetary policy is recognised to be insufficient
- Major global consensus looming that there should be an integrated fiscal and monetary policy approach
- Countries facing an economic downturn should use expansionary fiscal policy

Economic performance and outlook



Global macroeconomic situation: Fiscal policy reasons for economic decline

- Weak aggregate demand is a key cause of poor global economic performance in an integrated world
- Widespread global adoption of fiscal consolidation and austerity had a synchronous, cumulative effect in lowering global demand
- Therefore, fiscal consolidation has been an important contributor to poor economic performance in individual countries and globally
- 2011: 118 countries had contracted expenditure relative to GDP (ILO,2015)

  "Overall, austerity has become a "new normal," with the majority of countries in the world contracting public expenditures in the period 2010-24." (Ortiz &Cummins, 2019)
- However, global experience is that fiscal consolidation has not led to lower debt to GDP ratios because it contributed to lower GDP

  "Over the past four years, government has followed a path of measured fiscal consolidation, aiming to stabilise the debt-to-GDP ratio by reducing spending and introducing tax increases.... But debt has continued to rise as a share of GDP as economic growth rates have declined" (2017 MTBPS, p.19)

Fiscal consolidation	Considered by	Policy Implementation	Envisaged negative societal impact
Adjustments to the public sector wage bill	80 governments in 19 high-income and 61 developing countries	Reduced real salaries, job freezes and retrenchments	Poorer delivery of basic services & development. Majority of workers affected are teachers, nurses, police
Labor flexibilisation	79 governments worldwide in 44 developing and 35 high-income countries	Make hiring and firing easier Reduce wages and benefits	More precarious work. More informal and lower paid jobs. Lower aggr. demand
Revising consumption-based taxes, e.g., VAT	79 governments worldwide in 44 developing and 35 high-income countries	Tax system made more regressive & progressive taxes not considered	Prices of basics increase, Welfare of poor decline Lower aggr. Demand
Targeting social assistance or safety nets	77 governments in 60 developing and 17 high-income countries	Reduce eligibility Change criteria	Reduction in social protection Lower aggr. demand
Privatization and strengthening PPPs	59 governments in 39 developing and 20 high-income countries	Reduce state role in provision of services and infrastructure	Private monopolies, Unaffordable and/or low quality goods & services, High costs of guaranteed revenues to PPPs

Source: Ortiz and Cummins, 2019

Different views on fiscal consolidation

- IMF (WEO, Oct. 2019) advocates fiscal consolidation in South Africa:
  - Reducing the public wage bill
  - Downsizing and eliminating wasteful spending by public entities
  - Expanding the tax base, and strengthening tax administration
- IMF suggests structural reforms, including:
  - Revamping the business models of state-owned enterprises
  - Improving competition in the product market by reducing entry barriers and streamlining regulations
  - Increasing labor market flexibility
- IMF assumes that fiscal consolidation and sectoral reforms will improve private sector confidence and stimulate investment

Different views on fiscal consolidation

- United Nations (incl., UNCTAD and ILO) support:
  - fiscal expansion, and
  - a greater role for the state in supporting economic recovery and growth
- They recognise negative changes in the global economy
  - the outsized and destabilising role of financial institutions and unregulated financial flows
  - the increased allocation of finance away from long-term fixed investments towards pursuit of short-term, high returns in financial markets
- They argue that governments have unrealistic expectations of the private sector in this context.
- They advocate fiscal expansion for investment in infrastructure, industrial policy, the green transition, and services to uplift people:
  - Boost aggregate demand to increase GDP and tax revenue
  - Reduce the debt to GDP ratio
  - Crowd-in productive private fixed investment and employment
  - Invest in health, education and other Improvements to uplift the lives and productivity of the people
  - Reduce the long-term costs associated with unemployment, the erosion of the social fabric and environmental damage

The logic behind fiscal consolidation

- The economic idea behind fiscal consolidation is "contractionary expansion"
- The logic of contractionary expansion. It claims that:
  - Government's fiscal balance (surplus or deficit) over time determines its debt/GDP ratio
  - This debt ratio is usually due to overspending relative to revenues
  - Debt ratio leads to market confidence in the government's debt
  - The level of market confidence determines the interest rate that government faces (or if it can borrow at all)
  - The level where high debt and high interest rates make debt unsustainable is known
  - Fiscal consolidation/austerity is required to deal with unsustainable debt
  - Fiscal consolidation/austerity brings back debt sustainability, and so contributes to economic growth, above all when government cuts expenditure

Questions about the logic of fiscal consolidation

- Debt/GDP ratio over time IS NOT DETERMINED ONLY by the **fiscal balance:**
  - **Growth, inflation, and interest rates** are as important as the fiscal balance for the size of government's debt ratio over time
- Country experience shows that slower growth or higher interest rates can raise the debt ratio where existing debt is high:
  - Slow growth or high interest may raise the ratio faster than even very large fiscal surpluses can reduce it, or
  - Fast economic growth and low interest rates may lead to large declines in the ratio without government running surpluses
- Level of market confidence IS NOT THE ONLY DETERMINANT of interest rates to government
  - Interest rates are not an objective calculation by markets of government's fiscal position
  - Markets do not work that way – psychology and sentiment affect outcomes in speculative markets
- There is no agreement in the economics literature of when government debt is too high
  - Empirical studies show that very high debt does not negatively impact GDP growth (Ash et al, 2017)

Possible channels for fiscal expansion

- Re-allocating public expenditures;
  - We should consider the efficiency and composition of expenditure
- Increasing tax revenues;
  - Efficiency of collection could be improved
- Eliminating illicit financial flows and BEPS;
- Drawing on fiscal and foreign exchange reserves;
- Managing debt by borrowing or restructuring existing debt;
- Adopting a more accommodative macroeconomic framework; and
- Expanding social security coverage and contributory revenues—for social protection.

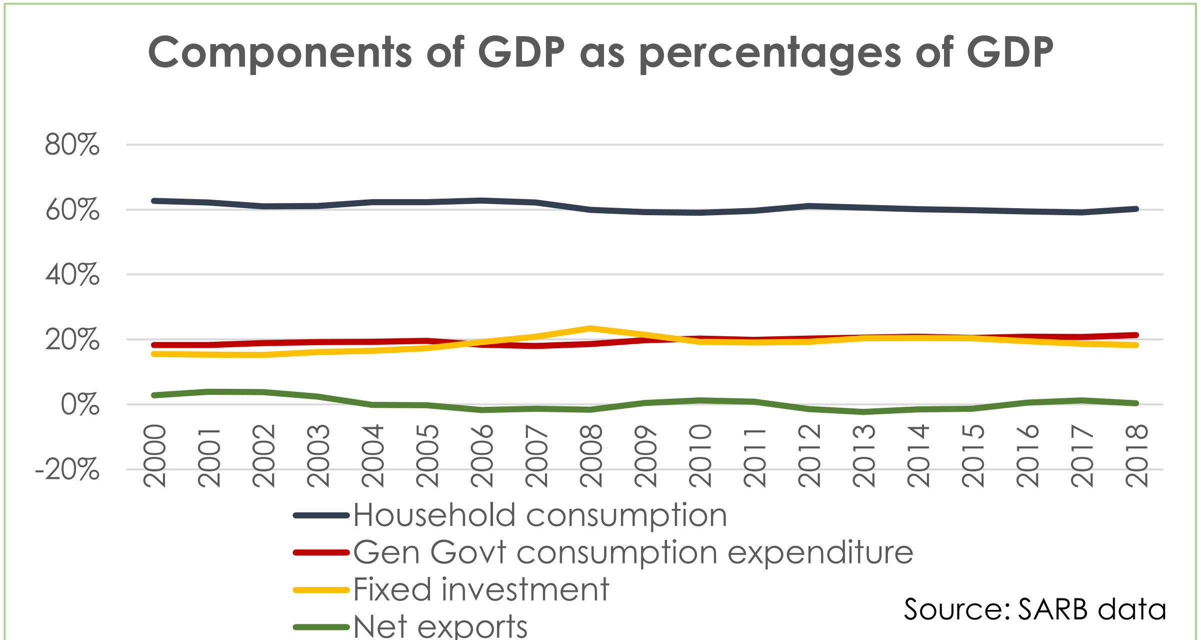
Mitigating Costs of Consolidation

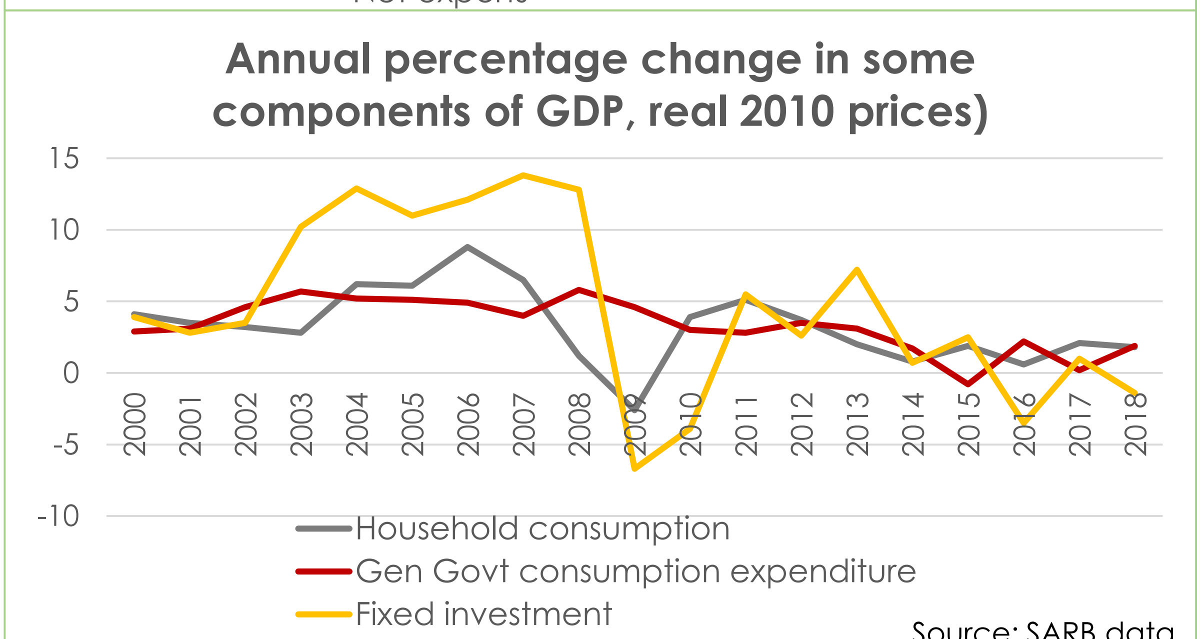
- Revenue and expenditure consolidation measures have direct impacts on economic growth, service delivery and welfare
- Imperative to ensure that negative effects of consolidation measures are minimized.
- 2020 MTEF guidelines propose expenditure reductions
- To date, consolidation focus has been on the level of expenditure - insufficient attention on composition and quality of spending (outcomes).
- Efficiencies cannot be achieved through maintaining existing service delivery models with slowing budget growth.
- Need to ensure adequate implementation and monitoring of plans and programmes
- Service delivery models should be reviewed, and lower-priorities should be downscaled to create budget space for high-priorities.
- Trade-offs are unavoidable.

Where will growth come from?

- A low growth macroeconomic environment is likely to severely constrain the effectiveness of microeconomic interventions
- Global growth is likely to remain poor
- Therefore, consideration should be given to the impact of continued fiscal consolidation in the economy
- Declining government expenditure is associated with lower GDP and may have a ‘reverse multiplier’ effect on the economy
- Fiscal expansion and well targeted expenditure opens the possibility for increased household consumption and investment to drive economic growth

Where will growth come from?

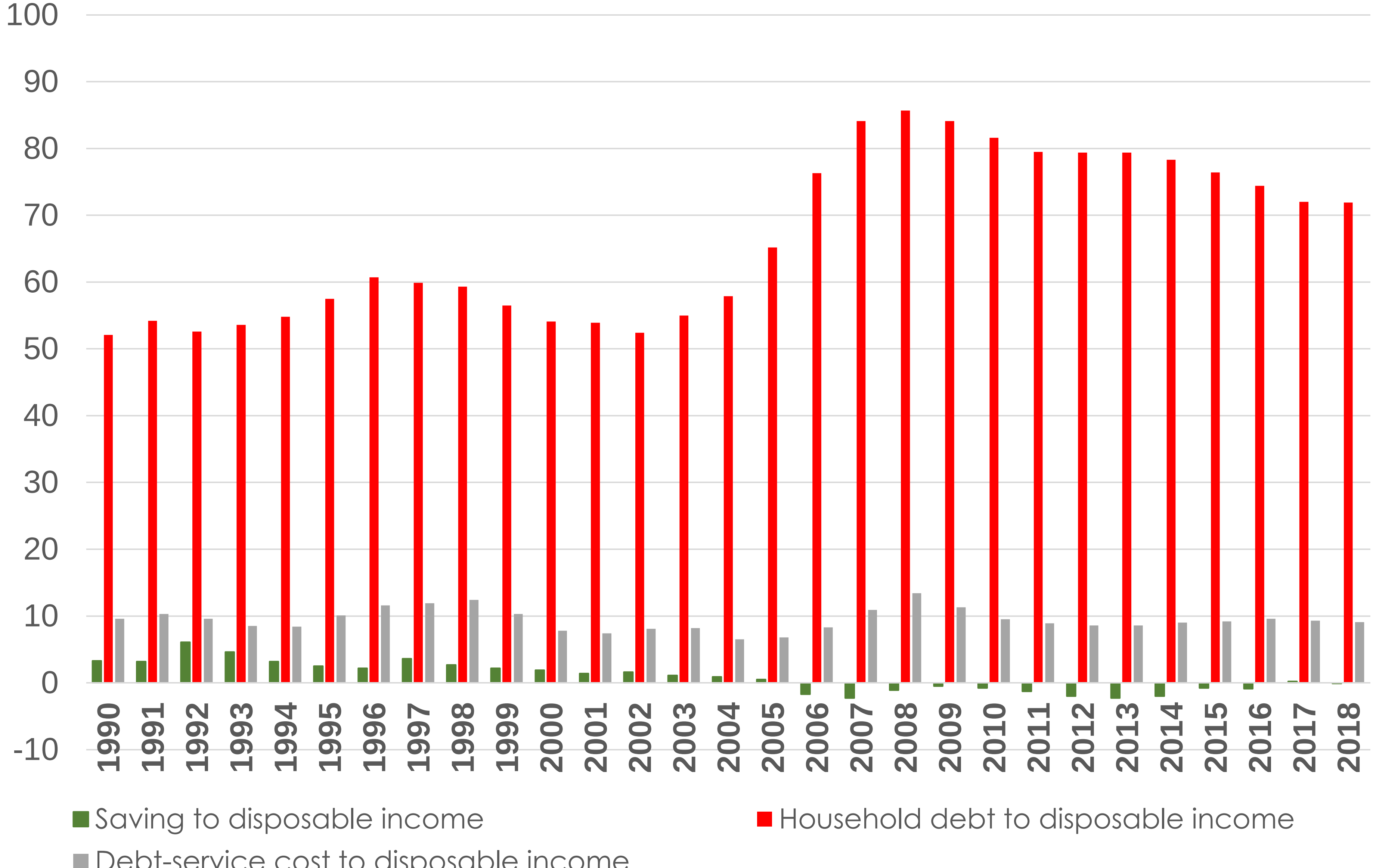




The SA Economy is demand constrained

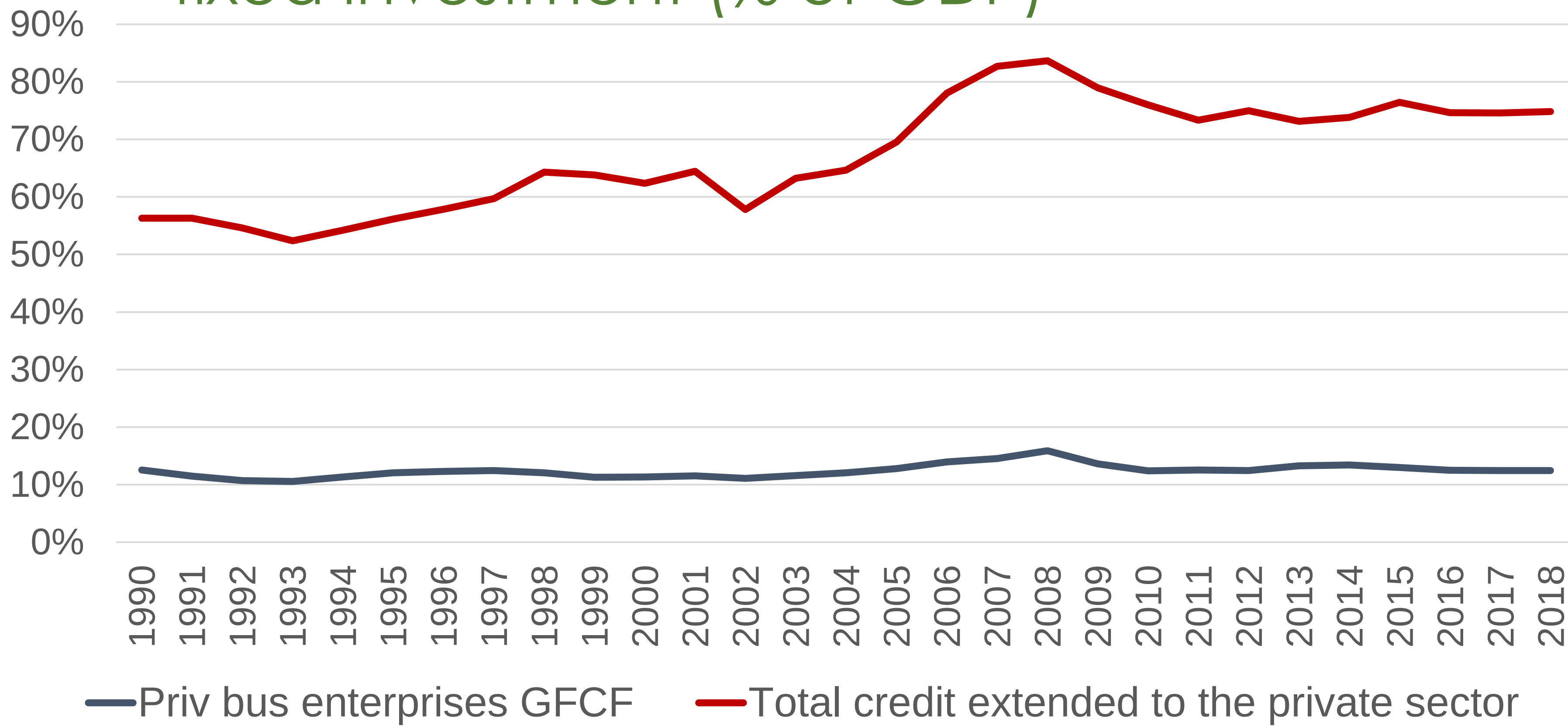
- Household consumption and private fixed investment will probably remain subdued
- Fiscal consolidation may very well continue to have a downward effect on the economy activity
- Therefore, enhanced multiplier benefits may exist when
  - Increasing government consumption expenditure
  - Increasing public sector investment and employment growth

Household debt, debt service and savings as percentages of household disposable income



Source: SARB data

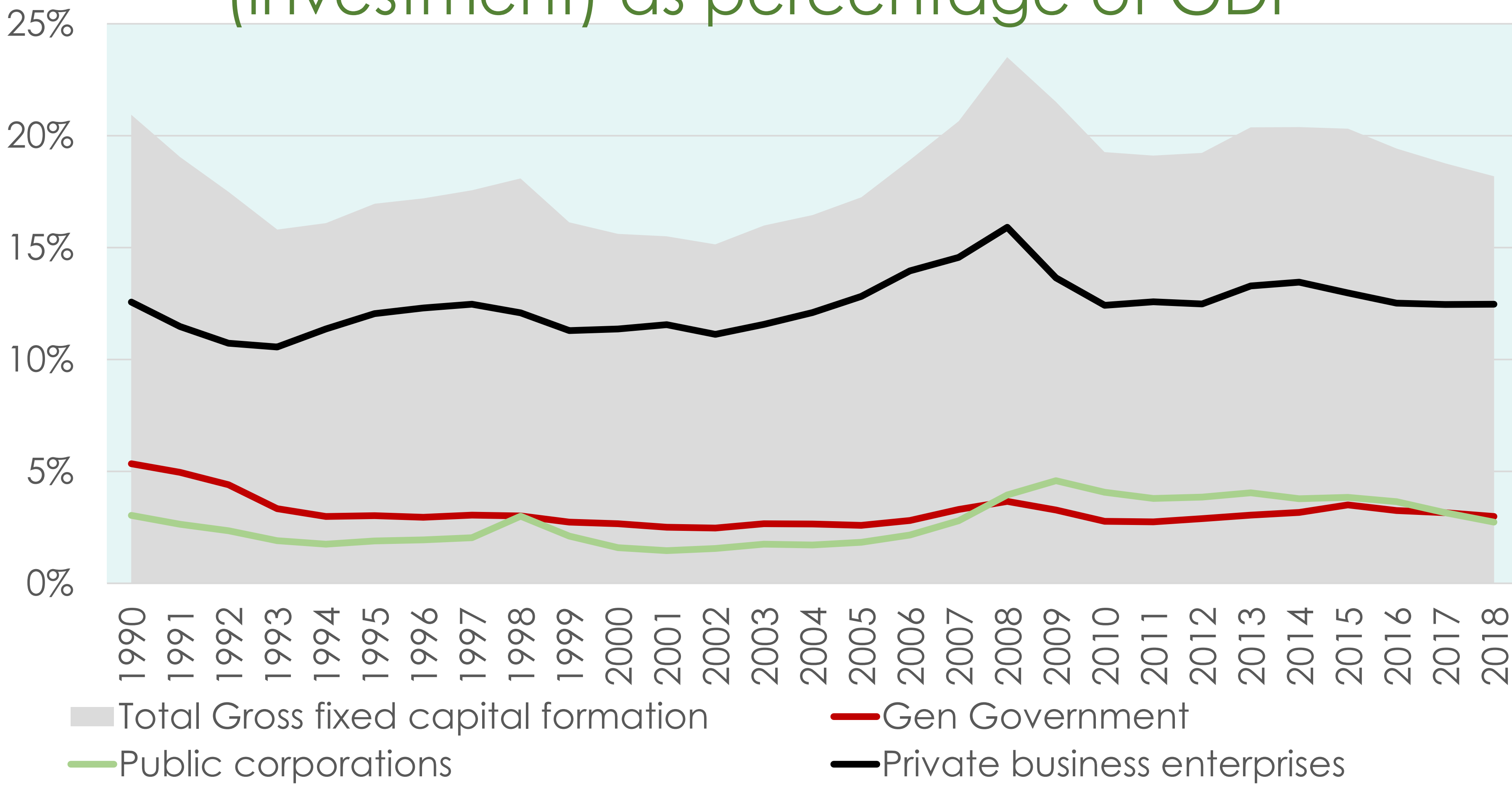
Credit extended to private businesses & fixed investment (% of GDP)



Source: SARB data

In the aftermath of the global financial crisis (2010-18), the level of credit extended to the private sector as a percentage of GDP was approximately10% higher than in the early-2000s while the level of private business enterprise GFCF as a percentage of GDP was back down to early-2000s levels.

Gross fixed capital formation (investment) as percentage of GDP



Source: SARB data

The increased level of total GFCF as a percentage of GDP in the aftermath of the global financial crisis compared to the early-2000s was generally not due to higher levels of private investment but due to higher (if declining) levels of public sector GFCF growth as a percentage of GDP

Actual performance and outlook

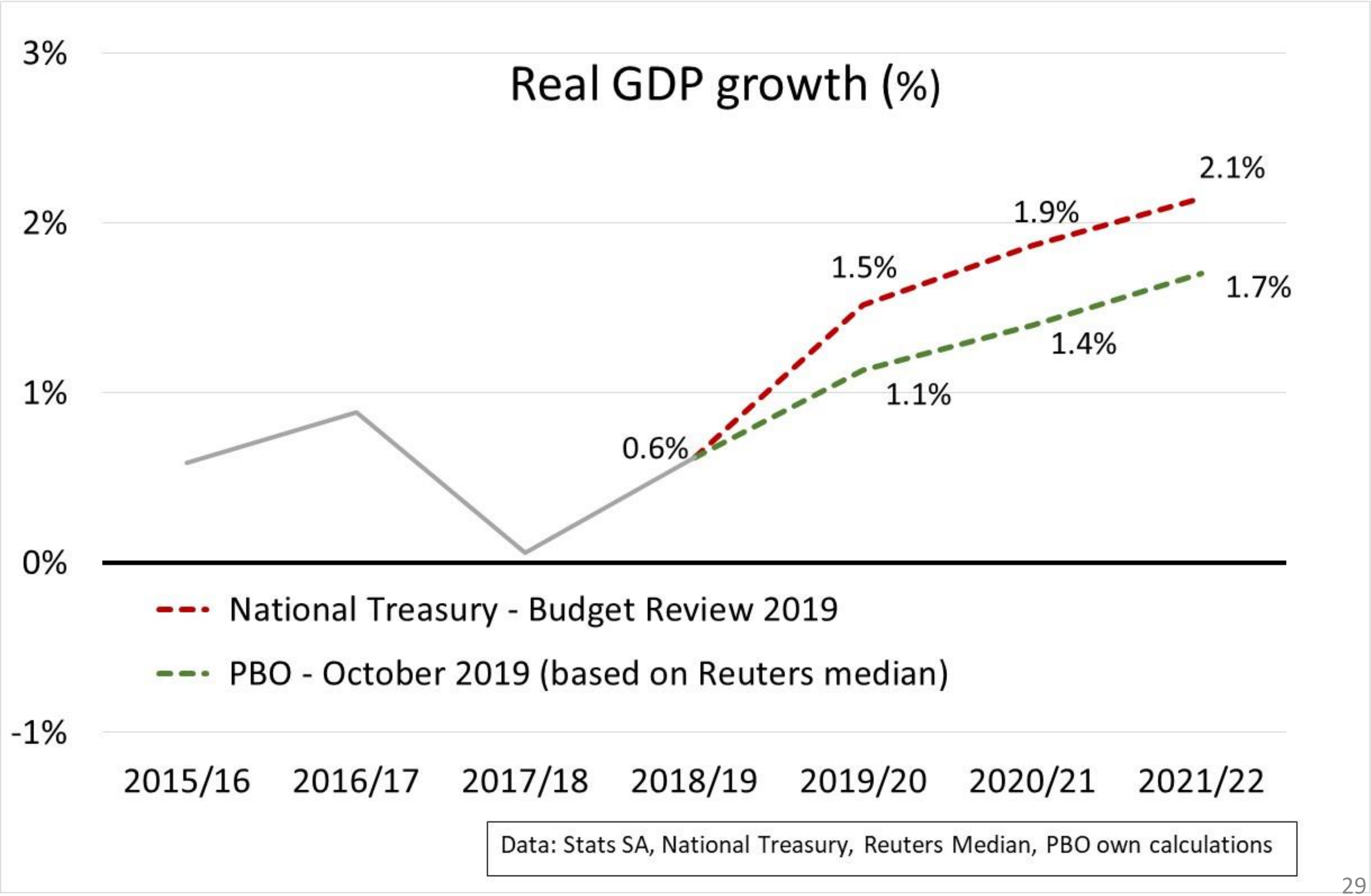
- Growth outlook
- Revenue first five months
- Expenditure first five months
- Debt
- Guarantees

GDP growth outlook

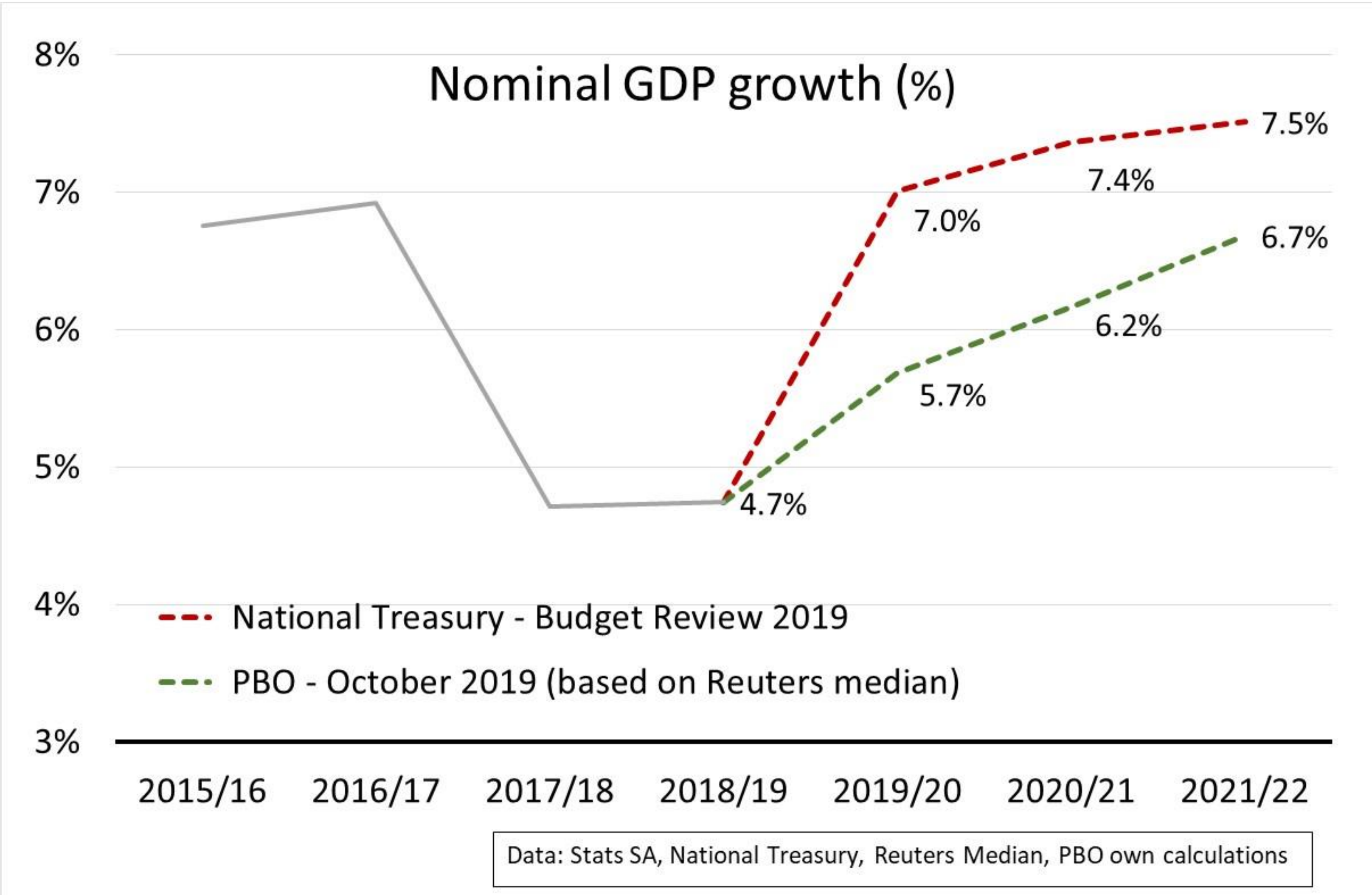
GDP growth outlook - calender year*	**2019**	**2020**	**2021**
National Treasury - Budget 2019	*1.5%*	*1.7%*	2.1%
South African Reserve Bank - January 2019	1.7%	2.0%	2.2%
South African Reserve Bank - September 2019	0.6%	1.5%	1.8%
Bureau for Economic Research - January 2019	1.5%	2.0%	2.4%
Bureau for Economic Research - August 2019	0.2%	1.1%	n/a
Reuters Polls (median) - January 2019	1.5%	1.9%	2.0%
Reuters Polls (median) - August 2019	0.6%	1.3%	1.7%
International Monetary Fund - April 2019	1.2%	1.5%	n/a
International Monetary Fund - October 2019	0.7%	1.1%	n/a
World Bank - April 2019	1.3%	1.7%	1.8%
World Bank - October 2019	0.8%	1.0%	1.3%

*Growth projections correspond to publication date and not forecast

Downwardly revised growth outlook



Outlook for nominal GDP growth has also been downwardly revised



Summary: National revenue, expenditure and borrowing as at end August 2019

R thousand	2019/20 Budget Estimate	2019/20 Year to date	2019/20 % Year to date
Revenue	**1 403 464 376**	**509 668 988**	**36.3%**
Expenditure	**1 658 707 425**	**699 077 286**	**42.1%**
Appropriation by vote	**882 647 777**	**374 454 954**	**42.4%**
Direct charges against the NRF	**743 849 648**	**324 622 332**	**43.6%**
Debt-service costs	*202 207 844*	*83 019 193*	**41.1%**
Provincial equitable share	*505 553 753*	*210 647 410*	**41.7%**
General fuel levy sharing with metropolitan municipalities	*13 166 793*	*4 388 928*	**33.3%**
Eskom - payment in terms of Section 16(1) of the PFMA	*23 000 000*	*13 500 000*	**58.7%**
South African Airways and Denel - payments in terms of Section 6(1)(b) of the Appropriation act 2019 SABC	-	*3 800 000*	
Skill Levy and SETAs	*18 758 510*	*7 281 127*	**38.8%**
Other costs	*4 162 748*	*1 985 674*	**47.7%**
Provisional allocation for contingencies not assigned to votes	10 000	-	**0.0%**
Infrastructure fund not assigned to votes	1 000 000	-	**0.0%**
Special Appropriation for Eskom	26 000 000	-	**0.0%**
Compensation of employees and other baseline adjustments	(4 800 000)	-	**0.0%**
Contingency reserve	13 000 000	-	**0.0%**
Main budget balance	**-255 243 049**	**-189 408 298**	**74.2%**
Domestic short-term loans (net)	**25 000 000**	**81 110 822**	**324.4%**
Domestic long-term loans (net)	**185 404 000**	**113 688 070**	**61.3%**
Foreign loans (net)	**(20 972 000)**	**(25 875 834)**	**123.4%**
Change in cash and other balances[1]	**65 811 049**	**20 485 240**	**31.1%**
Total financing (net)	**255 243 049**	**189 408 298**	**74.2%**

2019/20 First five months tax revenue outcome

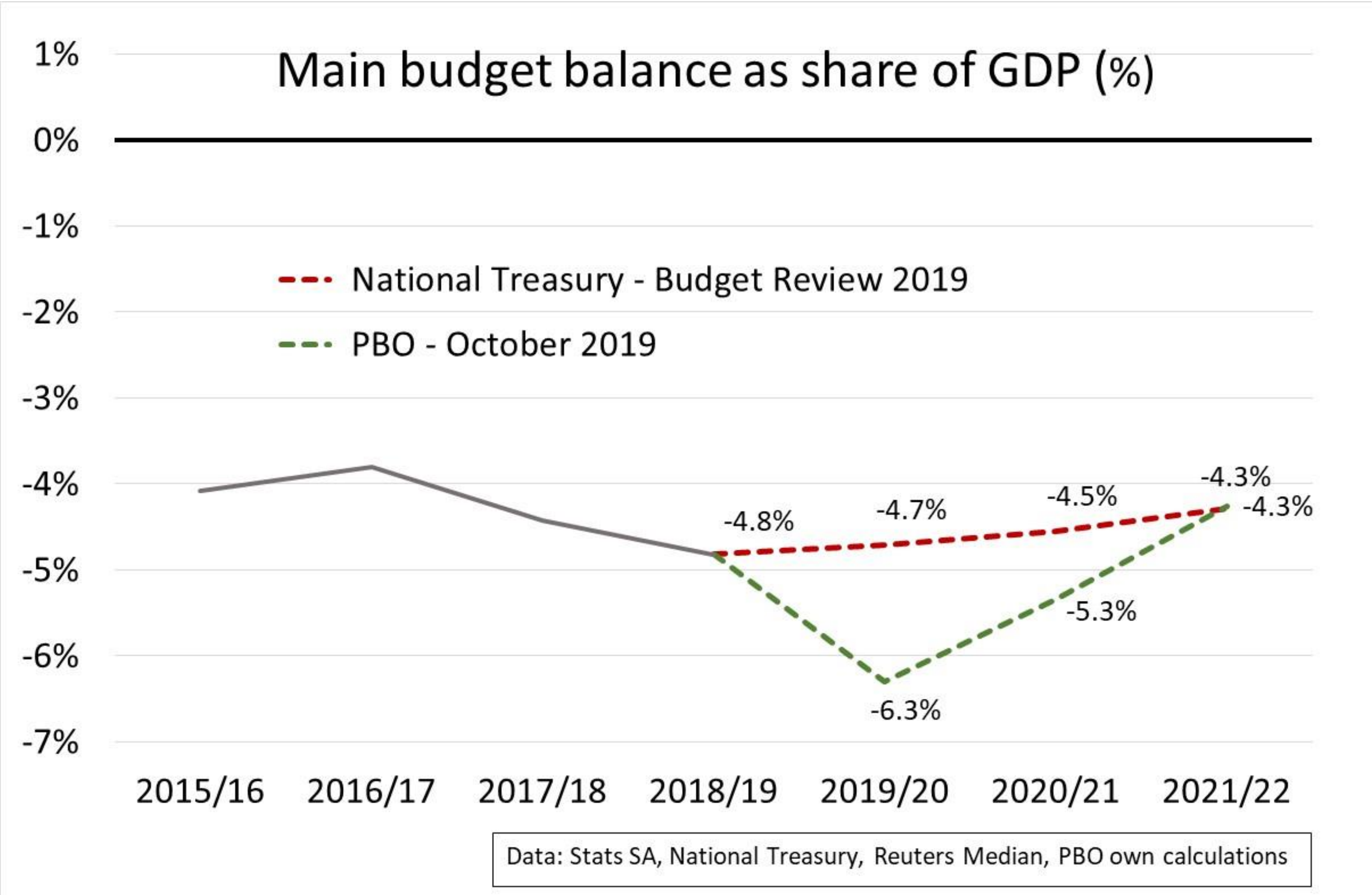
R' million	Budget Estimate 2019/20	By 31 Aug 2019	Collection as % budget 2019	Collection as % budget 2018
PIT	552,877	207,780	37.6	38.5
VAT	360,471	129,250	35.9	38.0
CIT	229,608	78,451	34.2	33.3
Fuel Levy	82,958	31,666	38.2	39.6
Dividend withholding	31,851	12,376	38.9	37.9
Custom Duties	53,664	17,576	32.8	36.9
Specific Excise Duties	42,354	16,608	39.2	35.7
SDL	18,759	7,256	38.7	40.5
Ad-valorem	4,454	2,078	46.7	49.6
Other	45,212	16,068	35.5	38.5
Gross Tax Revenue	1,422,208	519,109	36.5	37.4

Data sources: **PFMA section 32 reports**

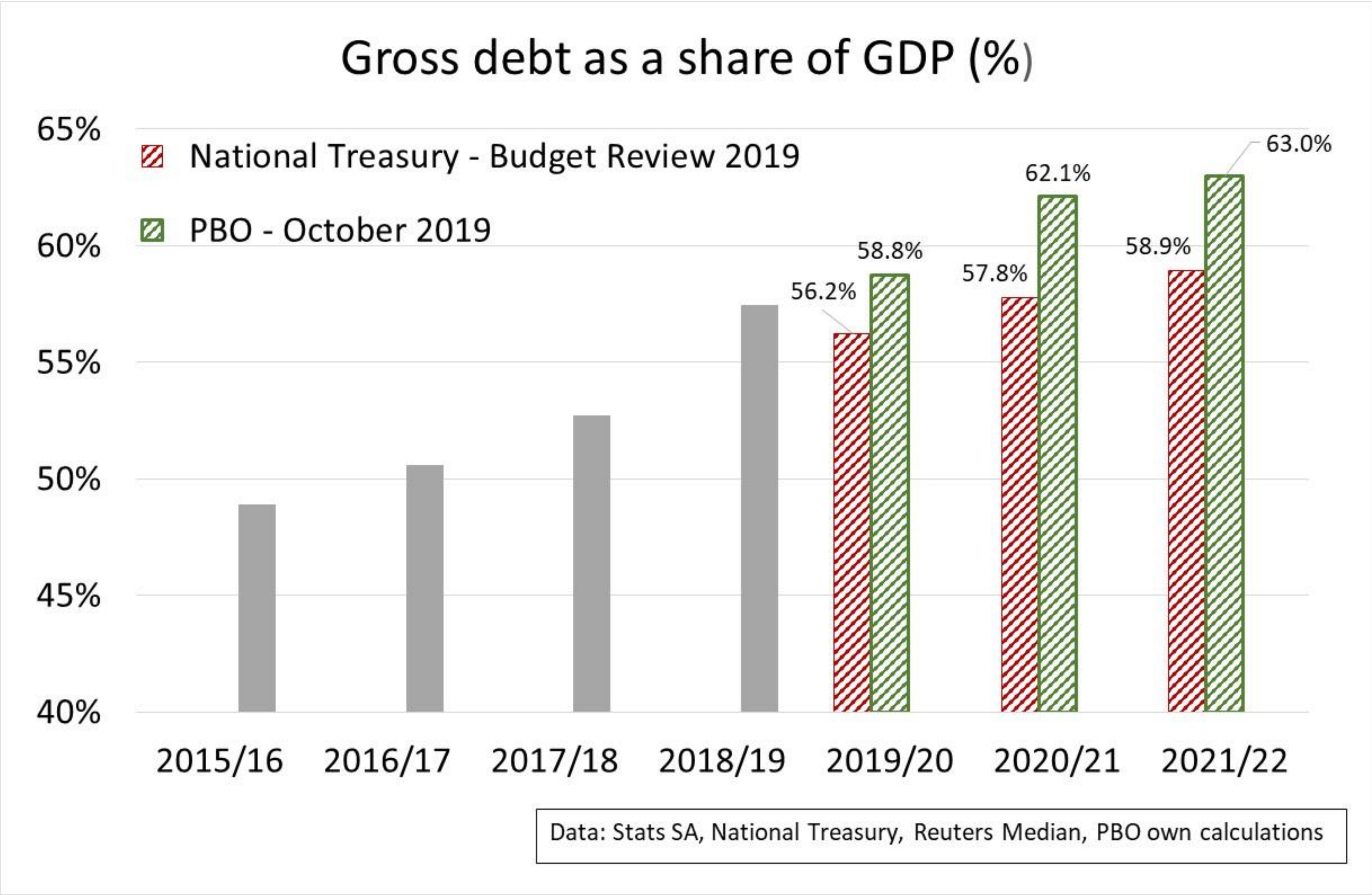
Changes to 2019/20 Fiscal Framework

R million	NT Budget Review 2019	PBO Pre-MTBPS 2019[1,2]	Surplus (shortfall) compared to NT BR projections	
Personal income tax	552,877	538,625	(14,252)	-2.6%
Corporate income tax	229,608	220,507	(9,102)	-4.0%
Skills development levy	18,759	16,819	(1,940)	-10.3%
VAT	360,471	349,071	(11,401)	-3.2%
Other tax revenue	260,493	248,695	(11,799)	-4.5%
Gross tax revenue	**1,422,208**	**1,373,715**	**(48,493)**	-3.4%
SACU payments	(50,280)	(48,289)	1,991	-4.0%
Main budget revenue	**1,403,464**	**1,358,306**	**(45,158)**	-3.2%
Main budget expenditure	**1,658,707**	**1,680,232**	**21,525**	1.3%
Main budget balance	**(255,243)**	**(321,926)**	**(66,683)**	26.1%
Main budget balance (% of GDP)	**-4.7%**	**-6.2%**	**-**	**-1.5%**
Gross loan debt (% of GDP)	**56.2%**	**58.8%**	**-**	**2.5%**
Net loan debt (% of GDP)	**50.3%**	**50.7%**	**-**	**0.2%**
Tax buoyancy[3]	**1.31**	**1.18**	**(0.14)**	**-**

Fiscal slippage, again



Higher debt outlook



Government guarantee exposure

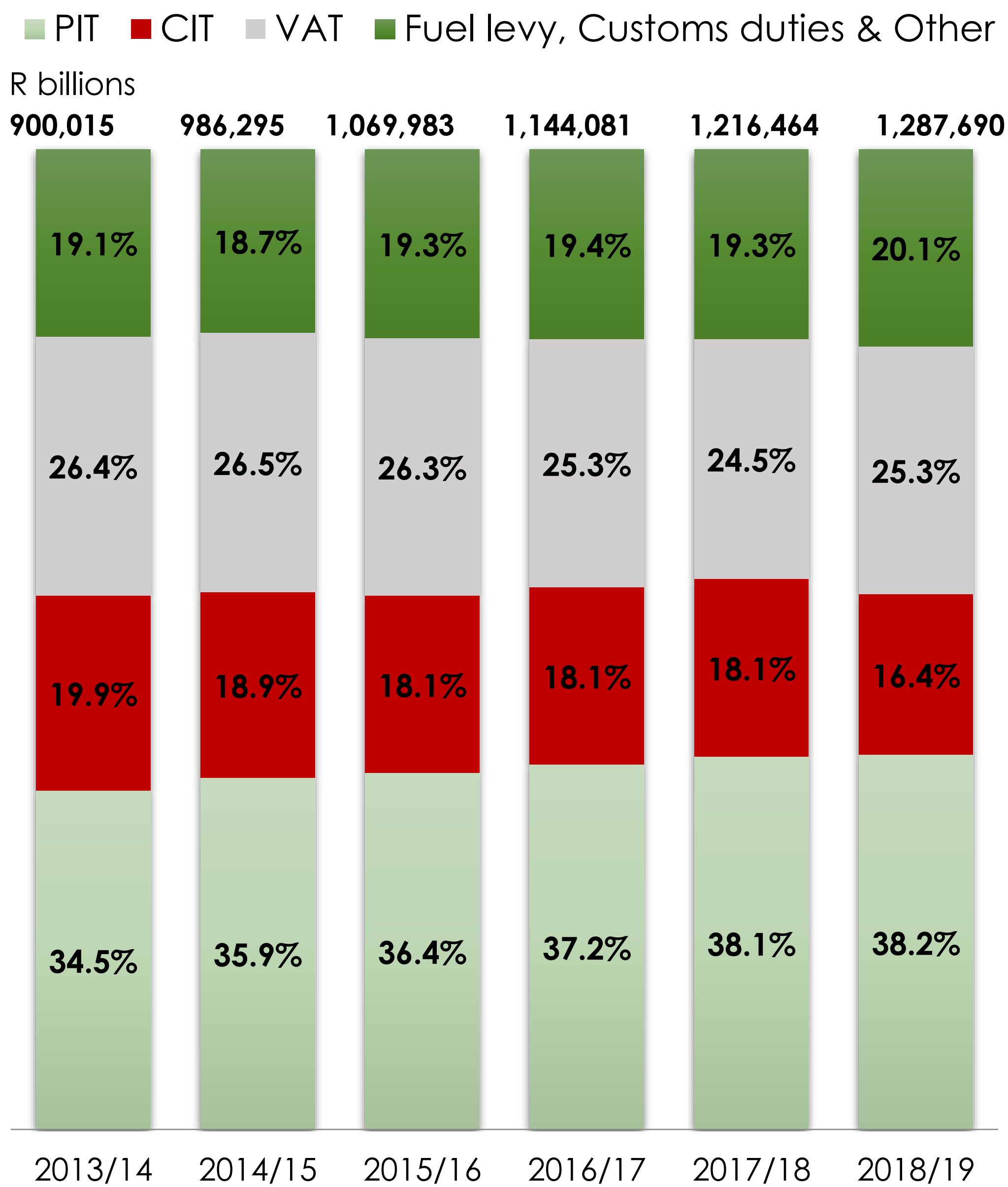
	2016/17		2017/18		2018/19	
R' billion	Guarantee	Exposure	Guarantee	Exposure	Guarantee	Exposure
Eskom	350	202.8	350	244.7	350	294.7
SANRAL	38.9	29.4	38.9	30.4	38.9	30.3
Trans-Caledon Tunnel Authority	25.6	20.9	25.7	18.9	43	14.9
South African Airways	19.1	17.8	19.1	11.1	19.1	17.3
Land and Agricultural Bank	11.1	3.8	9.6	3.8	9.6	2.5
Development Bank	12.5	4.1	12.2	4.1	11.4	4.4
South African Post Office	4.4	4	4.2	0.4	0	0
Transnet	3.5	3.8	3.5	3.8	3.5	3.8
Denel	1.9	1.9	2.4	2.4	3.4	3.4
South African Express	1.1	0.8	1.1	0.9	1.2	0.2
Industrial Development Corporation	0.4	0.2	0.4	0.1	0.5	0.2
South African Reserve Bank	3	0	0	0	0.3	0
Independent power producers	200.2	125.8	200.2	122.2	200.2	146.9
Public-private partnerships	10	10	10	9.6	10.1	10.1
SUM	**681.7**	**425.3**	**677.3**	**452.4**	**691.2**	**528.7**

Revenue discussion

- Tax and other revenue proposal are not presented in the MTBPS; but
- Parliament is currently processing the 2019 tax and revenue proposals
- Provide for mid-year update on major tax revenue outcomes

Major tax revenue trends: 2013/14 to 2018/19

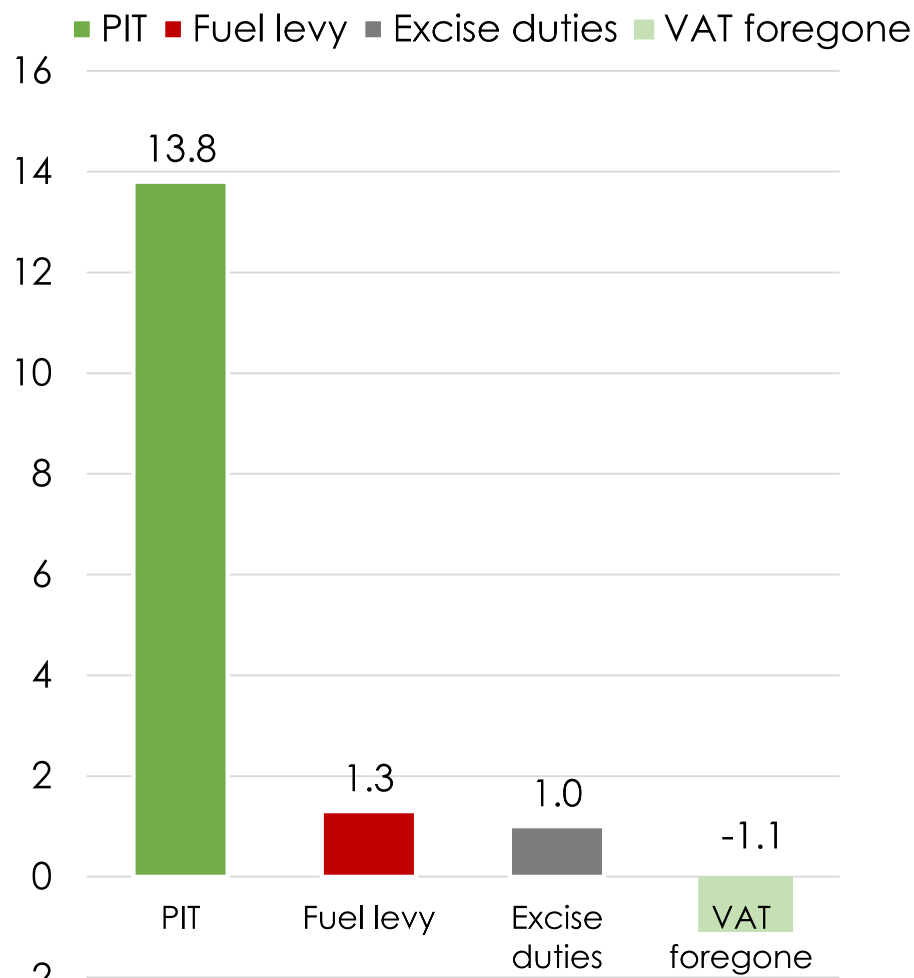
- Over 90% of government revenue is derived from taxes
- Approximately 80% of tax revenue is from:
  - Personal Income Taxes (PIT), 38%
  - Value added Taxes (VAT), 25%
  - Corporate Income Tax (CIT), 16%
- Therefore, tax revenue is largely dependent on
  - Level of employment (PIT),
  - Profitability of businesses (CIT)
  - Consumption of goods and services (VAT)
- However, base erosion and profit shifting (BEPS) and other factors may also influence tax revenues



Data sources: **Tax Stats, NT, SARS**

2019/20 Tax and other revenue proposal

Additional revenue from tax proposals = R15 billion



- 2018/19 Revenue collection missed target by R 14.5 billion (1.1%) against revised estimates or R 57.3 (4.3%) billion against Budget estimates
- Poor economic performance contributed to low revenue collection
- 2019/20 Tax revenue proposals expected to raise R15 billion:
  - Personal Income Taxes (PIT) – R13.8 billion
  - Fuel Levy – R 1.3 billion
  - Excise Duties- R 1 billion
  - VAT foregone- R 1.1 billion
- Already indications are that government may miss 2019/20 revenue target; MTBPS to provide more details

Data sources: **NT, PBO**

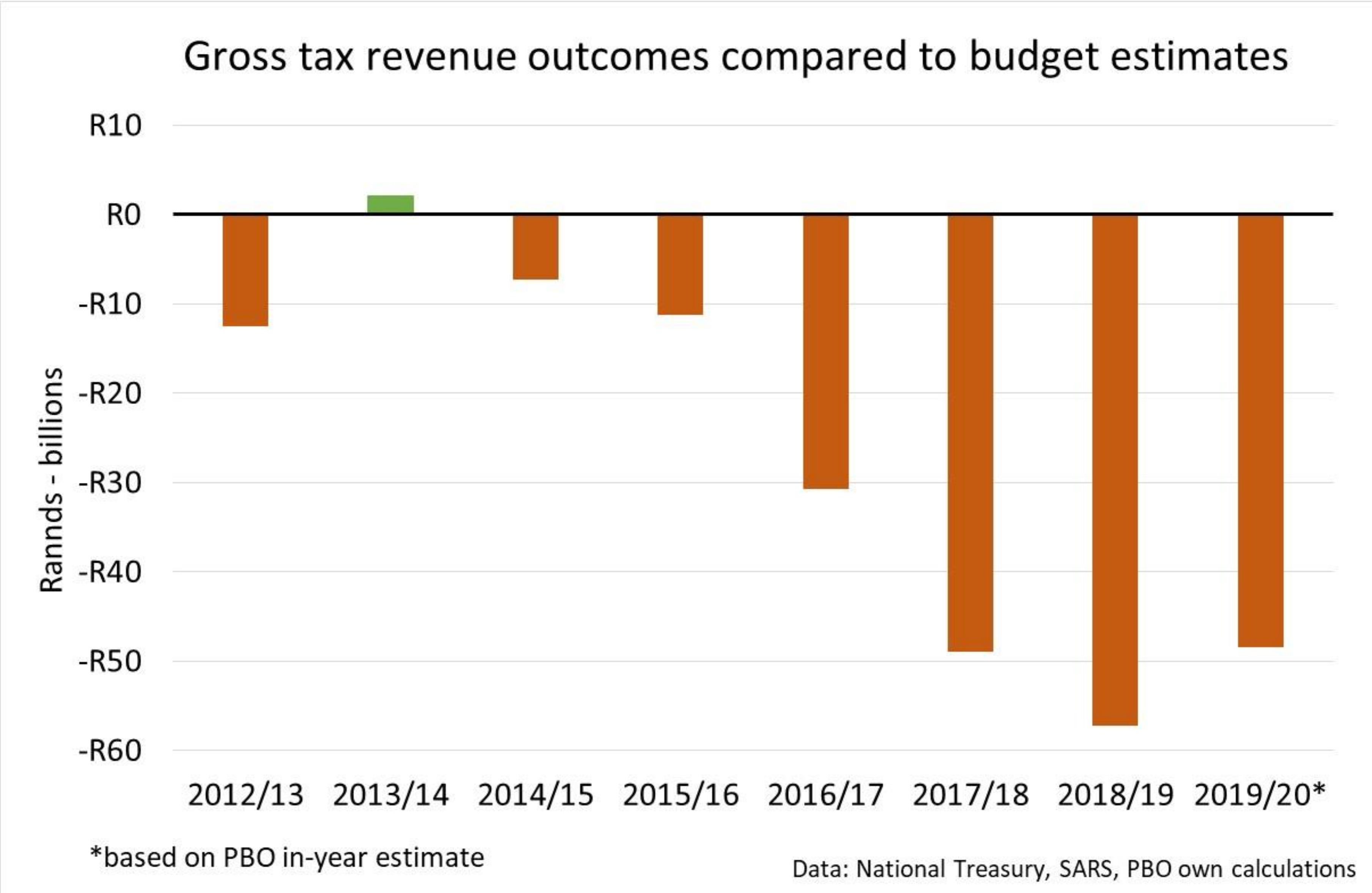
Revenue: 2019/20 PIT spread

		R' billion	
Taxable bracket R thousand	% of total registered individuals	Tax before proposal	Tax after proposal
R70 - R150	31.2%	R10.3	R10.1
R150 - R250	25.5%	R36.4	R36.2
R250 - R350	15.3%	R49.6	R49.7
R350 - R500	12.9%	R75.9	R76
R500 - R750	8%	R89.1	R89.2
R750 - R1000	3.4%	R66.1	R66.2
R1 000 - R1500	2.1%	R65.8	R65.8
R1 500 +	1.6%	R159.8	R159.8
Total PIT Budget			**R552.9**

Source: National Treasury

- PIT changes contained in the 2019 budget result in individuals within the taxable income brackets of R250 000 to R1 million paying slightly more tax.
- In aggregate, these four taxable income brackets make up 39.6% of total registered tax payers above the tax free threshold and contribute 50.8% of tax collection in the 2019/20 fiscal year.
- Individuals in the R70 000 to R250 000 taxable income brackets will pay less tax due to the changes while those with taxable income from R1 million & above will not be affected by the tax changes.

Persistent overestimation of revenue



Key issues for consideration in revenue oversight

- Tax revenue outcomes for past five years has underperformed the budget revenue estimates;
- 2019/20 tax revenue performance is also expected to underperform;
- 2019/20 revenue budget estimates exceeds 2018/19 outcomes by more than 10%; it is highly unlikely to be achieved given recent performance; Is the revenue budget estimate, particularly tax revenue, overly optimistic?
- Cost-of-revenue collection ratio has worsened over the past five years, from 0.97% (2013/14) to 0.84% (2018/19); Does this mean SARS has been performing less effectively? How effective are the measures in place to improve efficiencies at SARS?
- Has SARS been able to deal with tax refunds difficulties, as the collected refunds and uncollectable debts may be distorting the revenue collection estimates?

Expenditure discussion

- National Treasury Expenditure Management
- Changes to the Macro structure

National Treasury: Expenditure management

- Controlling growth in salaries: Early retirement will save an estimated R4.8 billion in 2019/20, R7.5 billion in 2020/21 and R8 billion in 2021/22.
- Limits on overtime, bonus payments as well as pay progression.
- The system of staffing diplomatic missions should be reviewed urgently.

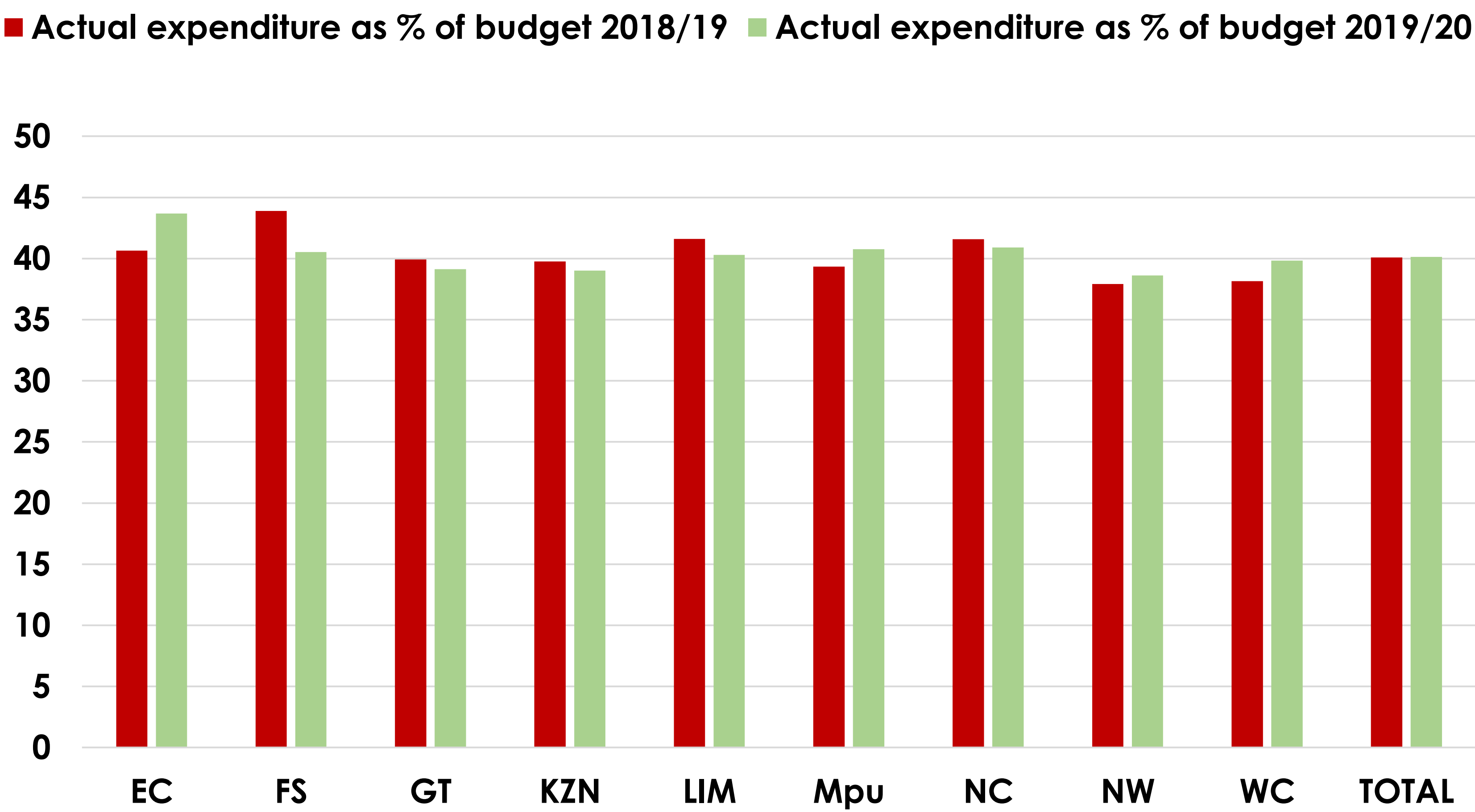
SOUTH AFRICAN REPRESENTATIVES ABROAD	Total
Embassies/High Commission	104
Consulates/Consulates General	16
Honorary Consulates/Honorary Consulates-General/Honorary Consular Agency/Honorary Vice-Consulates	97
Other (e.g. Liaison Office)	2
Non-resident Accreditation	68
International Organisations	12

Changes to the Macro Structure

	Original Votes (12)	New Votes (11)
3	Communications	Communication and Digital Technologies
		Government Communication and Information System
11	Public Works	Public Works and Infrastructure
13	Women	Women, Youth and Persons with Disabilities
24	Agriculture, Forestry and Fisheries	Agriculture, Land Reform and Rural Development
26	Energy	
27	Environmental Affairs	Environment, Forestry and Fisheries
28	Labour	Employment and Labour
29	Mineral Resources	Mineral Resources and Energy
30	Science and Technology	Science and Innovation
34	Trade and Industry	Trade Industry and Competition
37	Arts and Culture	
40	Sport and Recreation South Africa	Sports, Arts and Culture

- Mineral Resources and Energy merged
- Sport and Recreation merged with Arts and Culture
- New Government Communication and Information system
- A few name changes

Provincial fiscal updates: Spending by 31 August



- Conclusions

Conclusions

- In the June SONA the President acknowledged the slow progress with the implementation of the NDP
- Government has to prioritise and focus on implementation
- PBO's research finds that integration of NDP activities into processes of government, the alignment of budgeting and reporting structures, and monitoring and evaluation have been some of the challenges for the implementation of the NDP
- Government should provide greater clarity on priorities, how it will achieve them and to institutionally align its structures and budgets to achieve these priorities
- The outlook for global growth was made worse by weak demand in an increasingly uncertain international political and economic climate

Conclusions

- Widespread global adoption of fiscal consolidation and austerity has contributed to poor domestic and global performance
- But fiscal consolidation has not lowered government debt to GDP ratios
- A broad global consensus exists that an integrated approach to fiscal and monetary measures is required to aid economic recovery
- South Africa's demand constrained economic growth continues to be below the world and developing country average growth rates
- Where will South Africa's economic growth come from?
  - Private consumption and investment likely to remain inadequate
  - More public consumption and investment through fiscal expansion is required
- Fiscal consolidation has been at a too general level of constraining expenditure; insufficient attention to composition and quality of spending
- Opportunities for mitigating the cost of fiscal consolidation on economic growth and societal impact should be considered

Conclusions

- When compared to the estimates in the 2019/20 fiscal framework, the PBO's in-year forecasts based on the year's first 5-month performance estimates that
  - revenue will be lower,
  - expenditure higher,
  - the budget balance will be lower and, therefore,
  - debt to GDP will be higher
- Revenue collection is negatively affected by lower levels of demand, economic growth, employment, income, profits and consumption.
- Actual revenue has been lower than budget estimates over the past few years (2014/15 to 2018/19)
- Therefore, we should be concerned about underperformance and efficiency of revenue collection

Conclusions

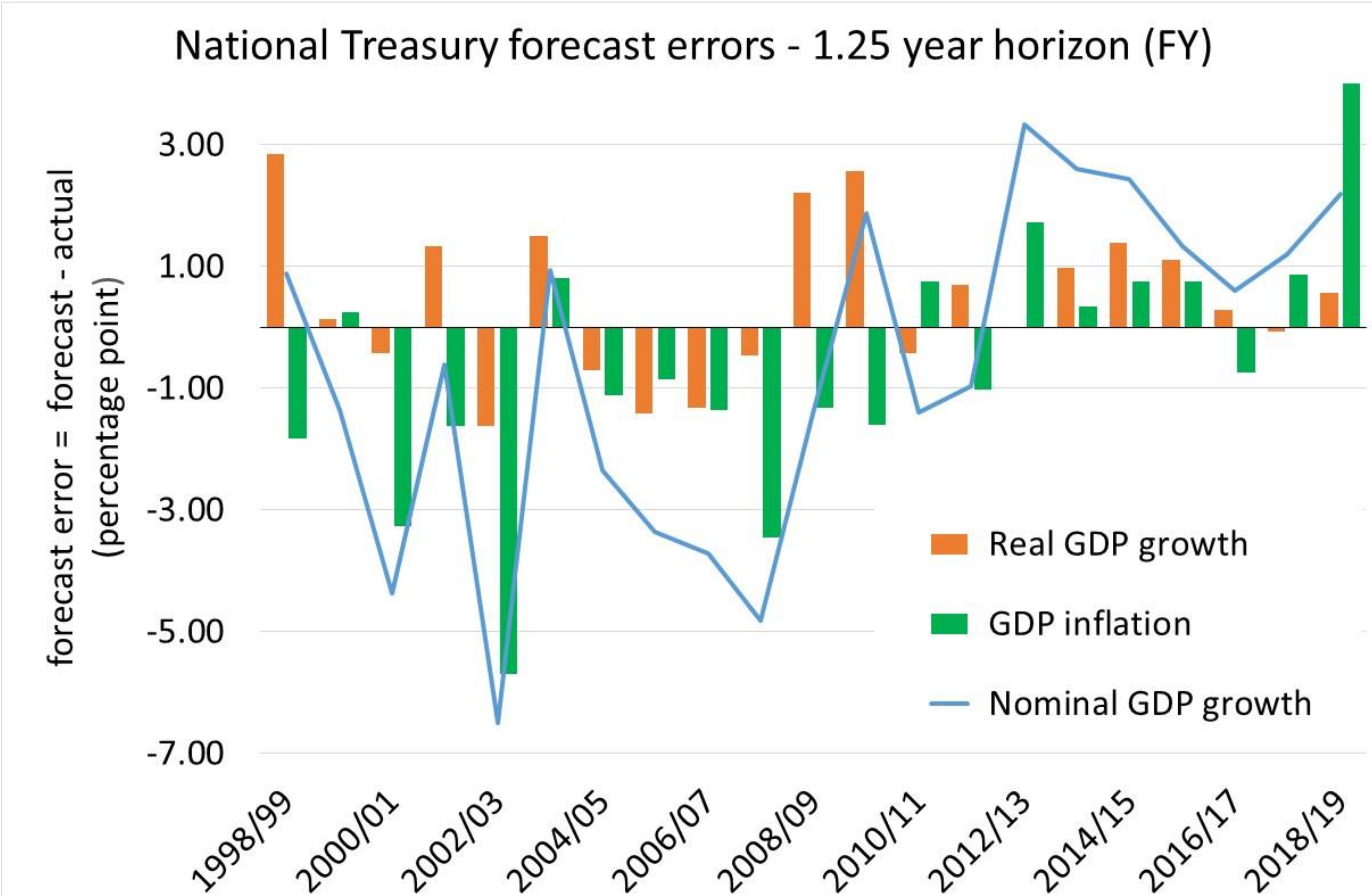
- Government is faced with several expenditure pressures:
  - some have been provided for in the budget, appropriated through a special appropriation bill and
  - others will be appropriated through the adjusted Appropriations bill.
- Some efficiency measures have been introduced with regard to expenditure in the 2019 Budget
- However, monitoring is required to evaluate the outcome and impact of these measures

Additional slides

Money Bills or fiscal instruments	Concept Explanation
Economic Overview	Government analysis and description of the international, regional and South African economic situation at a give point in the fiscal year. The analysis is intended to provide the understanding of the assumptions and global factors (including policies) or activities that underpins the international and domestic economic performance; and further provides explanation or potential implication for the fiscus.
Macro-economic Policy	Government economic strategy intended to influence the overall function of the economy. Macroeconomic objectives include, full employment, sustainable economic growth, price stability, balance of payment, fair distribution of income. Macroeconomic policies include taxes, government spending and borrowing, exchange rate determinants, and monetary and credit rules and policies.
Fiscal Policy	One of the policy instruments available for government to realise macroeconomic objectives. Government's deliberate actions to influence the economy by changing the levels of government expenditure, taxation and borrowing and debt levels.
Fiscal Framework	Shows government expression of the fiscal policy over the three year government planning cycle. Showing estimated government expenditure, revenue, borrowing, interest and debt service charges and contingency reserve;

Money Bills or fiscal instruments	Concept Explanation
Monetary Policy	Also one of the policy instruments available for government to realised some of the macroeconomic objectives. It entails short term stabilising measures taken by the central bank to manages the size and growth rate of the money supply in an economy.
Revenue and Tax proposal,	Government income raised using tax policy and other measures; Revenue and tax proposals forms part of fiscal policy which is also intended to realise some of the macroeconomic objectives.
Tax Expenditure	Government tax deductions or allowances, and tax incentives given to corporate taxpayers to encourage investments or absorbed more labour forces and other conditions.
Appropriations Bill	Propose law that seek parliament to authorises national government expenditure for a given fiscal year,
Adjustments Appropriation Bill	Bill that seek parliament approval for adjustments to a given year's appropriations act;
Division of Revenue Bill	A bill that specifying the allocations between the spheres and explanations on the assumptions and formulae and also Indicating how FFC recommendations were utilized in the decision-making process

Overestimation of real and nominal GDP



National Health Insurance

NHI

NHIF and National Health System

(voted funds: shifting of funds from equitable share and conditional grants, medical scheme tax credits, payroll tax and surcharges on personal income tax – new money bill)

Public Health Care		Private Health Care
National voted funds	**Provincial voted funds**	**Privately funded infrastructure, products and other services**