Outline

- Introduction
- Policy Priorities
- Economic situation
- Fiscal framework
- Revenue trends
- Expenditure trends

Introduction

- The PBO was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act
- The focus of this presentation is mainly on the Budget Review, which provides a summary of the Estimates of National Expenditure, the Appropriations Bill, Division of Revenue Bill and tax proposals
- The 2020 Budget proposes measures to narrow the consolidated deficit:
  - Revenue is estimated to grow slower over the 2020 MTEF
  - Expenditure to be reduced by R261 billion over the 2020 MTEF
- Realisation of expenditure reductions are based on several uncertainties:
  - Actual outcomes for 2019/20 budget
  - Public sector wage negotiations
  - Programme reviews feeding into the planning and budgeting cycle
- A critical factor in the planning and budgeting cycle is the alignment of resources with policy intent:
  - Capacitating the State vs Reducing Compensation of employees
  - Health, education and rural development vs Provincial and local government conditional grants

Policy priorities

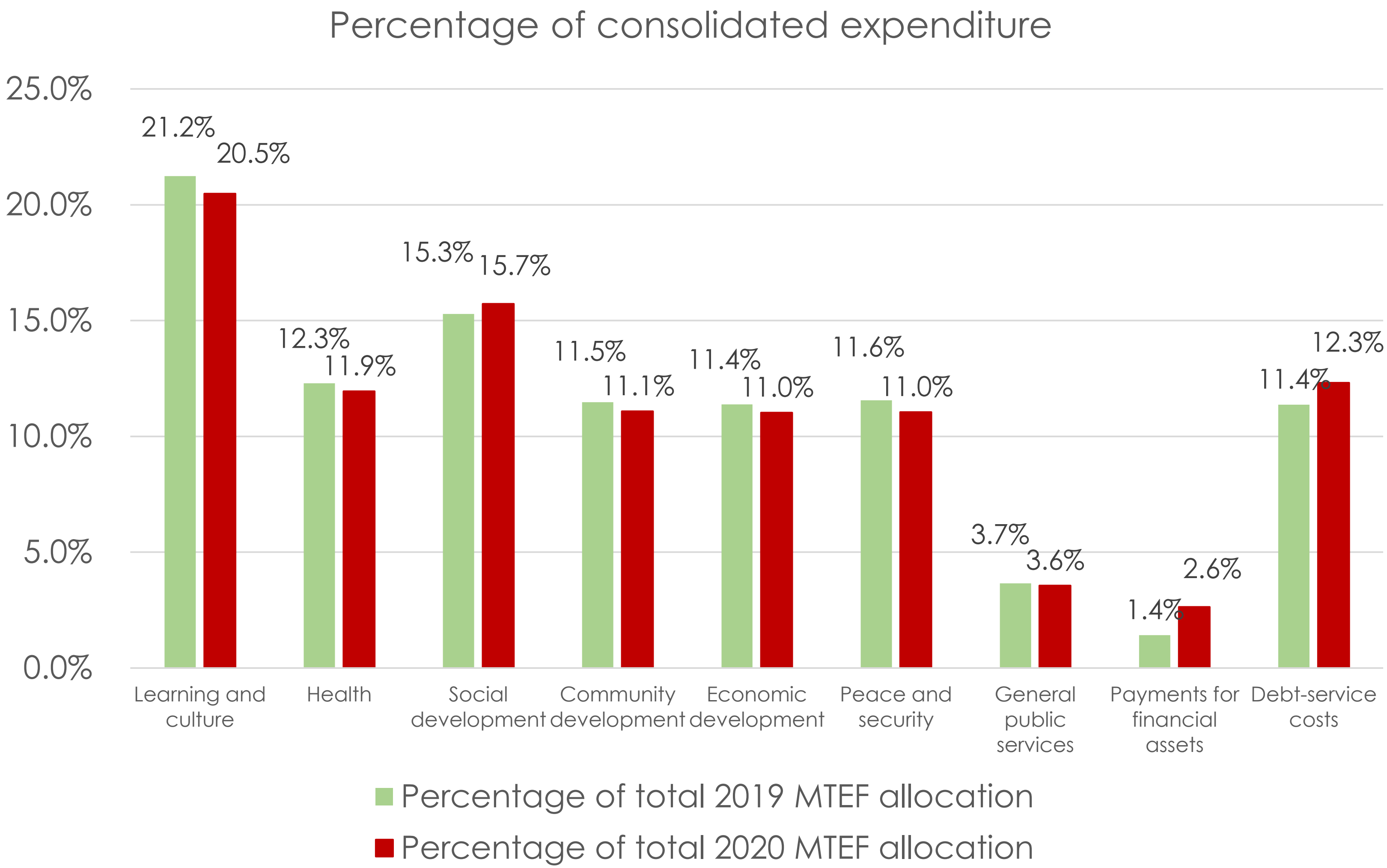
State of the Nation Address

Spending per budget function group

Policy priorities

- The 2020 SONA provides the strategic direction for the Budget
- The 2020 Budget is based on the pillars of the Economic Strategy for SA:
  - Strengthening the macroeconomic framework to deliver certainty, transparency and lower borrowing costs
  - Focusing spending on education, health and social development
  - Modernising "network industries" and restructuring our state-owned enterprises
  - Opening markets to trade with the rest of the continent
  - Implementing a re-imagined industrial strategy
  - Lowering the cost of doing business
  - Focusing on job-creating sectors, such as agriculture and tourism
- Specific priorities and projects announced in the SONA are still in the planning stage; therefore not funded in the current MTEF
- Going forward the Budget Priorities Framework, (Mandate Paper) currently under review needs to be aligned with the presidential priorities and Medium Term Strategic Framework to ensure the implementation of the NDP

Spending priorities per budget function group



Note: The consolidated budget includes the main budget framework and spending by provinces, social security funds and public entities financed from their own revenue sources.

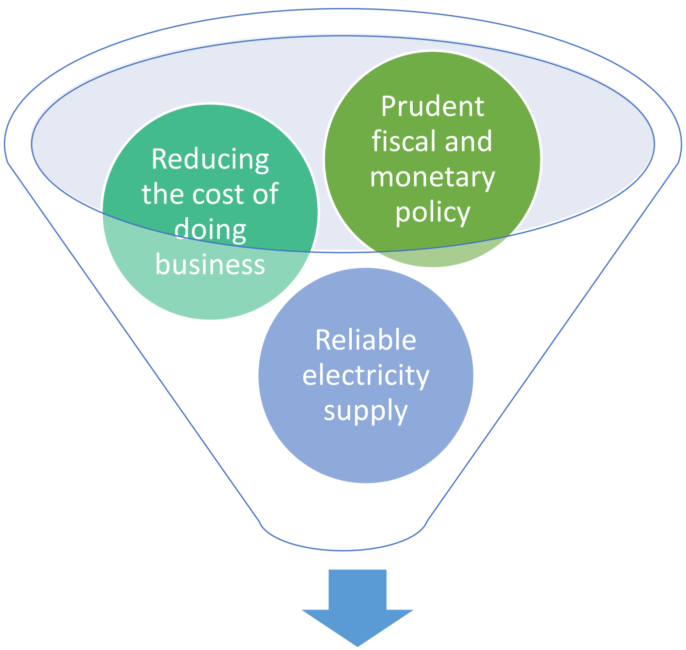
Economic situation

Where will growth come from

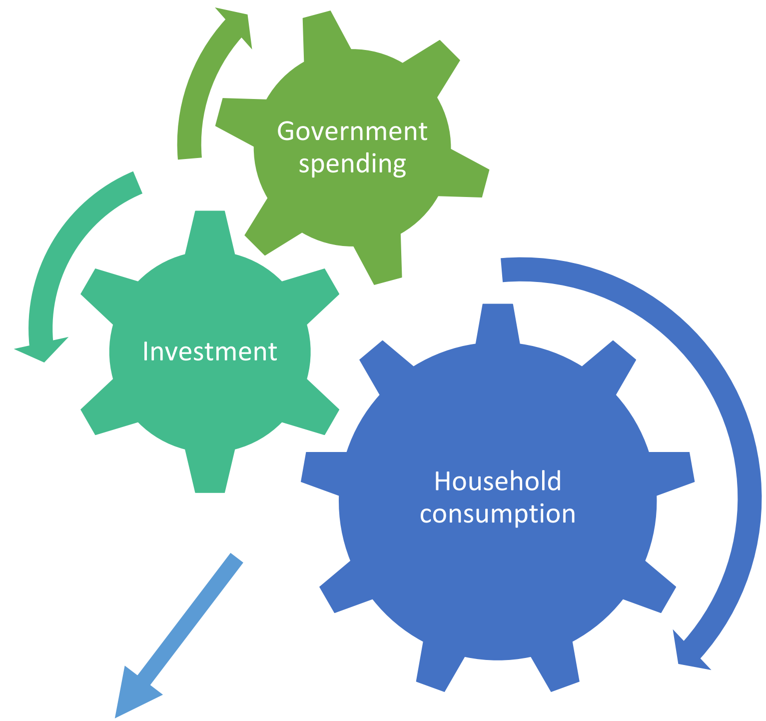
Macroeconomic approach

Where will growth come from?

Supply-side interventions



Demand-side interventions



Economic Growth

INCREASE EMPLOYMENT

Economic situation

- The macroeconomic approach in 2020 BR is too narrowly focused on the supply-side of the economy
- The speed at which an economy can grow depends largely on improving aggregate demand
  - Reducing the cost of doing business will be effective only if businesses have adequate demand for their products
  - Demand in export and domestic markets is seriously constrained
- Governments worldwide now favourably consider fiscal policy to boost demand
- The South African government can make targeted fiscal choices to boost aggregate demand, particularly consumption by poor households and infrastructure investment

Economic situation

	GDP					Household consumption					Investment (GFCF)				
Est.s & forecasts	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
2018 BR	1.5	1.8	2.1			1.7	1.9	2.3			1.9	3.3	3.7		
2018 MTBPS	0.7	1.7	2.1	2.3		1.6	1.9	2.3	2.6		0.9	1.5	2.1	2.9	
2019 BR	0.7	1.5	1.7	2.4	2.3	1.5	1.5	2.1	2.3		-0.2	1.5	2.1	3	
2019 MTBPS	0.8	0.5	0.8	1.3	1.6	1.8	1.3	1.3	1.5	1.7	-1.4	-0.4	0.2	1.3	1.9
2020 BR		0.3	0.9	1.3	1.6		1.3	1.3	1.5	1.7		-0.4	0.2	1.3	1.6

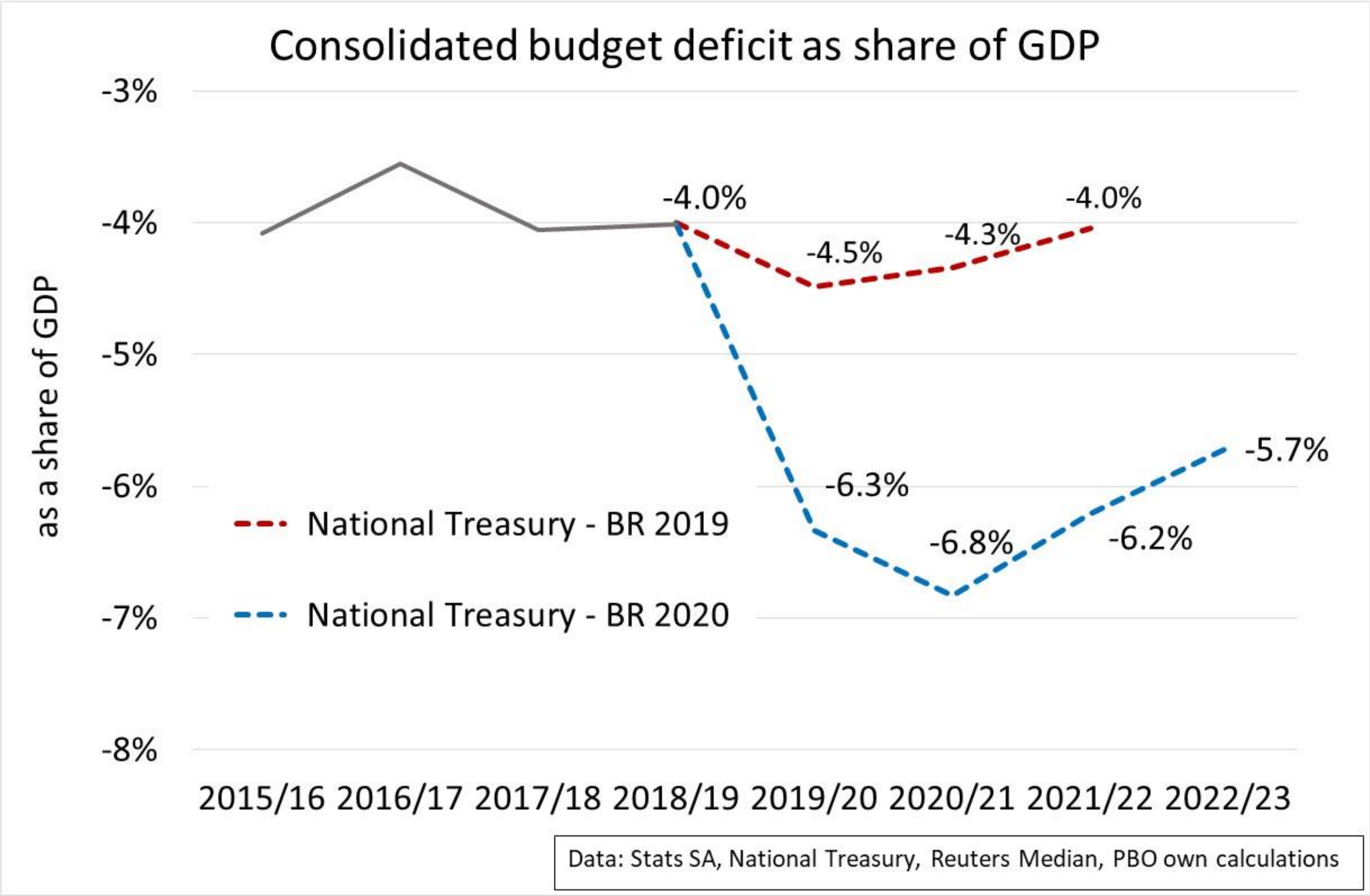
- Aggregate demand has been an important drag on the economy
- The 2020 budget proposed expenditure cuts of R261 billion
- It does not point a way to stimulating growth, investment and employment over the medium term
- It does not provide plans for responding to global risks
- Debt to GDP increases over the period

Fiscal framework

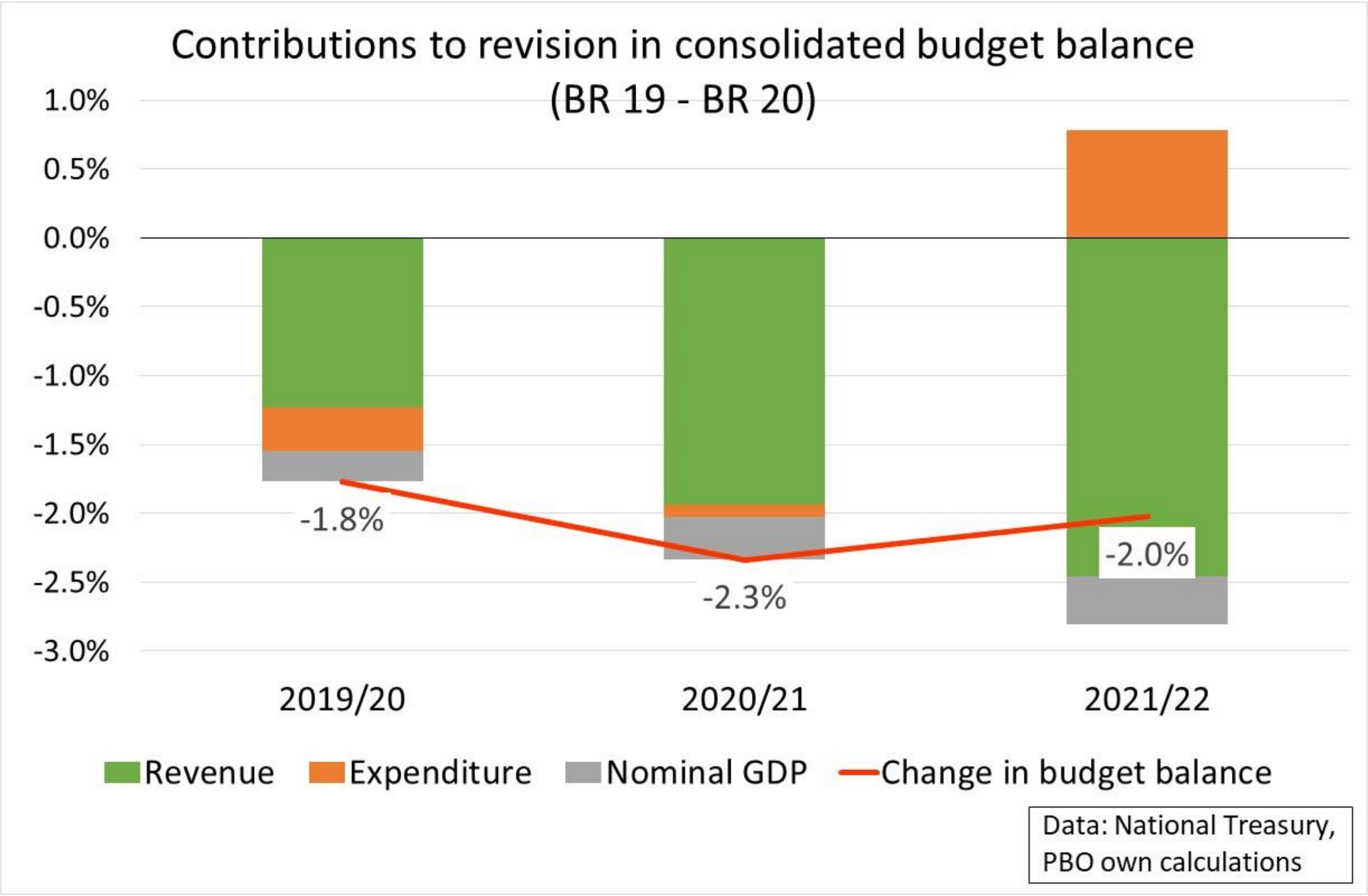
Budget balance

Contributors to stabilising debt

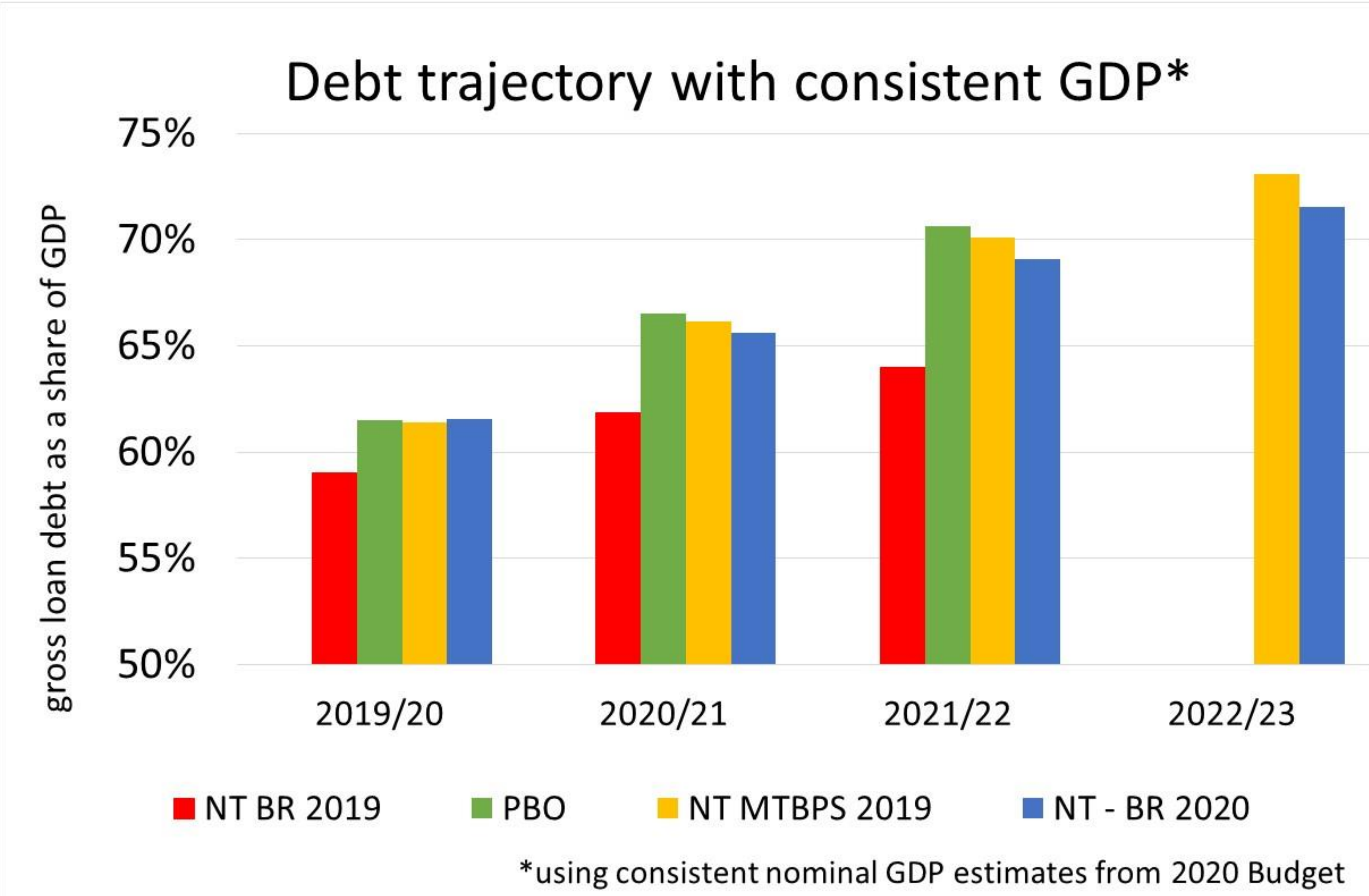
Large downward-revision to budget balance



Revenue contributes most to deteriorating outlook



Budget attempts debt stabilisation

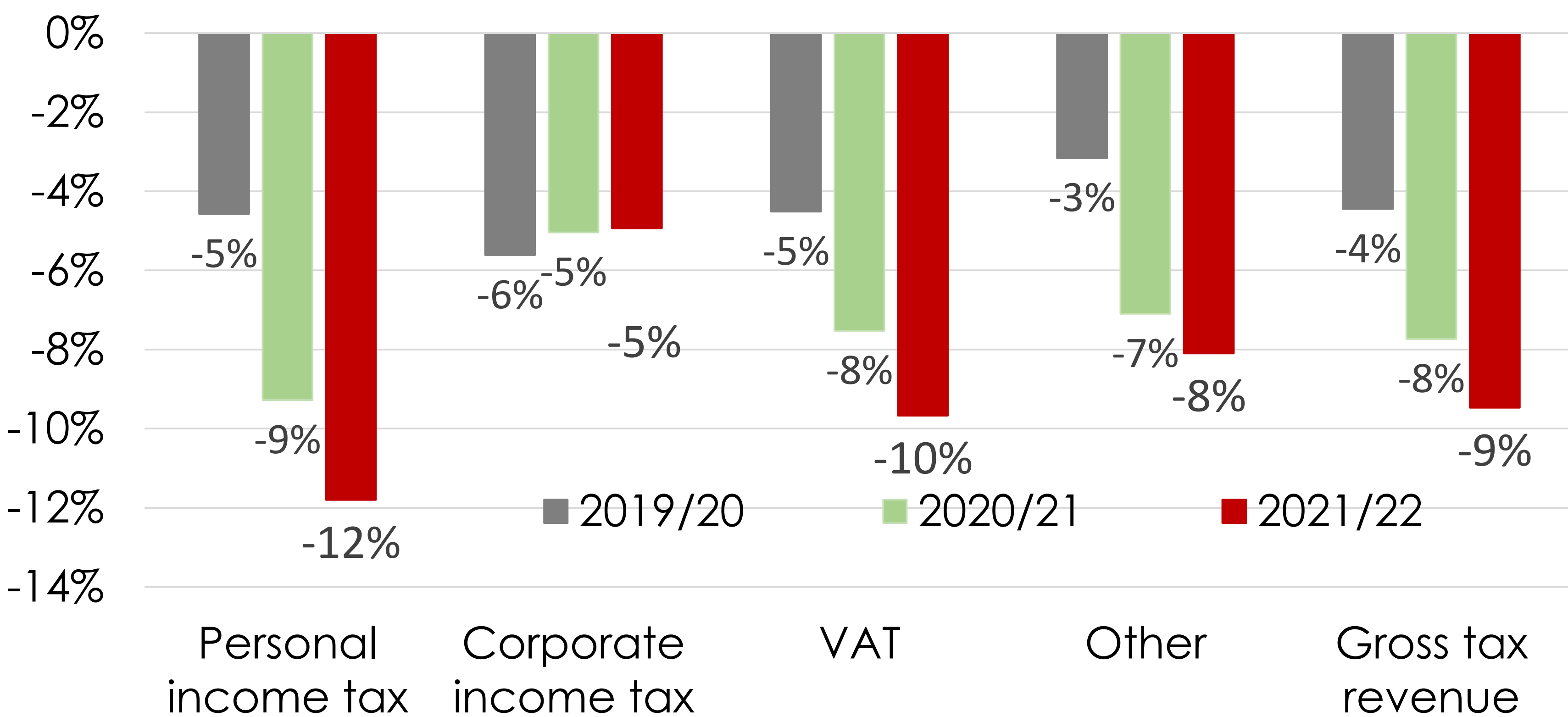


Revenue trends

Tax proposals

Tax developments

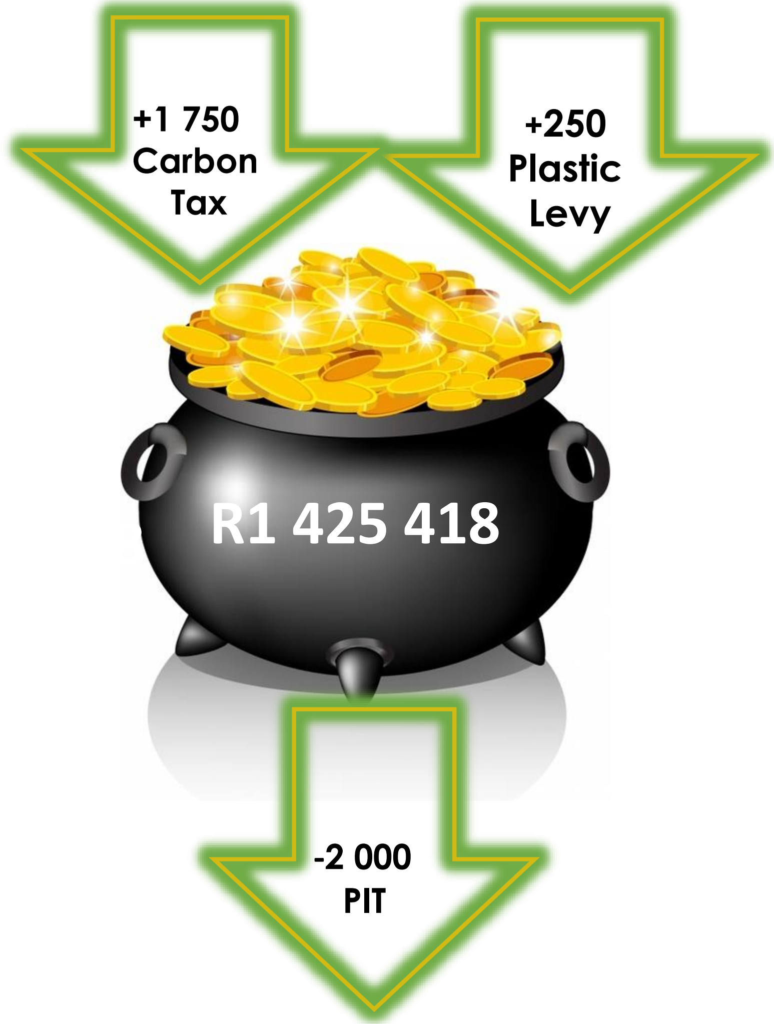
Revisions to revenue projections from 2019 to 2020 budget (% change)



Revenue: Tax proposals for 2020/21 in R' million

Other tax and revenue proposals 2020/21:

- Restricting fully offset of prior years assessed losses (CIT)
- Limit CIT interest deduction
- Increase in annual contribution limit of tax-free savings account by R3 000
- Increase in excise duties on tobacco & alcohol, and fuel levy



Tax revenue developments

- Corporate Income Taxation competitiveness:
  - Statutory tax rate (28%) vs Effective tax rate (between 10%-12%, DTC)
- Personal Income Tax
  - Cap on the exemption of foreign remuneration by tax resident to be increased to R1.25 million compared to R1million announced in 2017
- Digital Economy and Taxation Rights:
  - Clarity required on South Africa's approach on unilateralism on taxing digital economy income and profits
  - How has WTO 1998 moratorium on taxing imports of digital products affected custom tax collection over the years?

Expenditure trends and risks

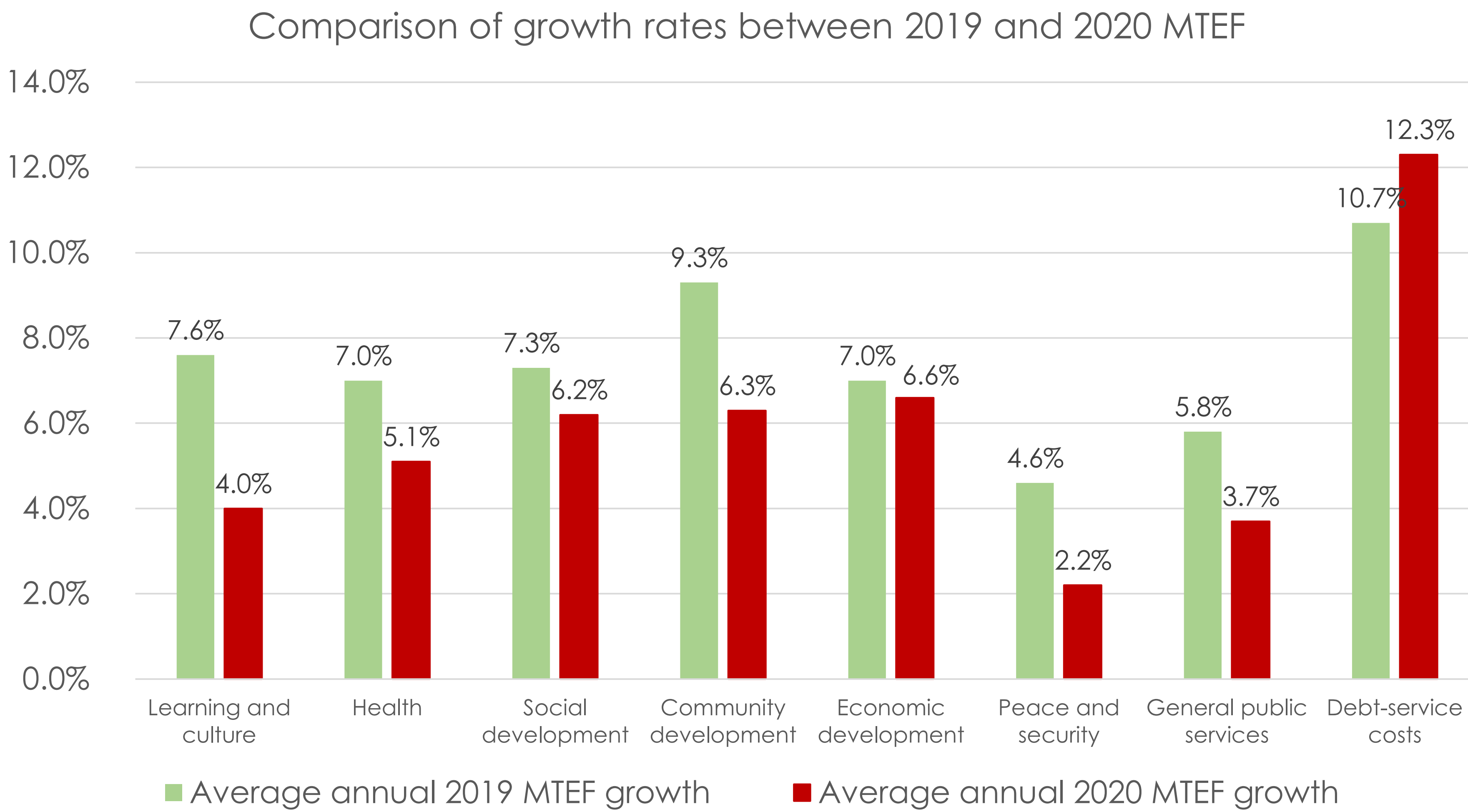
Reprioritisation of function groups

Reprioritisation in economic classification

Reducing compensation of employees

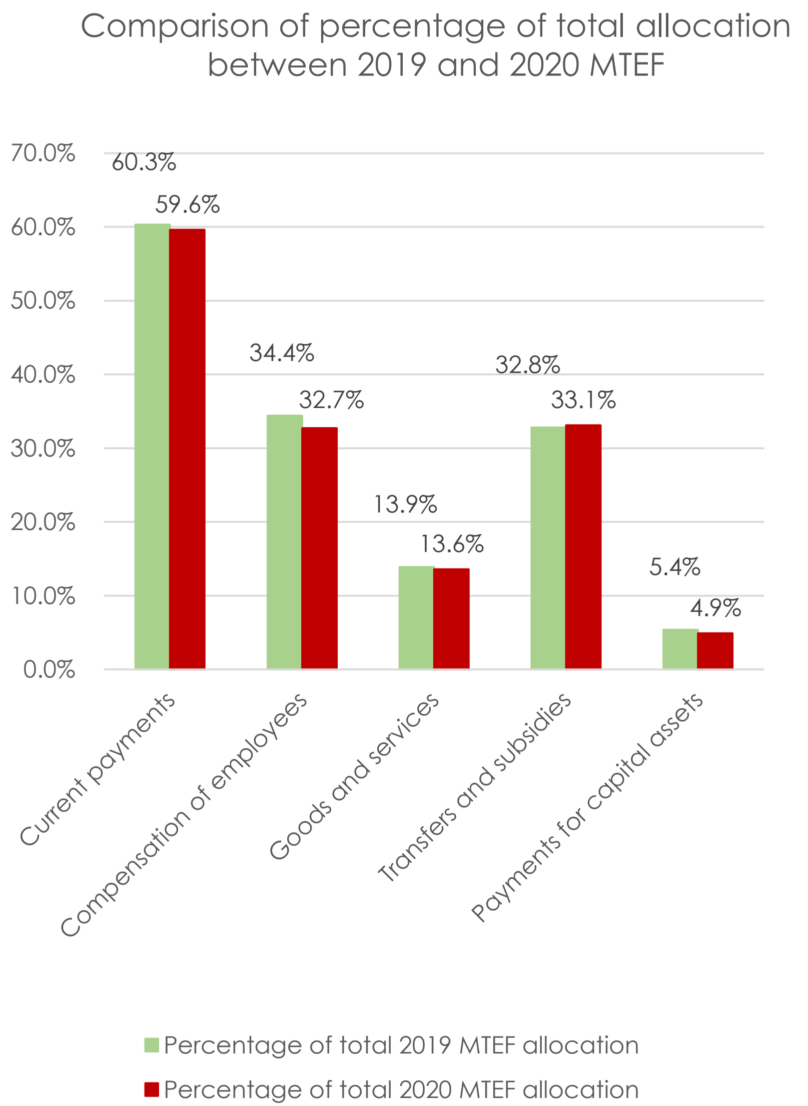
Risks to the outlook

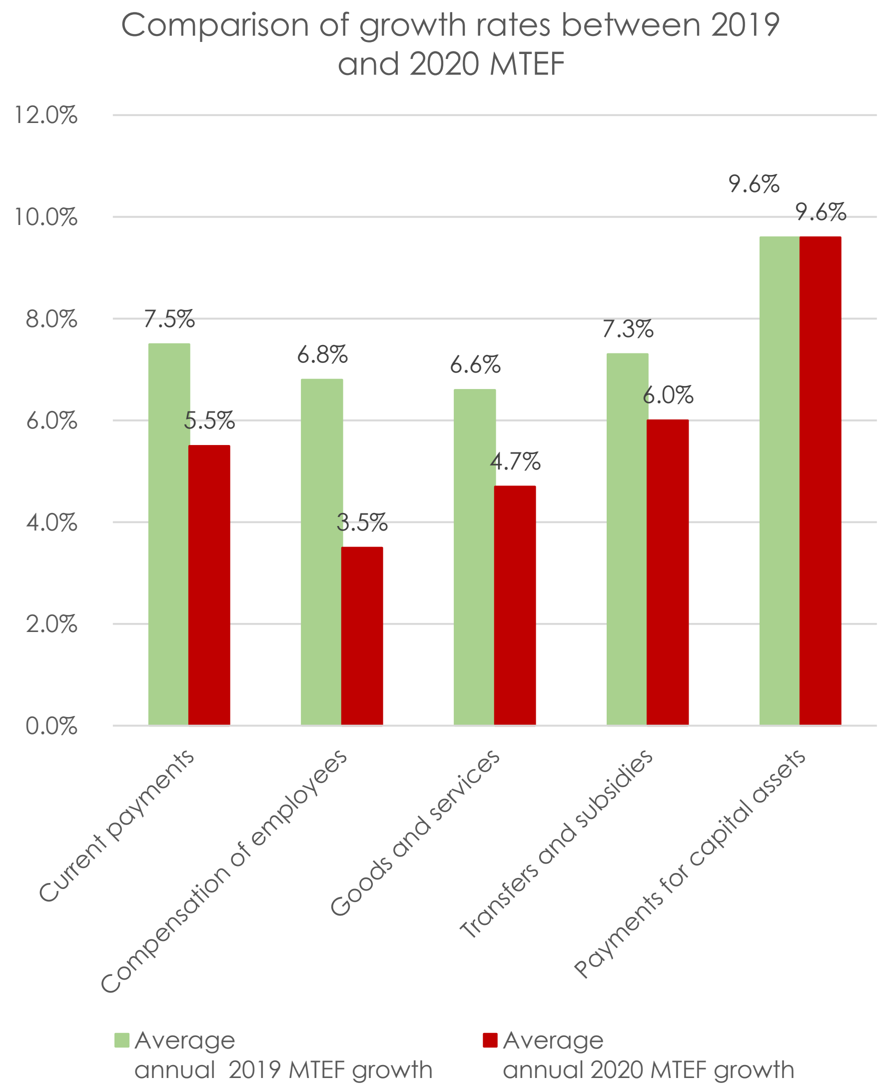
Expenditure trends: budget function group



Budget function group: Various institutions across the three spheres of government are categorised within budget function groups. The categorisation is based on the objectives or activities, which the institutions are mandated to perform.

Expenditure trends: Effect of reductions on economic classification





Expenditure trends: Effect of adjustments

Reprioritisation

- Baseline reductions over 2020 MTEF: R261 billion
- Programmes: R101 billion
  - Provincial and local government: Conditional grants
  - National departments: Cross-cutting mainly on goods and services
- Compensation of Employees: R160 billion
- Reallocations over 2020 MTEF: R111 billion of which R60 billion for SOCs
  - Eskom additional R33 billion
  - SAA almost R10 billion

Compensation of Employees (COE)

- Consolidated budget COE growth rates:
  - 2018/19 Actual to 2019/20 Revised estimate: 7.6%
  - 2019/20 to 2020/21: 1.5%
  - 2020 MTEF: 3.5%
- Personnel expenditure for National Departments grows by:
  - 2019/20 to 2020/21: 7.2%
  - 2020 MTEF: 6.0%
- Provincial compensation of employees: Inflation downward adjustment: R2. 5 billion in 2020/21 and R2.7 billion in 2021/22
  - 2019/20 2nd quarter: between 48% and 51%
- COE growth rates between financial years and function groups are mixed

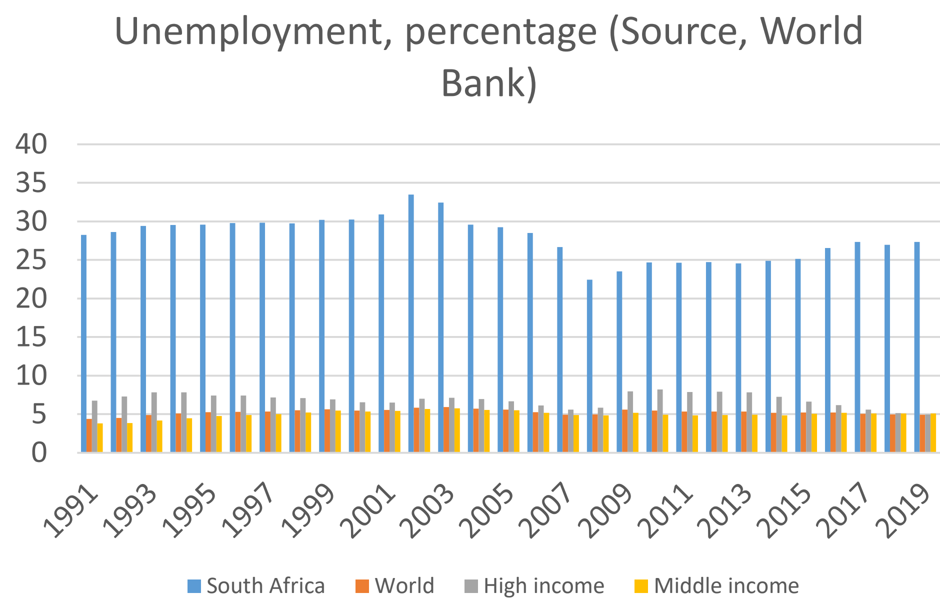
Expenditure trends: COE per budget function group

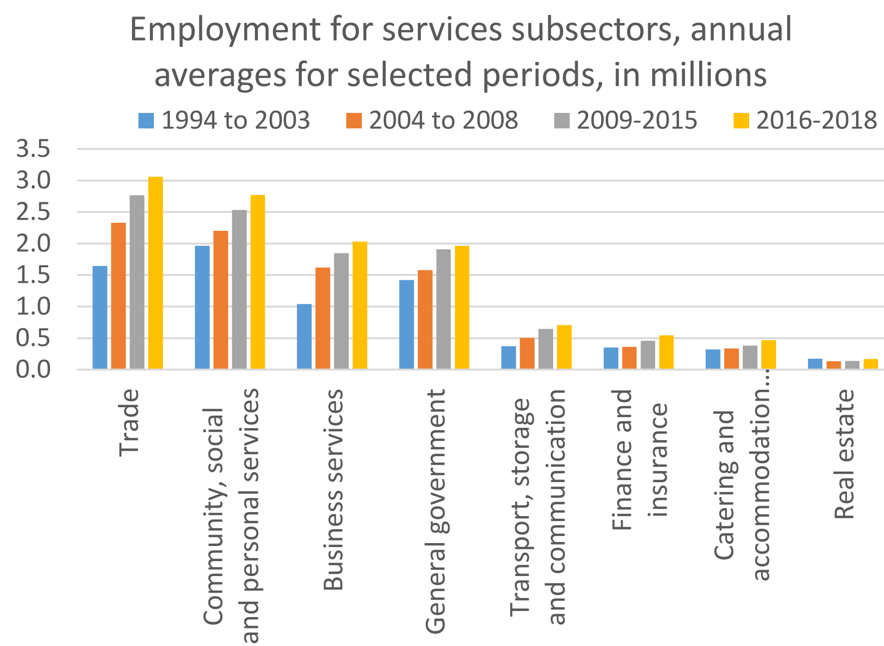
R million	2019/20 Revised estimate	2020/21	2020/21 Growth	2021/22	2021/22 Growth	2022/23	2022/23 Growth	Percentage of total MTEF	Average annual MTEF
General public services	**66 337**	**70 009**	**5.54%**	**73 238**	**4.61%**	**74 064**	**1.13%**	**100.0%**	**3.7%**
Compensation of employees	*32 022*	*32 849*	*2.58%*	*33 935*	*3.31%*	*35 460*	*4.49%*	*47.0%*	*3.5%*
Peace and security	**214 365**	**217 001**	**1.23%**	**221 291**	**1.98%**	**228 804**	**3.40%**	**100.0%**	**2.2%**
Compensation of employees	*146 536*	*147 850*	*0.90%*	*154 231*	*4.32%*	*158 667*	*2.88%*	*69.1%*	*2.7%*
Economic development	**198 906**	**211 531**	**6.35%**	**228 224**	**7.89%**	**240 911**	**5.56%**	**100.0%**	**6.6%**
Compensation of employees	*52 620*	*54 334*	*3.26%*	*57 208*	*5.29%*	*59 879*	*4.67%*	*25.2%*	*4.4%*
Health	**221 962**	**229 707**	**3.49%**	**243 970**	**6.21%**	**257 559**	**5.57%**	**100.0%**	**5.1%**
Compensation of employees	*141 320*	*145 126*	*2.69%*	*152 008*	*4.74%*	*160 906*	*5.85%*	*62.6%*	*4.4%*
Learning and culture	**385 593**	**396 422**	**2.81%**	**417 767**	**5.38%**	**434 166**	**3.93%**	**100.0%**	**4.0%**
Compensation of employees	**213 054**	**214 353**	**0.61%**	**224 219**	**4.60%**	**233 881**	**4.31%**	**53.9%**	
Provincial basic education COE	*203 460*	*204 559*	*0.54%*	*214 018*	*4.62%*	*223 400*	*4.38%*	*51.4%*	3.2%
Community development	**201 675**	**212 347**	**5.29%**	**228 194**	**7.46%**	**242 169**	**6.12%**	**100.0%**	**6.3%**
Compensation of employees	*17 822*	*17 560*	*-1.47%*	*18 278*	*4.09%*	*19 004*	*3.97%*	*8.0%*	*2.2%*

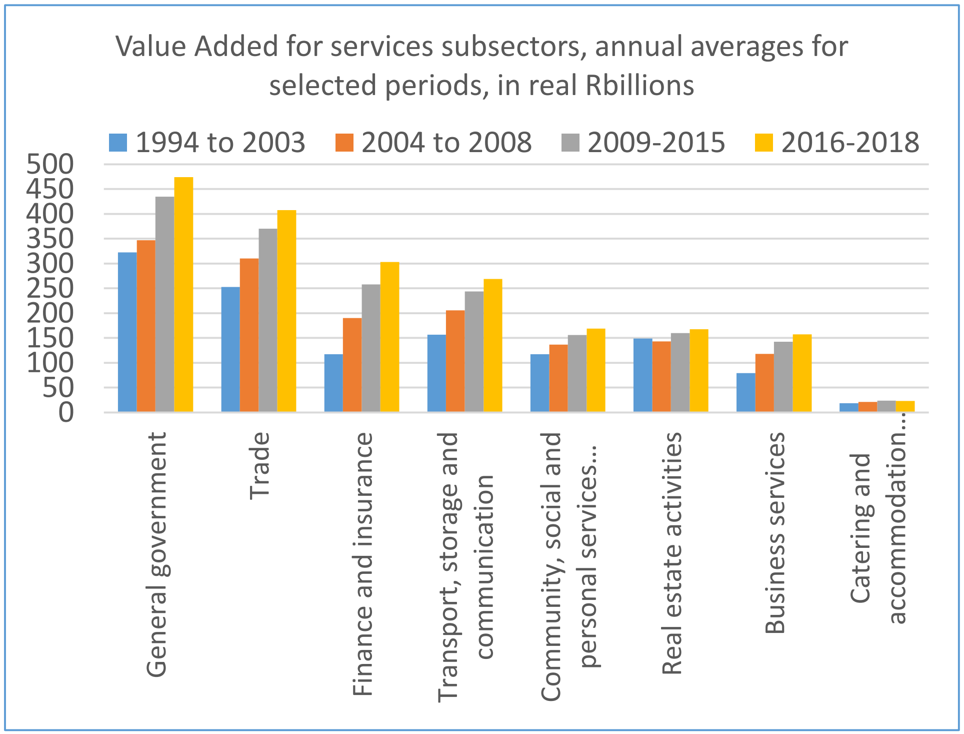
Risks

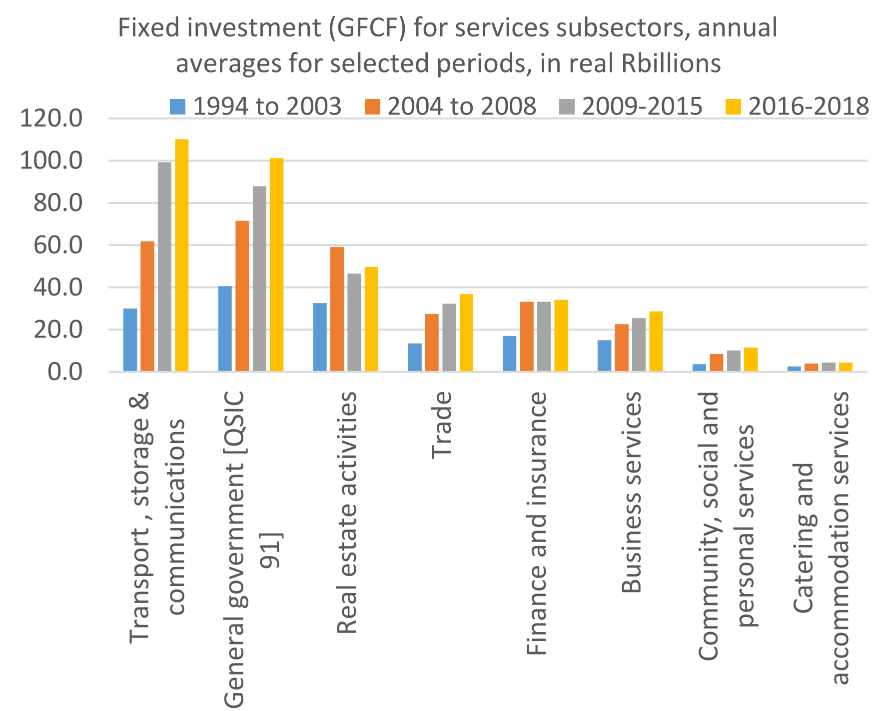
- Lower than expected economic growth will lead to lower than projected revenue collection
- Outcomes of the renegotiation of the existing wage and following round of wage agreements
- Insufficient progress on Eskom reforms and demands from other financially distressed state-owned companies
- Contingent liabilities arising from Road Accident Fund to increase to R600 billion over the medium term:
  - Expected to grow by 84% over the MTEF, making RAF the largest contingent liability (70% more than Eskom)
  - Road Accident Benefit Scheme Bill (B17-2017) tabled in Parliament in 2017 waiting to be processed
- Clarity on government's position on the user-pay principle as it relates to e-tolls
- Slow spending on infrastructure
- Integrated planning, budgeting, monitoring and evaluation is still a challenge to ensure effective and efficient expenditure

Thank You


Unemployment, percentage (Source, World Bank)
40
35
30
25
20
15
10
5
0
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019
South Africa
World
High income
Middle income

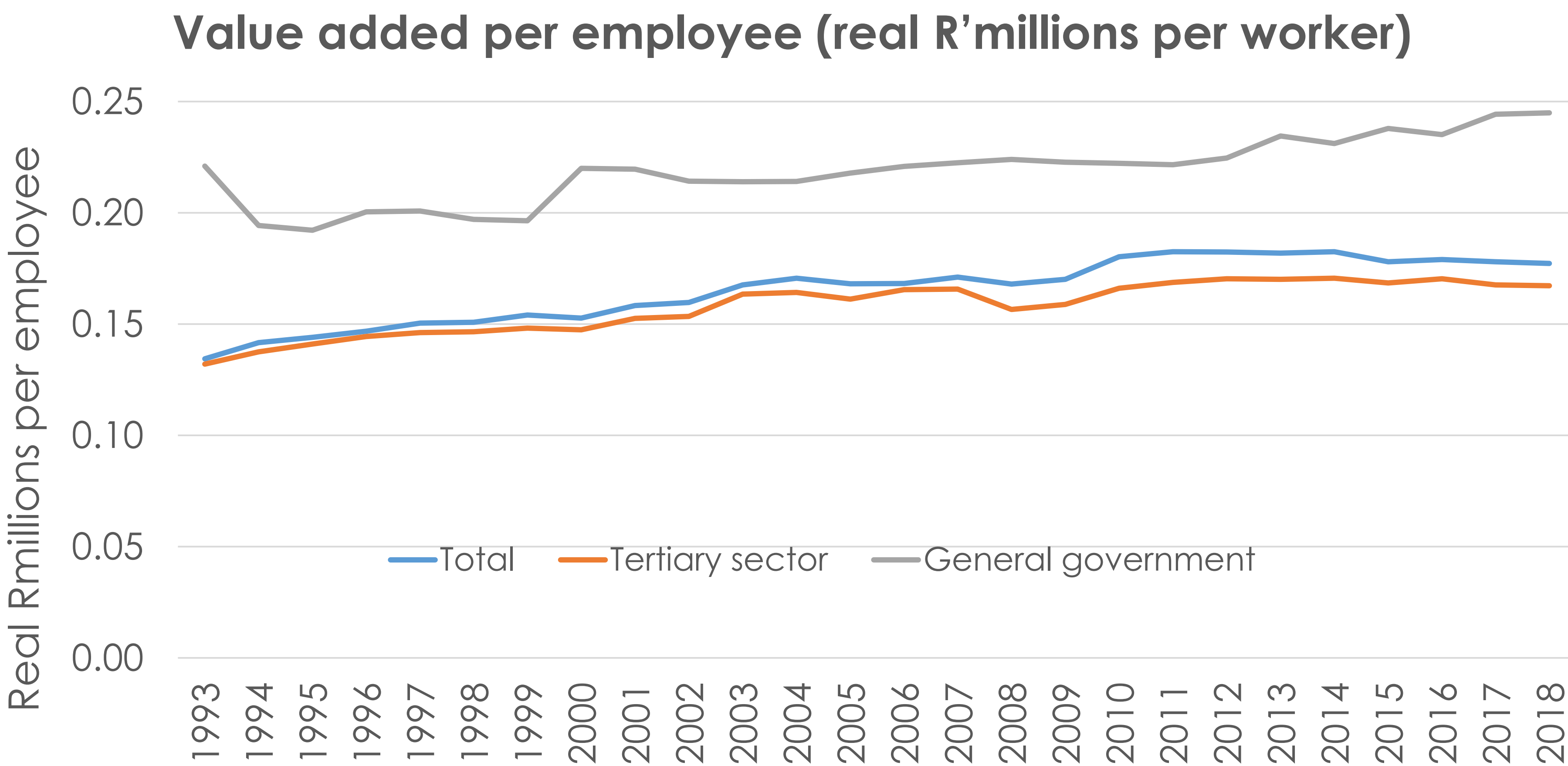

Employment for services subsectors, annual averages for selected periods, in millions
1994 to 2003
2004 to 2008
2009-2015
2016-2018
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Trade
Community, social and personal services
Business services
General government
Transport, storage and communication
Finance and insurance
Catering and accommodation...
Real estate


Value Added for services subsectors, annual averages for selected periods, in real Rbillions
1994 to 2003
2004 to 2008
2009-2015
2016-2018
500
450
400
350
300
250
200
150
100
50
0
General government
Trade
Finance and insurance
Transport, storage and communication
Community, social and personal services...
Real estate activities
Business services
Catering and accommodation...


Fixed investment (GFCF) for services subsectors, annual averages for selected periods, in real Rbillions
1994 to 2003
2004 to 2008
2009-2015
2016-2018
120.0
100.0
80.0
60.0
40.0
20.0
0.0
Transport , storage & communications
General government [QSIC 91]
Real estate activities
Trade
Finance and insurance
Business services
Community, social and personal services
Catering and accommodation services

Labour productivity in government

- Value-added per employee in general government services has not declined



Source: Quantec

Fiscal policy

- The economic and revenue outlook has deteriorated since the 2019 Medium Term Budget Policy Statement (MTBPS)
- In recent years, the deficit has increased due to mainly financial demands from state-owned companies
- Additional resources have been prioritised away from national and provincial departments towards state-owned companies
- Since government does not (or cannot) reduce the debt to GDP ratio to the level they deem desirable - how long will it take?
- Departments are required to remain within published spending limits, this however does not propose efficiency and effectiveness in spending

Contingent Liabilities and DFIs

	2017/18		2018/19		2019/20	
R billion	**Guarantee**	**Exposure**	**Guarantee**	**Exposure**	**Guarantee**	**Exposure**
Eskom	350.0	250.6	350.0	285.6	350.0	297.4
SANRAL	38.9	30.4	38.9	39.5	37.9	39.9
Trans-Caledon Tunnel Authority	25.7	18.9	43.0	14.3	43.0	13.5
South African Airways	19.1	11.1	19.1	15.3	19.1	17.3
Land and Agricultural Bank of South Africa	9.6	3.8	9.6	1.0	9.6	0.9
Development Bank of Southern Africa	12.2	4.1	11.4	4.3	10.0	4.6
South African Post Office	4.2	0.4	2.9	–	–	–
Transnet	3.5	3.8	3.5	3.8	3.5	3.8
Denel	2.4	2.4	3.4	3.4	6.9	6.9
South African Express	1.1	0.9	2.8	0.2	1.9	0.2
Industrial Development Corporation	0.4	0.1	0.5	0.1	0.5	0.1
South African Reserve Bank	–	–	0.3	–	–	–
Independent power producers	**200.2**	**122.2**	**200.2**	**146.9**	**200.2**	**161.4**
Public-private partnerships	**9.6**	**9.6**	**10.5**	**10.5**	**8.7**	**8.7**