

◀ 2020 ▶ BUDGET

CONSOLIDATION, REFORM AND GROWTH

26 February 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



Summary of Budget 2020

- The 2020 Budget proposes total consolidated spending of R1.95 trillion in 2020/21, with the largest allocations going to learning and culture (R396.4 billion), health (R229.7 billion) and social development (R309.5 billion).
- The economic outlook is weak. Real GDP is expected to grow at 0.9 per cent in 2020, 1.3 per cent in 2021 and 1.6 per cent in 2022. Achieving faster economic growth requires far-reaching structural reforms.
- The public finances continue to deteriorate. Low growth has led to a R63.3 billion downward revision to estimates of tax revenue in 2019/20 relative to the 2019 Budget. Debt is not projected to stabilise over the medium term, and debt-service costs now absorb 15.2 per cent of main budget revenue.
- Halting the fiscal deterioration requires a combination of continued spending restraint, faster economic growth, and measures to contain financial demands from distressed state-owned companies.
- As a first step, the 2020 Budget makes net non-interest spending reductions of R156.1 billion in total over the next three years, compared with last year's budget projections. This includes large reductions to the public-service wage bill.

Table 1.1 Macroeconomic outlook – summary

	2019	2020	2021	2022
Real percentage growth	Estimate	Forecast		
Household consumption	1.1	1.1	1.3	1.6
Gross fixed-capital formation	-0.4	0.2	1.3	1.9
Exports	-2.1	2.3	2.6	2.8
Imports	0.2	1.8	2.5	2.8
Real GDP growth	0.3	0.9	1.3	1.6
Consumer price index (CPI) inflation	4.1	4.5	4.6	4.6
Current account balance (% of GDP)	-3.4	-3.4	-3.5	-3.7

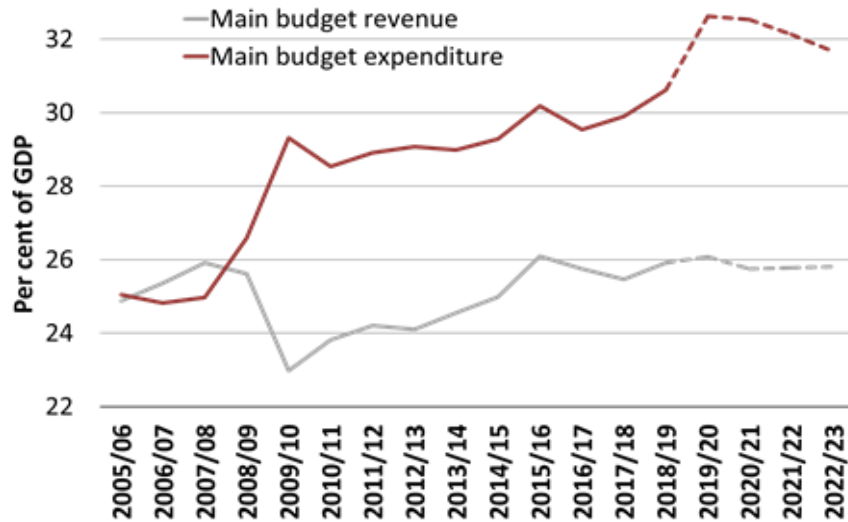
- Global growth in 2019 and 2020 now 0.5 per cent lower on average than in Budget 2019, reflecting intensified trade and geopolitical tensions
- Domestic growth in 2019 revised down to 0.3 per cent, as electricity constraints weigh on production and sentiment, with growth over the MTEF period now set to average 1.3 per cent
- Inflation is sharply lower than Budget 2019, and projected to remain muted

Growth reforms to lower the cost of doing business

- **Electricity:** Acquire additional electricity from existing IPPs, open bid window 5, procure additional 2 000 - 3 000MW of emergency power, allow municipalities to procure power from private sector, make changes to electricity regulations to allow for self-generation.
- **Ports:** Accelerate corporatisation of National Ports Authority.
- **Rail:** Economic Regulation of Transport Bill to be put before Parliament; implicit subsidisation of road freight should cease.
- **Telecoms:** Accelerate digital migration and continue work to release spectrum through an auction. ICASA must enforce open access conditions and issue rapid deployment guidelines.
- Support small business, enhance industrial policy by implementing:
 - Competition Commission recommendations on retail and telecoms
 - Ease of Doing Business project proposals (i.e. launch of the Bizhub portal)
 - Sectoral Master Plans to boost investment and employment

Fiscal policy challenges: Widening budget deficit

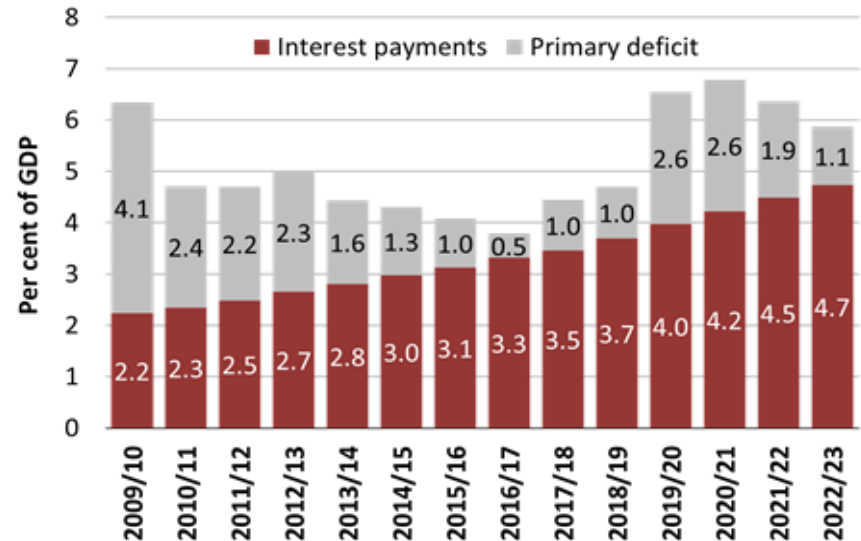
Figure 3.1 Main budget revenue and expenditure



*Figures may differ from Table 3.7 due to rounding

Source: National Treasury

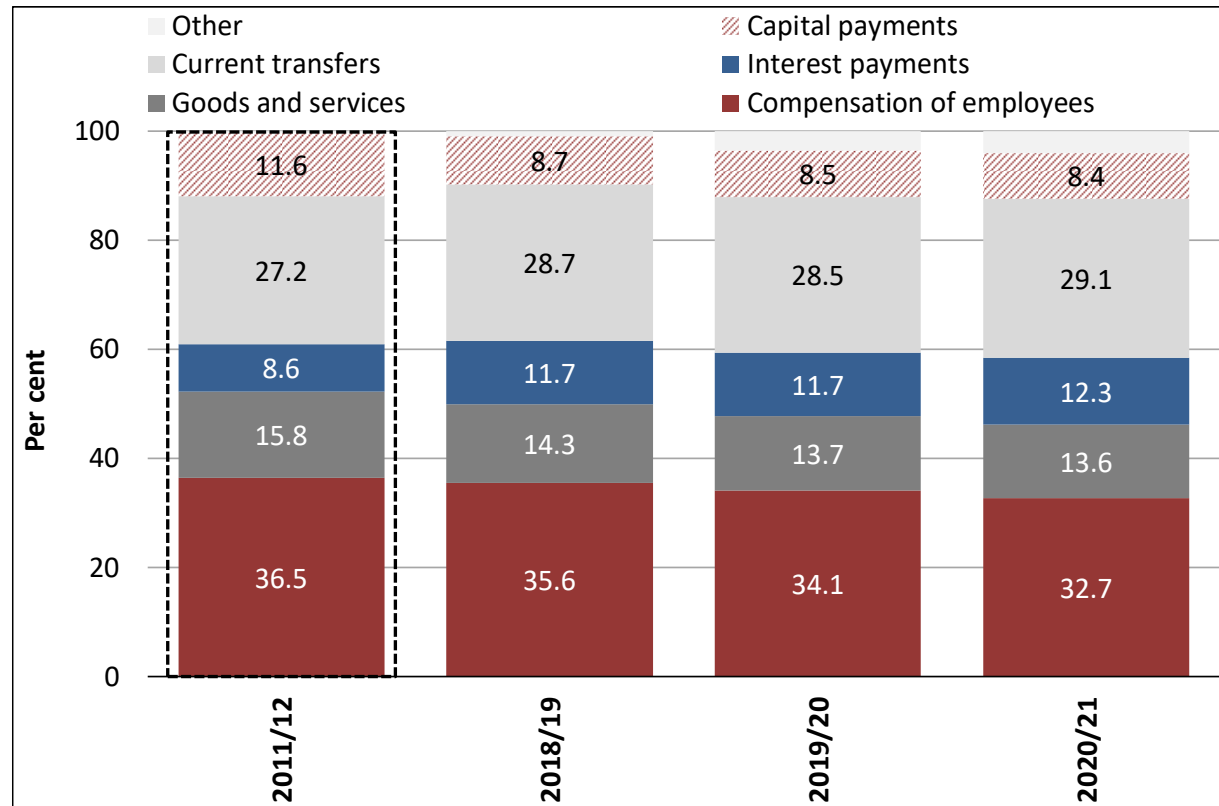
Figure 3.2 Main budget deficit*



- A widening gap between revenue and expenditure, with debt-service costs making up an increasing share of the budget deficit
- The spike in the deficit in 2019/20 reflects lower economic growth, increased support to state-owned companies and a downward revision to nominal GDP

- Between 2013/14 and 2018/19, government repeatedly reduced the expenditure ceiling, slowing spending growth
- Most reductions were applied to goods and services and capital budgets, while leaving the wage bill relatively unchanged
- Current transfers have grown as a result of increased support for higher education and larger UIF payments

Figure 3.3 Composition of consolidated government spending



- Main budget non-interest expenditure baseline reduced by R156.1 billion over the next three years in comparison with 2019 Budget projections (approximately 1 per cent of GDP per year on average)
- This net reduction is mainly the result of the following changes over the medium term:
 - Reductions to baselines of R261 billion, which includes a R160.2 billion reduction to the wage bill of national and provincial departments, and national public entities.
 - Reallocations and additions totalling R111.1 billion, of which R60.1 billion is set aside for Eskom and South African Airways (SAA), and R24 billion for critical spending priorities.

Major spending changes since Budget 2019

Table 3.3 Adjustments to main budget non-interest expenditure since 2019 Budget

R million	2020/21	2021/22	2022/23	MTEF total
2019 Budget non-interest expenditure	1 545 500	1 653 077	1 736 538	4 935 115
Skills development levy adjustments	-1 025	-1 722	-500	-3 246
Change in contingency reserve	-1 000	-1 000	-1 000	-3 000
Baseline reductions and reallocations	-66 045	-88 149	-106 801	-260 995
Programme baseline reductions	-28 238	-33 219	-39 341	-100 798
Wage bill reductions	-37 807	-54 929	-67 460	-160 196
Baseline allocations	59 293	29 981	21 843	111 117
Financial support for state-owned companies	44 042	14 309	1 777	60 128
Net change in adjustments announced in 2019	7 753	7 620	11 953	27 326
Budget ¹				
Programme allocations	7 499	8 051	8 113	23 663
2020 Budget non-interest expenditure	1 536 724	1 592 186	1 650 080	4 778 991
<i>Change in non-interest expenditure since 2019 Budget</i>	<i>-8 776</i>	<i>-60 890</i>	<i>-86 458</i>	<i>-156 124</i>

1. Includes reversal of savings from wage bill measures and national macro-reorganisation of government, adjustments due to lower CPI and early retirement savings in police

Source: National Treasury

Table 3.2 Revised gross tax revenue projections

R billion	2019/20	2020/21	2021/22	2022/23
2019 MTBPS	1 369.7	1 460.9	1 555.7	1 658.2
Revised estimate	1 358.9	1 425.4	1 512.2	1 609.7
Deviation against 2019 MTBPS	-10.7	-35.4	-43.5	-48.5

Source: National Treasury

- Tax revenue estimates for the current year have been revised down by R10.7 billion compared with 2019 MTBPS estimates.
- In addition, government has chosen not to apply additional revenue measures of R10 billion for next year that were projected in last year's budget
- Tax revenue is projected to grow by 4.9 per cent in 2020/21, with gross tax buoyancy falling to 0.93 as a result of lower wage growth

- Provide personal income tax relief through an above-inflation increase in the brackets and rebates
- Further limit corporate interest deductions to combat base erosion and profit shifting
- Restrict the ability of companies to fully offset assessed losses from previous years against taxable income
- Increase the fuel levy by 25c/litre, consisting of a 16c/litre increase in the general fuel levy and a 9c/litre increase in the RAF levy, to adjust for inflation
- Increase the annual contribution limit to tax-free savings accounts by R3 000 from 1 March 2020
- Increase excise duties on alcohol and tobacco by between 4.4 and 7.5 per cent

Table 3.4 Consolidated fiscal framework

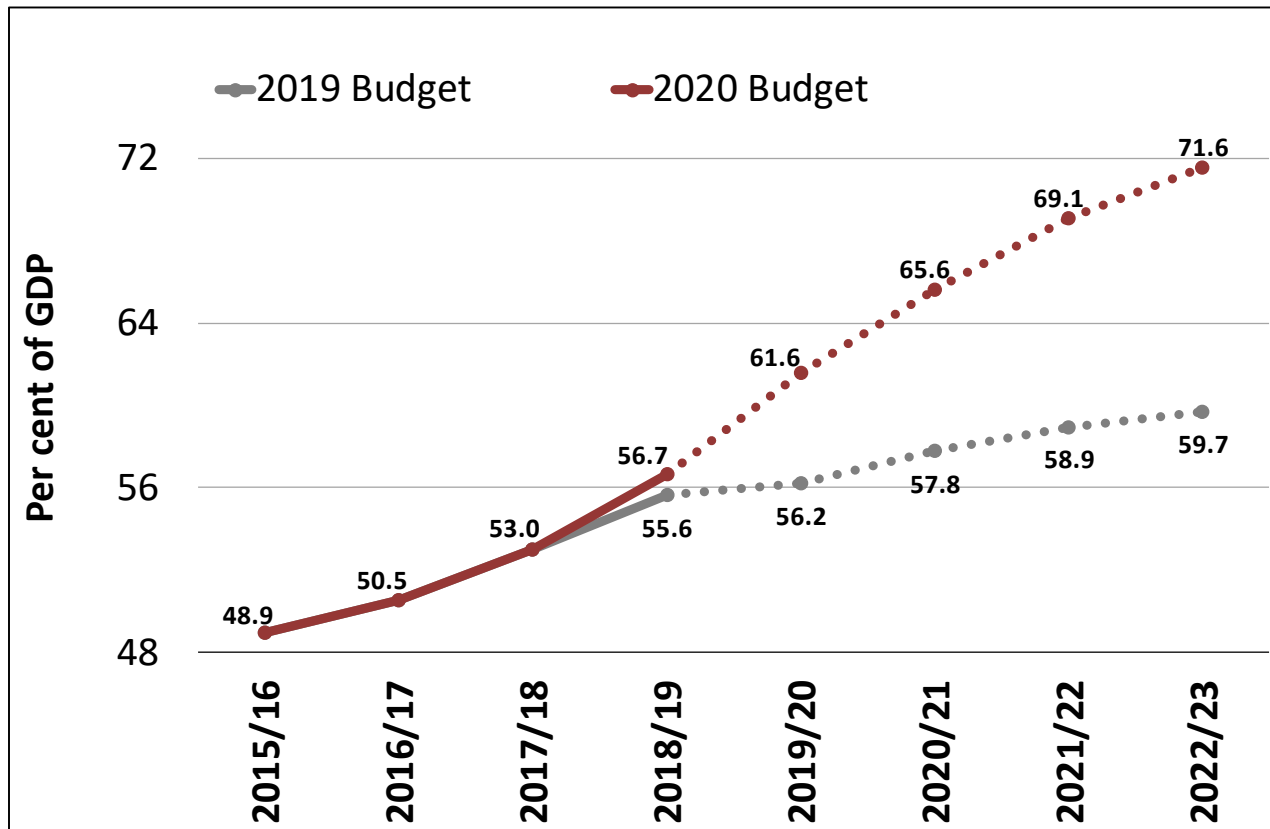
	2016/17	2017/18 Outcome	2018/19	2019/20 Revised estimate	2020/21 Medium-term estimates	2021/22 Medium-term estimates	2022/23 Medium-term estimates
R billion/percentage of GDP							
Revenue	1 285.6 29.1%	1 351.4 28.8%	1 445.4 29.4%	1 517.0 29.4%	1 583.9 29.2%	1 682.8 29.2%	1 791.3 29.2%
Expenditure	1 442.6 32.6%	1 541.9 32.8%	1 642.8 33.4%	1 843.5 35.7%	1 954.4 36.0%	2 040.3 35.4%	2 141.0 34.9%
<i>Non-interest expenditure</i>	<i>1 286.0</i> 29.1%	<i>1 368.9</i> 29.1%	<i>1 450.6</i> 29.5%	<i>1 628.5</i> 31.6%	<i>1 715.0</i> 31.6%	<i>1 771.6</i> 30.8%	<i>1 840.3</i> 30.0%
Budget balance	-157.0 -3.6%	-190.5 -4.1%	-197.4 -4.0%	-326.6 -6.3%	-370.5 -6.8%	-357.5 -6.2%	-349.7 -5.7%

Source: National Treasury

- The proposed measures are expected to narrow the consolidated budget deficit from 6.8 per cent of GDP in 2020/21 to 5.7 per cent of GDP in 2022/23

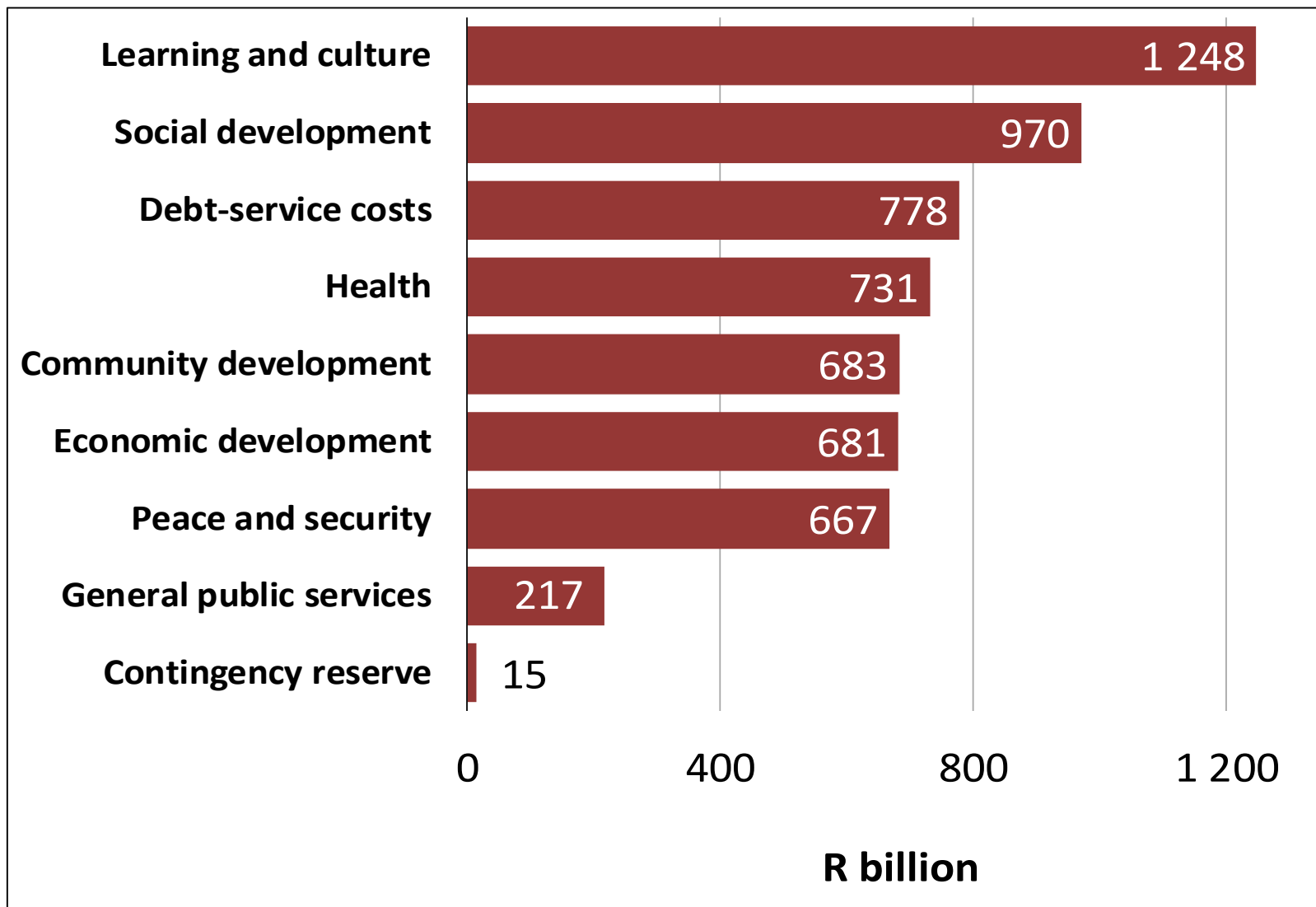
Gross national debt continues to rise

Figure 1.1 Gross debt-to-GDP outlook



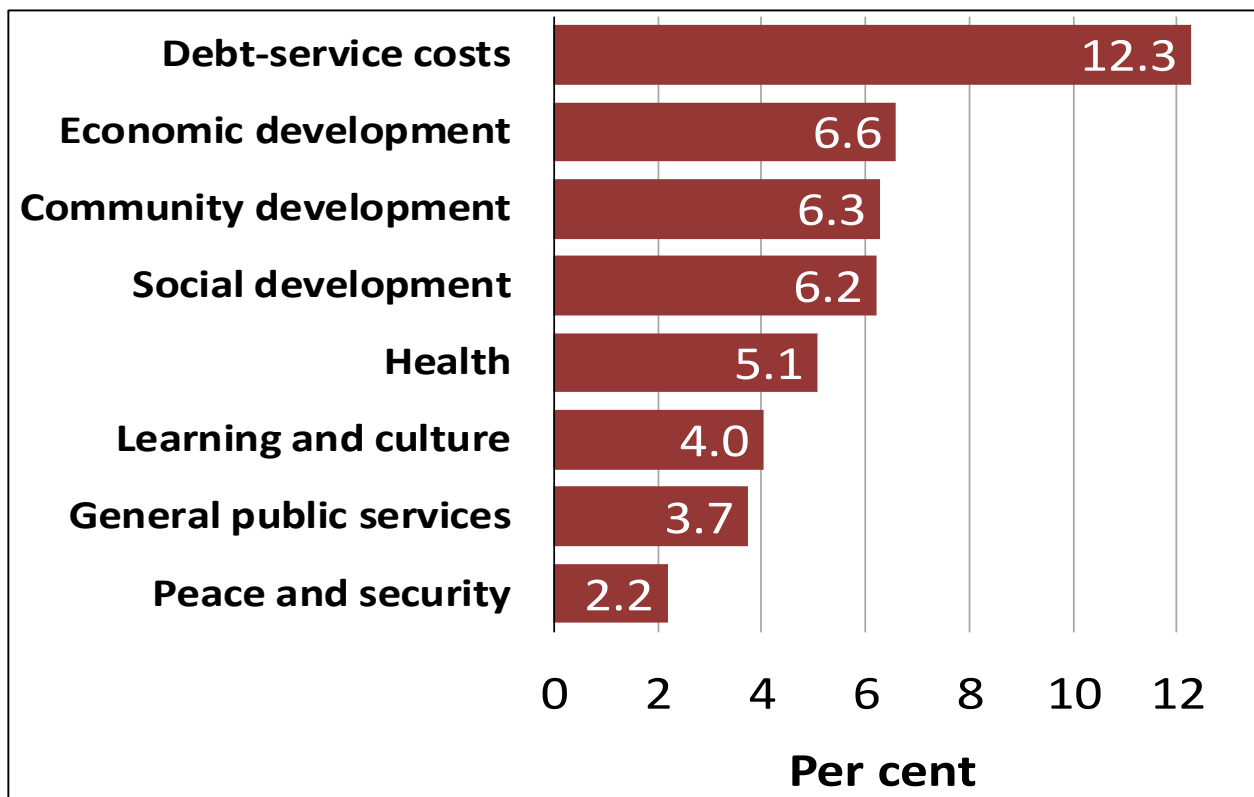
- Debt stabilisation requires a combination of continued spending restraint, faster economic growth and measures to contain extra-budgetary pressures, including reform of state-owned companies.

Consolidated spending over the next three years



Average spending growth over the MTEF by function

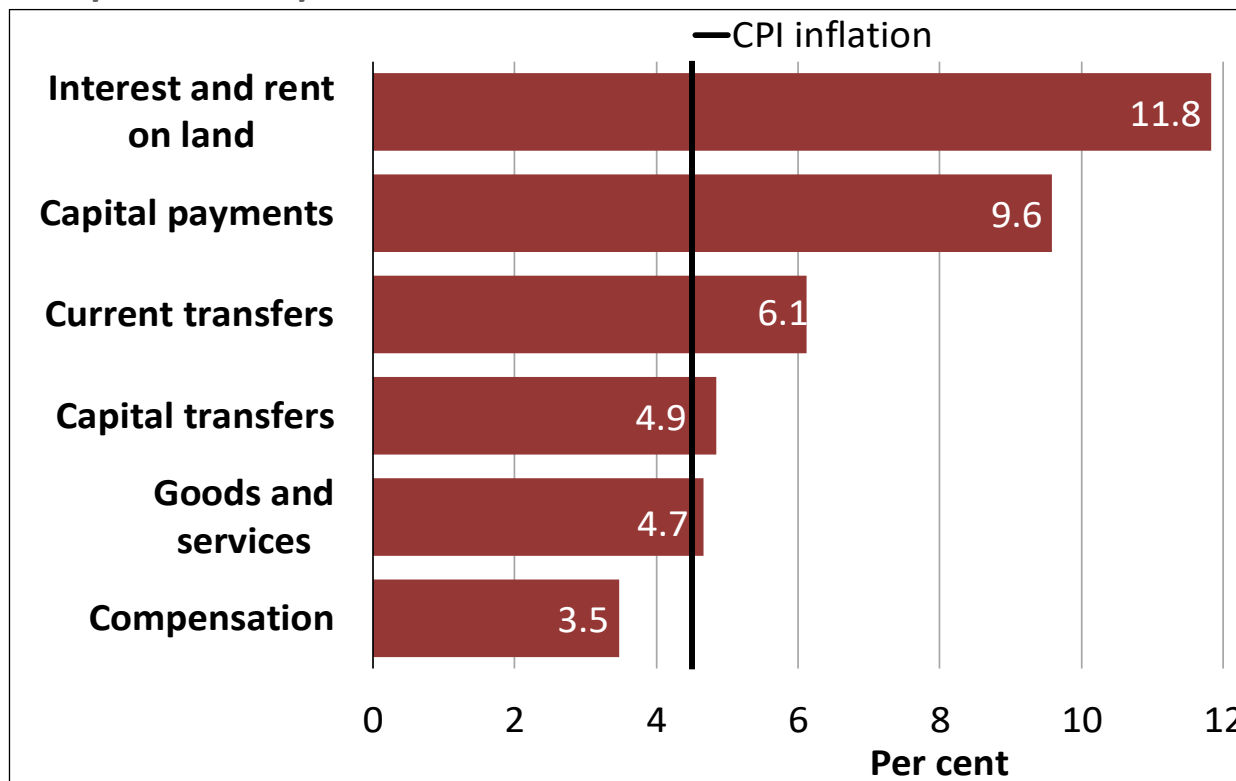
Figure 5.1 Average nominal growth in spending, 2020/21 — 2022/23



- Debt-service costs is the fastest-growing area of expenditure
- Fastest-growing functions include economic development and community development
- Slower growth in health, learning and culture, and peace and security reflects the effect of lower compensation growth

Average spending growth over the MTEF by economic classification

Figure 3.4 Average nominal growth in consolidated spending, 2020/21 — 2022/23



- Consolidated wage bill is projected to grow by an annual average growth of 3.5 per cent over the medium term
- Current transfers and capital payments grow faster than CPI inflation

Budget 2020 changes focus on developing a more capable state at sub-national level:

- A new approach to project preparation in cities is introduced
- Incentive programmes reward good performance
- A range of capacity-building measures are in place

Table 1.5 Division of revenue

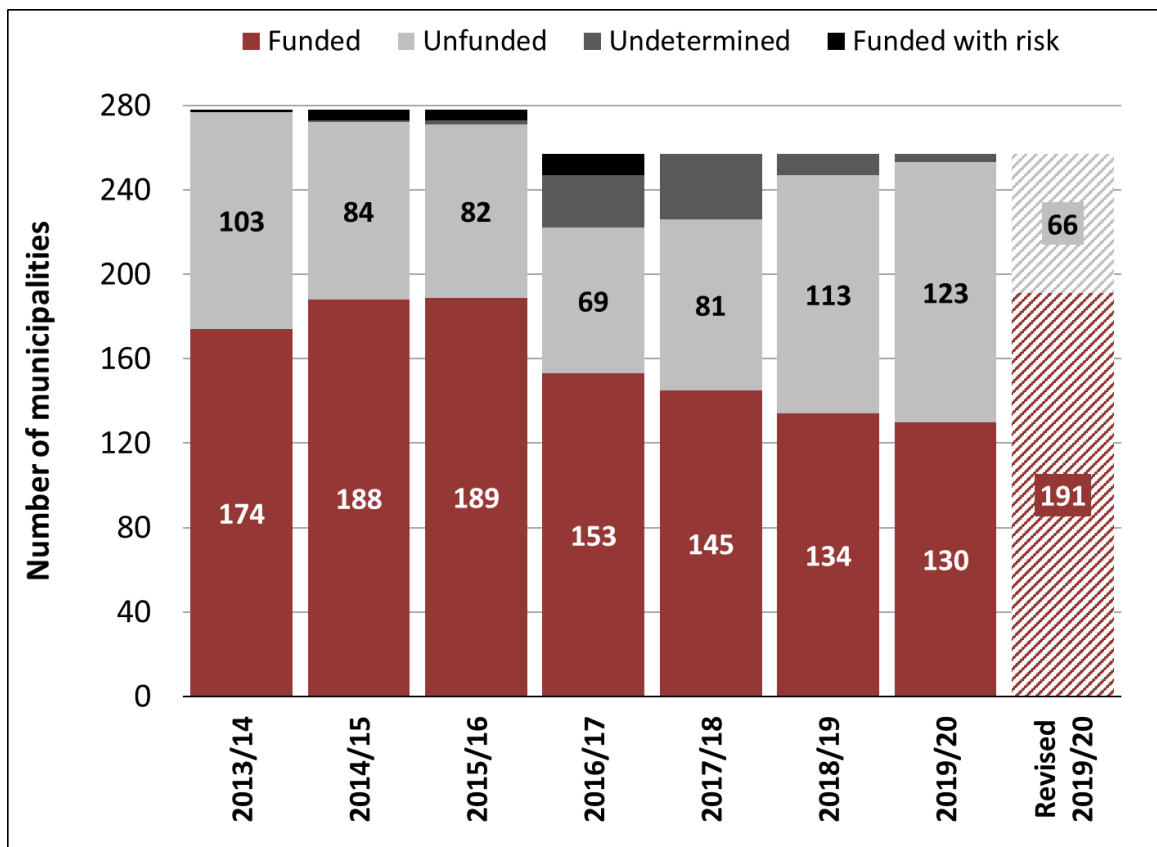
R billion	2019/20	2020/21	2021/22	2022/23
National allocations	739.5	757.7	768.9	797.8
Provincial allocations	612.8	649.3	692.0	730.7
<i>Equitable share</i>	505.6	538.5	574.0	607.6
<i>Conditional grants</i>	107.3	110.8	118.0	123.1
Local government allocations	125.0	132.5	142.4	151.4
Provisional allocations not assigned to votes	–	-7.8	-16.1	-34.9
Total allocations	1 477.3	1 531.7	1 587.2	1 645.1
Percentage shares				
<i>National</i>	50.1%	49.2%	48.0%	47.5%
<i>Provincial</i>	41.5%	42.2%	43.2%	43.5%
<i>Local government</i>	8.5%	8.6%	8.9%	9.0%

Source: National Treasury

- Where provinces and municipalities fail to meet basic standards, national government is prepared to impose consequences
- Final Division of Revenue will depend on finalisation of the wage reductions

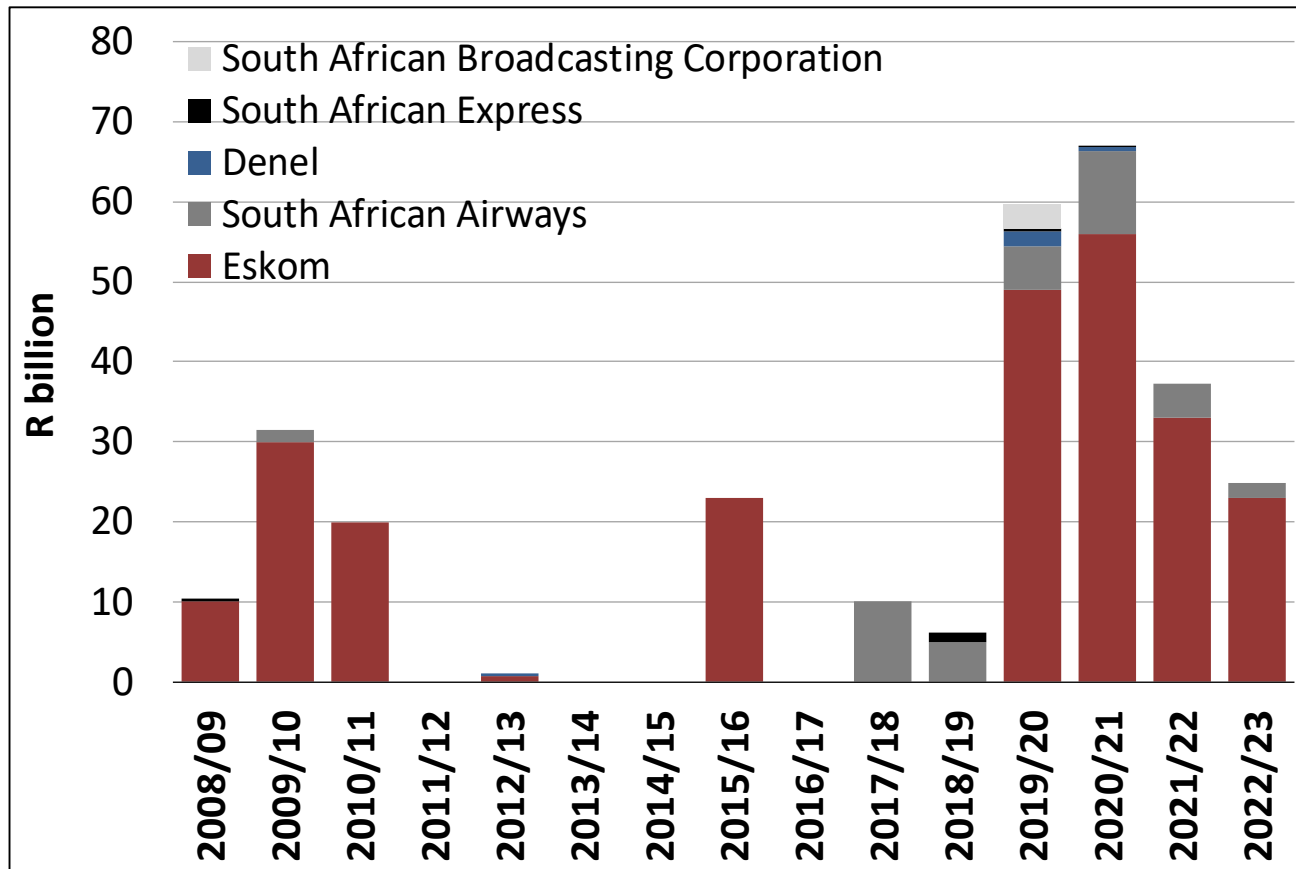
- National Treasury and provincial treasuries worked to get municipalities to revise their 2019/20 budgets. Now $\frac{3}{4}$ have funded budgets
- The remaining 66 municipalities were asked to revise their budgets to ensure adequate cash flows to cover their commitments in this financial year.
- This lays a firmer foundation for further work to improve municipal spending and performance

Figure 6.3 Funded and unfunded municipal budgets



Financial support to major SOC

Figure 1.4 Financial support provided for state-owned companies



- Between 2008/09 and 2019/20, major SOC received R162bn in financial support
- Over the next three years, projected support amounts to a further R129 billion, mostly for Eskom

Financial position of social security funds

Table 8.6 Financial position of social security funds

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion		Outcome		Estimate	Medium-term estimates		
Unemployment Insurance Fund							
Total assets	139.5	159.3	165.5	174.1	182.8	191.5	200.7
Total liabilities	6.4	13.4	21.2	22.3	23.4	24.5	25.7
Net asset value	133.1	145.9	144.3	151.8	159.4	167.0	175.0
Compensation Fund ¹							
Total assets	66.4	72.0	75.4	79.1	82.8	87.0	91.1
Total liabilities	18.5	38.5	47.8	49.8	51.8	54.2	56.6
Net asset value	47.9	33.5	27.6	29.3	31.0	32.8	34.5
Road Accident Fund							
Total assets	9.2	9.8	11.2	11.5	11.7	11.8	11.9
Total liabilities	189.2	216.1	273.3	341.1	413.1	500.4	604.9
Net asset value	-180.0	-206.3	-262.1	-329.6	-401.4	-488.6	-593.0

1. Compensation Commissioner for Occupational Diseases in Mines and Works

Source: National Treasury

- RAF liabilities are increasingly rapidly, while the UIF remains in a strong financial position

Improving spending efficiency and reducing waste

- **Procurement** – reforms required to make legitimate procurement easier without undermining the necessary anti-corruption safeguards. Draft Public Procurement Bill has been gazetted for public comment
- **Sub-national reforms** – Government has reduced unfunded municipal budgets and is piloting initiatives to improve municipal revenue collection. Following a review, government is introducing several changes to the provincial grant system.
- **Claims against the state** – work has begun to limit unreasonable medico-legal claims against the state.
- **Tax incentives** – Over medium term, government will conduct a review of tax incentives, repealing or redesigning those that are redundant, inefficient or inequitable.
- **Spending reviews** – The National Treasury and the Department of Planning, Monitoring and Evaluation will undertake a new round of expenditure reviews to identify cost savings and improve efficiency.
- **Public-sector remuneration** – Government will publish a new law this year introducing a remuneration framework for public entities and state-owned companies.
- **Public office bearers** – There will be no increase in the salaries of public office bearers in 2020/21. This follows a reduction in benefits stemming from changes to the Ministerial Handbook.

- Persistently weak economic growth
- Insufficient progress on Eskom reforms and its financial position, and demands from other financially distressed state-owned companies
- Outcomes of the renegotiation of the existing wage agreement and the following round of wage talks
- Growing liabilities in the Road Accident Fund. A decision on the Road Accident Benefit Scheme Bill is required to pave the way for a more affordable system