Box 8 The *2018 Budget Review*

Following the emphasis of the *2017 Medium Term Budget Policy Statement (MTBPS)* to stabilise public finances, the 2018 Budget addressed this with tax measures, expenditure adjustments and policy initiatives.

Real GDP was expected to grow by 1.0% in 2017, lower than projected in the previous budget, but higher than the *2017 MTBPS.* An improved economic growth outlook was evident from an upwardly revised projection of 1.5% in 2018 and an expected acceleration to 2.1% in 2020.

Macroeconomic projections[1]

Percentage	2015	2016	2017			2018	2019	2020
	Outcome		2017 Budget	2017 MTBPS	2018 Budget	Medium-term estimates[2]		
Real GDP growth	1.3	0.3	1.3	0.7	1.0	1.5	1.8	2.1
Consumer price inflation.......	4.6	6.3	5.3	5.4	5.3	5.3	5.4	5.5
Current account balance as a percentage of GDP..............	-4.4	-3.3	-3.9	-2.3	-2.2	-2.3	-2.7	-3.2

1 Calendar years
2 *2018 Budget Review*

Source: National Treasury

Notwithstanding the improved economic outlook relative to last year's MTBPS, a revenue shortfall of R48.2 billion was expected in fiscal 2017/18. However, together with rising spending pressures in fiscal 2018/19, especially related to the introduction of fee-free higher education, the fiscal environment remains challenging. The 2018 Budget made significant changes to the fiscal framework to rebuild confidence and to return public finances to a sustainable path.

For 2018/19, fiscal consolidation mainly included revenue measures to raise additional tax as well as expenditure adjustments to comply with the marginally reduced expenditure ceiling. The tax proposals of the 2018 Budget are expected to raise an additional R36 billion in fiscal 2018/19. The main proposals are:

- *Value-added tax (VAT)*: The first increase in the VAT rate since 1993, from 14% to 15% as from 1 April 2018.
- *Personal income tax (PIT)*: A below inflation (3.1%) increase in the bottom three PIT brackets and rebates, while the four top brackets remain unchanged.
- *Fuel taxes:* Increases of 22 cents per litre in the general fuel levy and 30 cents per litre on the Road Accident Fund levy, effective from 4 April 2018.
- *Estate duty:* An increase from 20% to 25% for estates of R30 million and more, effective from 1 March 2018.

The increase in VAT was expected to raise R22.9 billion while lower-than-inflation increases to PIT rebates and brackets was expected to raise an additional R6.8 billion. Overall, the tax proposals should bring the total consolidated tax revenue to R1.5 trillion in fiscal 2018/19, while increasing the tax burden, measured as the gross tax-to-GDP ratio, from 25.9% in fiscal 2017/18 to 27.2% in fiscal 2020/21.

Consolidated fiscal framework indicators[1]

R billions	2015/16	2016/17	2017/18			2018/19	2019/20	2020/21
	Outcome		2017 Budget	MTBPS	2018 Budget	Medium-term estimates[2]		
Total consolidated revenue	1 215	1 286	1 414	1 364	1 354	1 491	1 610	1 737
Percentage of GDP	*29.5*	*29.2*	*29.8*	*29.2*	*28.8*	*29.7*	*29.9*	*29.9*
Total consolidated expenditure	1 366	1 442	1 563	1 567	1 558	1 671	1 803	1 942
Percentage of GDP	*33.1*	*32.7*	*33.0*	*33.5*	*33.2*	*33.3*	*33.4*	*33.4*
Consolidated primary balance	-12.5	0.7	20.3	…	-34.0	7.3	12.8	18.9
Percentage of GDP	*-0.3*	*0.0*	*0.4*	*…*	*-0.7*	*0.1*	*0.2*	*0.3*
Consolidated budget deficit	-151.0	-156.1	-149.0	-203.0	-204.3	-180.5	-193.3	-205.0
Percentage of GDP	*-3.7*	*-3.5*	*-3.1*	*-4.3*	*-4.3*	*-3.6*	*-3.6*	*-3.5*
Gross loan debt[3]	2 019	2 233	2 478	2 531	2 506	2 771	2 983	3 250
Percentage of GDP	*49.4*	*50.7*	*52.3*	*54.2*	*53.3*	*55.1*	*55.3*	*56.0*
Net loan debt[3]	1 805	2 008	2 226	2 294	2 285	2 527	2 768	3 030
Percentage of GDP	*44.2*	*45.6*	*47.0*	*49.1*	*48.6*	*50.3*	*51.4*	*52.2*

1 Fiscal years
2 *2018 Budget Review*
3 Refers to national government or main budget

Source: National Treasury

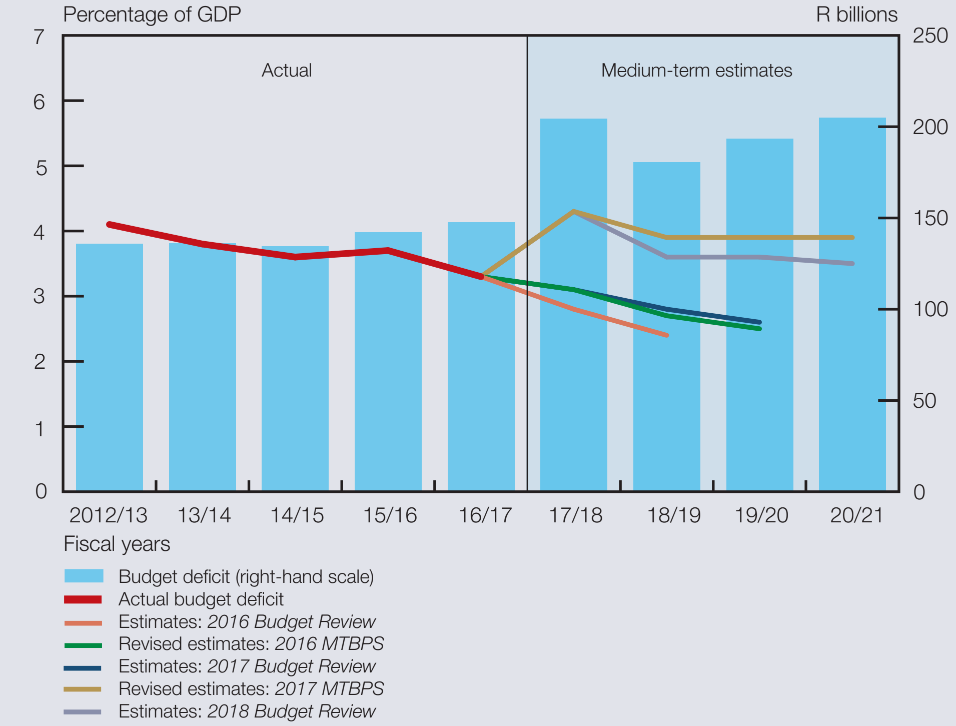
Consolidated expenditure was projected to increase from R1.7 trillion in fiscal 2018/19 to R1.9 trillion in fiscal 2020/21 – an annual average nominal growth rate of 7.6%, or 2.1% when adjusted for inflation. Debt-service costs as well as tertiary education and training are the fastest-growing spending categories. An additional R57 billion was allocated to finance fee-free higher education and training for students from households with a total income of less than R350 000 per annum, and to increase subsidies to higher education and training institutions.

Over the next three years, more than half of overall government spending would be allocated to basic education, community development, health and social protection. In line with poverty-reduction commitments, 17.6% of spending (R949 billion) was allocated for transfers to households, while departmental budgets have been reduced by R85.7 billion over the medium term. At provincial level, budget cuts mainly affected conditional infrastructure grants. The 2018 Budget did not provide for financial support to state owned enterprises, which if necessary would be done through a combination of the disposal of non-core assets, strategic equity partners or direct capital injections.

The revised revenue and expenditure projections narrowed the consolidated budget deficit from 4.3% of GDP in 2017/18 to 3.6% of GDP in fiscal 2018/19 and 3.5% of GDP by 2020/21. The primary balance of consolidated government is expected to switch to a surplus from fiscal 2018/19 onwards.

To finance the revenue shortfall, government's debt management strategy was adjusted during fiscal 2017/18. Relative to the 2017 Budget projection, the net borrowing requirement – the amount needed to finance the budget deficit – for fiscal 2017/18 was expected to increase by R50.5 billion to R217 billion. This was mostly funded through the net issuance of domestic government bonds which was revised upward by R27.2 billion to R169 billion in fiscal 2017/18 from the 2017 Budget. Net foreign bond issuance and loans was also revised upward to R29.8 billion in fiscal 2017/18 and is expected to increase to R35.9 billion in fiscal 2019/20.

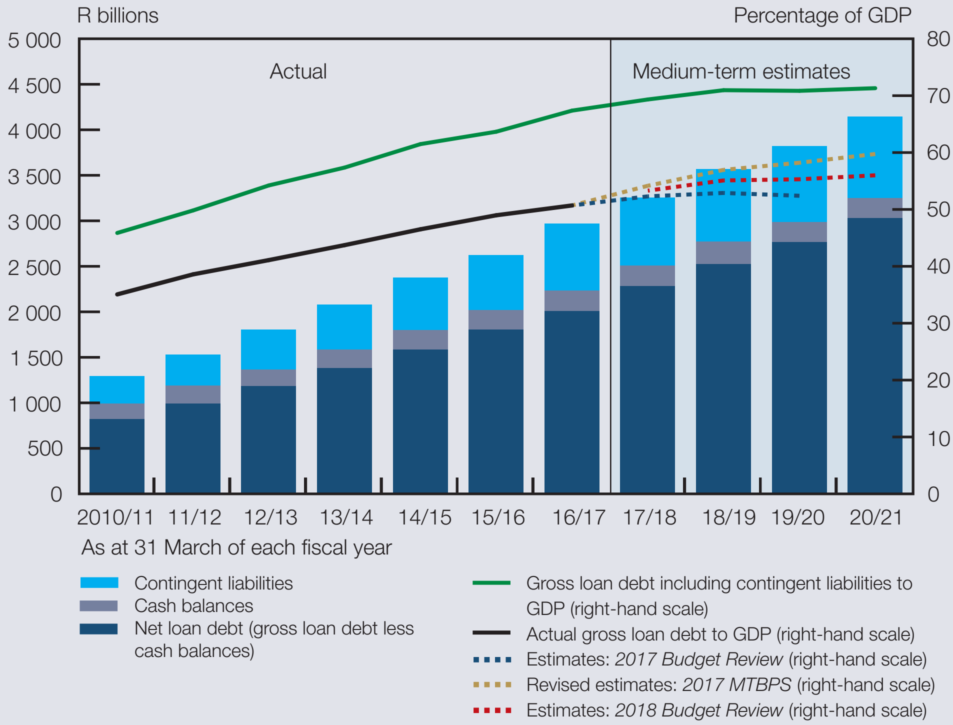
Consolidated government budget deficit



Source: National Treasury

Total gross loan debt of national government was estimated to reach R2.5 trillion at the end of fiscal 2017/18, or 53.3% of GDP. This was R28.0 billion more than originally estimated in the *2017 Budget Review*. Over the medium term, national government's gross debt-to-GDP ratio was expected to rise gradually and to stabilise at 56.2% in the outer years.

National government debt and contingent liabilities



Government's total contingent liability was expected to increase to R796 billion in fiscal 2018/19, from a low base of R279 billion in fiscal 2009/10. Eskom, independent power producers and the Road Accident Fund comprised the largest share of government's contingent liabilities.

Despite improved political developments which bode well for investor confidence and economic growth, significant risks to the fiscal outlook remain. These include continued policy uncertainty; below-target revenue collection; mounting spending pressures associated with the public-sector wage bill and fee-free higher education and training; debt service costs; possible further sovereign credit rating downgrades; rising debt levels; and a deterioration in the finances of state owned enterprises.