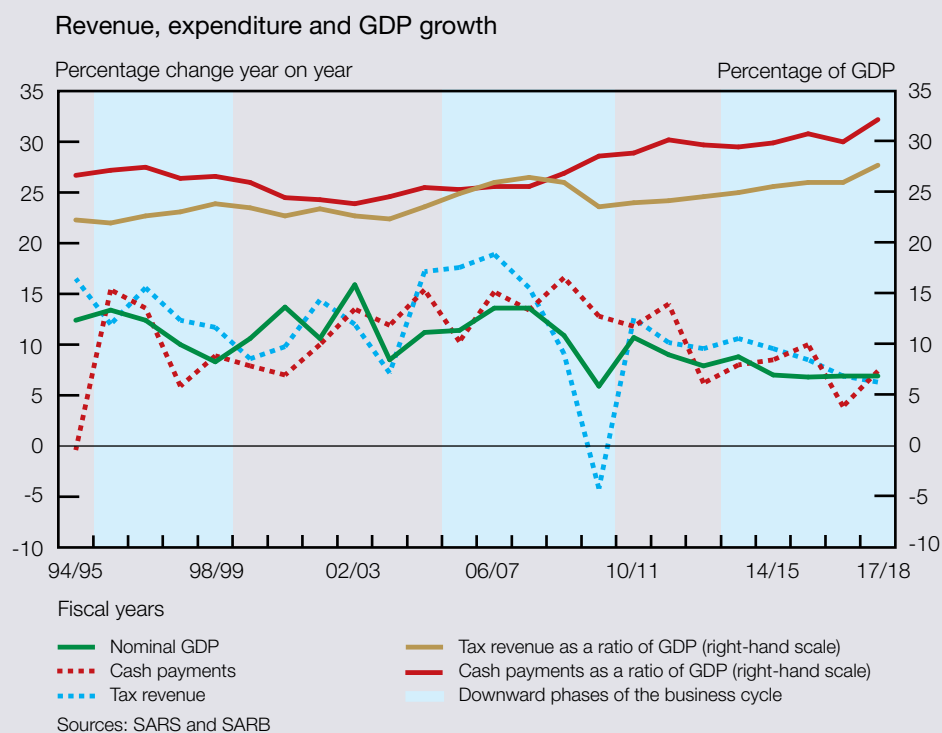


## Box 5 Trends in national government's revenue and expenditure<sup>1</sup>

National government's tax revenue<sup>2</sup> increased at an annual average rate of 11.2%, slightly higher than that of nominal gross domestic product (GDP) of 10.3% from fiscal 1994/95 to fiscal 2017/18. Growth in expenditure<sup>3</sup> (measured as cash payments for operating activities) was in line with GDP growth and increased at an annual average rate of 10.4% over the same period. Growth in both revenue and expenditure over this period exceeded annual average consumer price inflation of 6.3%. The impact of the global financial crisis and of the contraction in South Africa's real GDP in 2009 on growth in tax revenue and counter-cyclical expenditure is clearly evident, as well as the effects of economic activity over the phases of the business cycle. The interplay between economic activity and national government's revenue and expenditure is also evident from the respective ratios to GDP, which changed from a fairly balanced position just before the global financial crisis to expenditure exceeding revenue by a fair margin in its aftermath.



The composition of tax revenue has changed somewhat since fiscal 1994/95, with personal income tax (PIT) continuing to contribute the most, although the contribution moderated from fiscal 2000/01 to fiscal 2006/07. The next-largest contribution came from value-added tax (VAT) at an average contribution of 25.6% over the period, with the exception of fiscal 2008/09 when corporate income tax (CIT) exceeded VAT. The contribution of CIT increased from fiscal 2000/01, with CIT generating more revenue than other taxes<sup>4</sup> from fiscal 2006/07 to fiscal 2011/12.

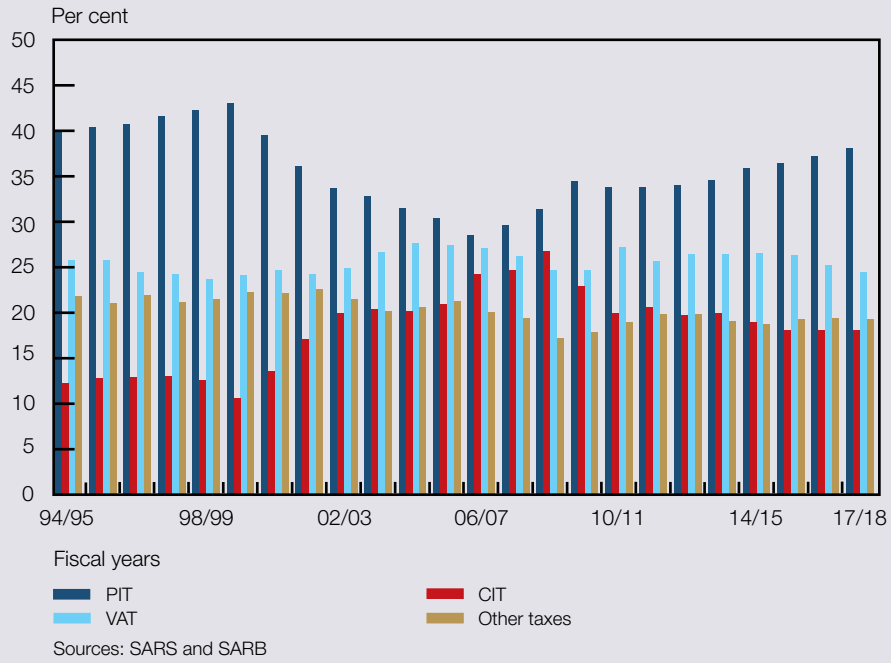
1 This discussion is based on the statistics presented in the tables on pages S-48 and S-49 and on page S-65 of this *Quarterly Bulletin*.

2 Tax revenue includes PIT, CIT, VAT and other taxes, but excludes non-tax revenue.

3 National government's expenditure is measured as cash payments for operating activities, which include compensation of employees, purchases of goods and services, interest payments, subsidies, grants, social benefits and other payments, but exclude spending on non-financial assets. Grants include current and capital transfers to foreign governments, international organisations, and other general government units. Other payments include miscellaneous (all other) current and capital expenses (including transfers to non-profit institutions serving households and non-social benefits to households as well as property expenses other than interest).

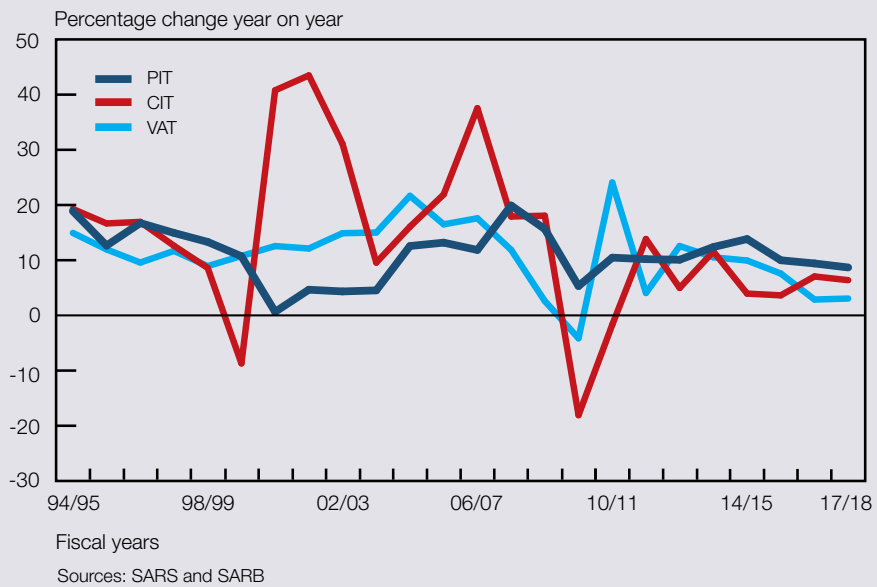
4 Other taxes comprise, among other things, taxes on payroll, taxes on property, and taxes on international trade and transactions.

### Contribution to national government tax revenue



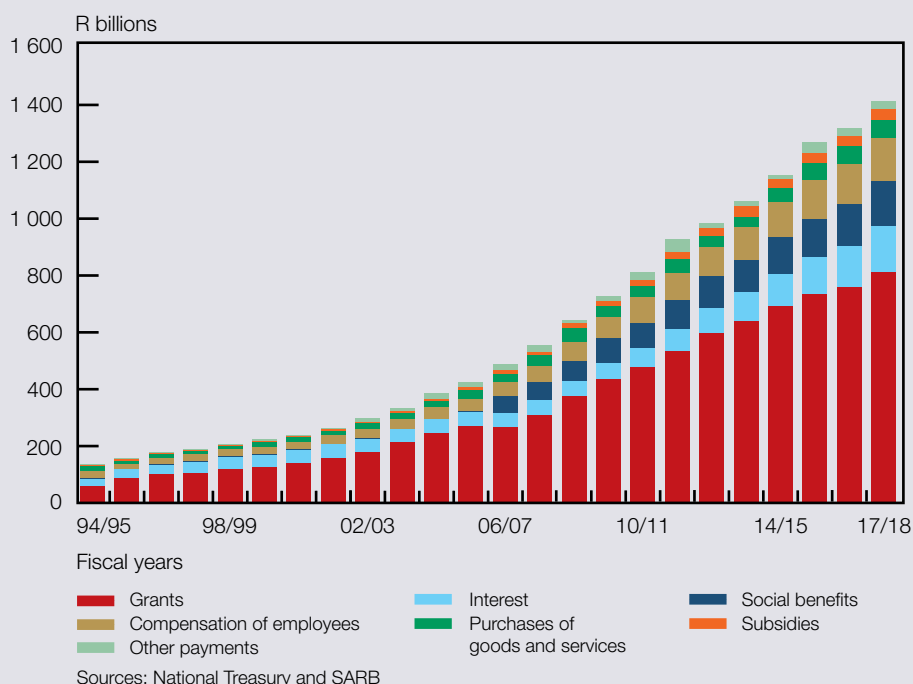
Year-on-year growth in PIT moderated from fiscal 2007/08 to fiscal 2009/10, but thereafter remained fairly resilient compared to the other tax categories. This could be attributed to the increasing number of registered tax payers and the concomitant increase in the tax base, some tax-rate adjustments, and an increase in the real remuneration per worker. Strong growth in CIT prior to the global financial crisis was mostly associated with tax reforms, improved compliance, and favourable economic and financial conditions at the time. However, growth in CIT contracted sharply during the crisis and has not reached previous growth rates as company profits have remained under pressure. Growth in VAT receipts has not yet recovered due to a decrease in the number of active vendors, constrained household spending, and subdued economic activity.

### Growth in selected tax revenue



Growth in total national government expenditure, measured as cash payments for operating activities, moderated after peaking in fiscal 2008/09, in line with government's commitment to fiscal consolidation. The composition of cash payments changed notably between fiscal 1994/95 and fiscal 2017/18, with declines in the contribution of national government's compensation of employees (from 19.0% to 10.8%), purchases of goods and services (from 10.8% to 4.4%), interest (from 17.1% to 11.4%), and subsidies (from 4.7% to 2.5%). Conversely, the contribution of other payments increased (from 1.7% to 2.2%), as did the contribution of grants (from 43.4% to 57.7%) and social benefits (from 3.2% to 11.0%).

### National government's cash payments for operating activities



Total grants (equitable share and conditional transfers), mainly paid to provincial and local governments, were the key driver of national government's spending, contributing on average 58.0% to the total between fiscal 1994/95 and fiscal 2017/18. These grants are used for the provision of provincial and municipal services such as education, health, social development, housing, roads, infrastructure, electricity and water as well as for the compensation of employees at these levels of government.

The larger contribution of interest payments in recent years reflects the rising stock of outstanding government debt. The shift towards more social spending reflects government's resolve to reduce poverty and income inequality. Expenditure on social benefits represents spending by the Department of Social Development (DSD)<sup>5</sup>, mainly in the form of transfers to households as income support for the elderly, the disabled and children. The old-age grant accounts for most of the social benefits paid by the DSD, followed closely by the child-support grant and the disability grant.

<sup>5</sup> Prior to fiscal 2005/06, social benefits were included as part of the grants to provincial government. With the introduction of the South African Social Security Agency in 2005, social benefits were allocated through the national DSD.