Box 5 The *2019 Budget Review*

Following the weakening of the economic outlook since the *2018 Medium Term Budget Policy Statement (2018 MTBPS)* and in light of the long-term risks to South Africa's public finances, the 2019 Budget charted some economic and fiscal measures to address these issues. These interventions focus on growth-enhancing reforms, sustaining real growth in priority expenditures, narrowing the budget deficit, stabilising debt, restructuring the electricity sector, and rebuilding public sector institutions.

Macroeconomic projections*

Percentage

	2016	2017	2018			2019	2020	2021
	Outcome		2018 Budget	*2018 MTBPS*	2019 Budget	Medium-term estimates**		
Real GDP growth	0.6	1.3	1.5	0.7	0.7	1.5	1.7	2.1
Consumer price inflation	6.3	5.3	5.3	4.9	4.7	5.2	5.4	5.4
Current account balance as a percentage of GDP	*-2.8*	*-2.4*	*-2.3*	*-3.2*	*-3.5*	*-3.4*	*-3.8*	*-4.0*

* Calendar years
** *2019 Budget Review*

Source: National Treasury

Projected real gross domestic product (GDP) growth for 2018 remained unchanged at 0.7% from the *2018 MTBPS* projection and was significantly lower than the 1.5% expected in the February 2018 budget. The deterioration in the economic growth outlook was evident from the downward revision in real GDP growth to 1.5% in 2019 (from 1.7% in the *2018 MTBPS)*, which was only expected to improve moderately to 2.1% in 2021 (compared to 2.3% in the *2018 MTBPS)*.

The weaker-than-expected economic performance, tax administration issues and an increase in value-added tax (VAT) refunds have all contributed to large revenue shortfalls and a deterioration in the revenue outlook since the *2018 MTBPS*. Tax revenue was expected to underperform by R15.4 billion in fiscal 2018/19 relative to the *2018 MTBPS*. The fiscal environment is further challenged by increased funding requests from state-owned companies (SOCs). The 2019 Budget proposed changes to the fiscal framework through tax and expenditure measures to narrow the budget deficit and stabilise debt.

The tax proposals of the 2019 Budget are expected to raise an additional R15 billion in fiscal 2019/20 and a further R10 billion in fiscal 2020/21. The main tax proposals for 2019/20 are:

- *Tax-free threshold:* A marginal increase in the tax-free threshold for personal income tax (PIT) has been proposed, from R78 150 to R79 000 per annum, and for the first time since the early 1990s, no changes to PIT brackets have been put forward.
- *Fuel taxes*: An increase of 15 cents per litre in the general fuel levy and of 5 cents per litre in the Road Accident Fund levy, effective from 1 April 2019, has been proposed, as well as a carbon tax of 9 cents per litre, effective from 1 June 2019.
- *Excise duties*: Increases of between 7.4% and 9.0% on alcohol and tobacco products have been put forward.
- *Additional zero-rating for VAT*: The extended list includes white bread flour, cake flour and sanitary pads, effective from 1 April 2019.
- *Employment tax incentive*: An increase in the eligible income bands has been proposed.

Overall, these tax proposals should bring the total consolidated revenue to R1.6 trillion in fiscal 2019/20.

Growth in real non-interest expenditure was expected to average 2.0% per annum over the medium term. The 2019 Budget proposed new allocations of R75.3 billion over the next three years, including R69.0 billion for the reconfiguration of Eskom. These increases were partially offset by reductions in medium-term baselines of R50.3 billion, mainly for national and provincial governments, as well as a decrease of R2.0 billion over three years in the contingency reserve.

Consolidated government spending was expected to grow from R1.7 trillion in 2018/19 to R2.1 trillion in 2021/22. The compensation of employees remained the largest spending category, accounting for an average of 34.4% of allocated expenditure over the three years. However, the 2019 Budget introduced measures to contain growth in the wage bill and to reduce compensation by R27.0 billion over the medium term.

Consolidated fiscal framework indicators*

R billions/percentage of GDP

	2016/17	2017/18	2018/19			2019/20	2020/21	2021/22
	Outcome		2019 Budget	*2018 MTBPS*	2019 Budget	Medium-term estimates**		
Total consolidated revenue	1 286	1 354	1 491	1 467	1 455	1 584	1 696	1 837
Percentage of GDP	*29.1*	*28.7*	*29.7*	*29.1*	*28.8*	*29.3*	*29.2*	*29.4*
Total consolidated expenditure	1 443	1 544	1 671	1 669	1 665	1 827	1 949	2 089
Percentage of GDP	*32.7*	*32.7*	*33.3*	*33.1*	*32.9*	*33.7*	*33.5*	*33.4*
Consolidated primary balance	-2.6	-20.5	7.3	…	-21.5	-33.3	-19.9	3.5
Percentage of GDP	*-0.1*	*-0.4*	*0.1*	…	*-0.4*	*-0.6*	*-0.3*	*0.1*
Consolidated budget deficit	-157.0	-190.3	-180.5	-202.0	-210.2	-242.7	-252.6	-252.4
Percentage of GDP	*-3.6*	*-4.0*	*-3.6*	*-4.0*	*-4.2*	*-4.5*	*-4.3*	*-4.0*
Gross loan debt***	2 233	2 490	2 771	2 818	2 814	3 043	3 358	3 684
Percentage of GDP	*50.6*	*52.7*	*55.1*	*55.8*	*55.6*	*56.2*	*57.8*	*58.9*
Net loan debt***	2 008	2 260	2 527	2 546	2 522	2 829	3 147	3 471
Percentage of GDP	*45.5*	*47.9*	*50.3*	*50.5*	*49.9*	*52.3*	*54.1*	*55.5*

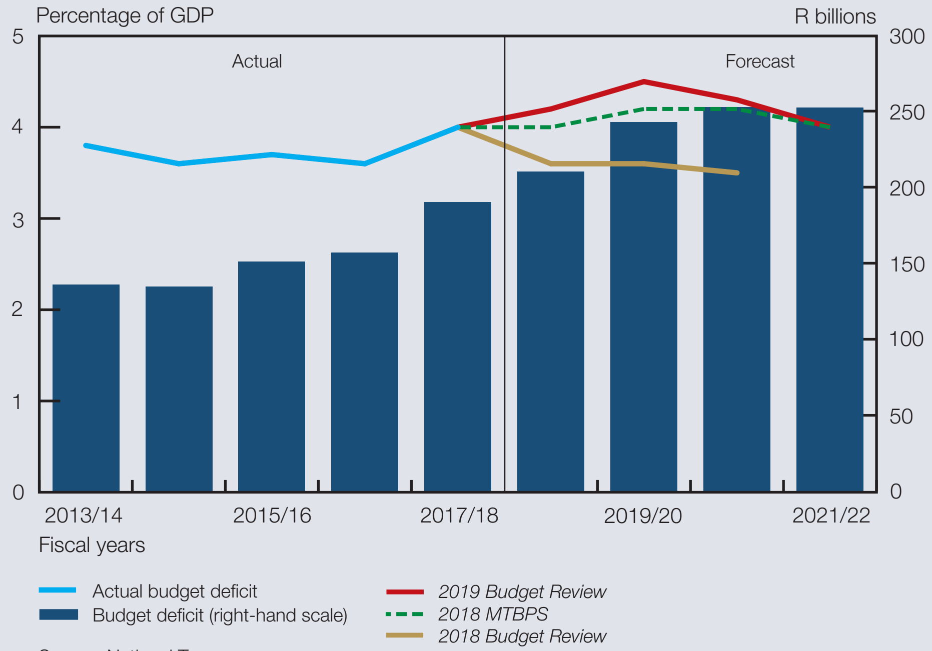
* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as extra-budgetary institutions, social security funds and selected public entities.
** *2019 Budget Review*
*** Refers to national government or main budget
... Not available

Source: National Treasury

Public employment programmes will receive R61.4 billion over the medium term. From April 2009 to March 2018, more than 4 million job opportunities of varying duration were created by the Expanded Public Works Programme, and the aim is to create another 2 million job opportunities by the end of 2020/21. Debt-service cost was revised higher by R2.1 billion to R182 billion in fiscal 2018/19 due to the larger borrowing requirement and the increasing stock of government debt, and is expected to increase to R247 billion in 2021/22.

The revised revenue and expenditure projections increased the consolidated budget deficit from 3.6% of GDP in fiscal 2016/17 to 4.2% of GDP in fiscal 2018/19 before narrowing to 4.0% of GDP in 2021/22. The primary balance (the cash book deficit/surplus excluding interest payments) of consolidated government is now expected to switch from a deficit to a surplus only in fiscal 2021/22.

Consolidated government budget deficit



Source: National Treasury

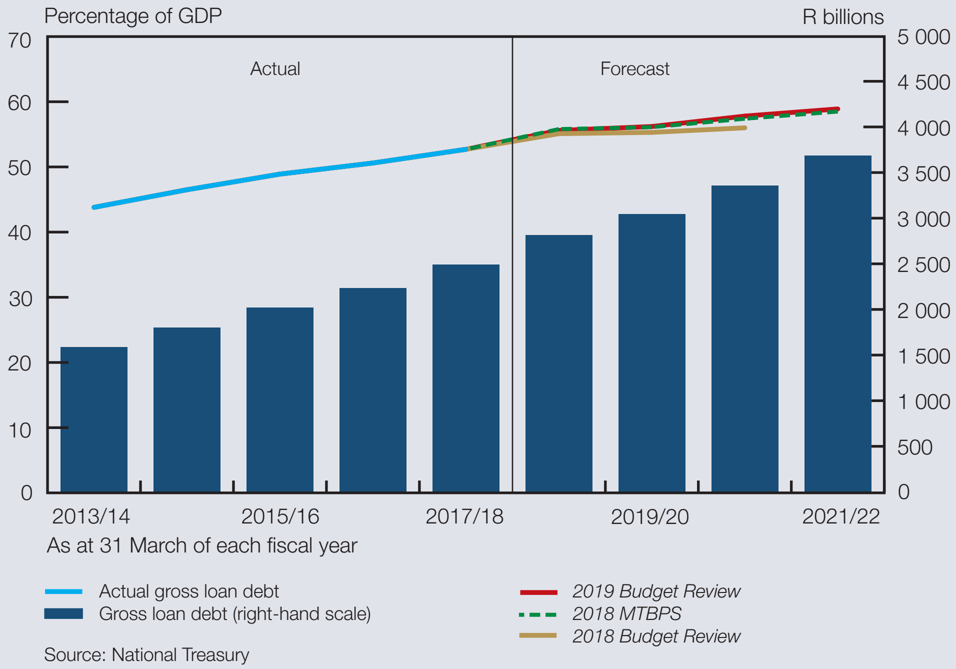
In fiscal 2018/19, the larger budget deficit increased government's net borrowing requirement by R15.3 billion to R240 billion, and this is expected to increase further to R335 billion in fiscal 2019/20. The borrowing requirement will mostly be funded through the net issuance of government bonds in the domestic capital markets. Net foreign bond issuance and loans was also revised higher to R54.2 billion in fiscal 2018/19, and is expected to decline to R28.5 billion in 2019/20 before increasing to R43.6 billion in fiscal 2021/22.

Gross loan debt of national government was projected to increase to R2.8 trillion (55.6% of GDP) at the end of fiscal 2018/19, and is expected to stabilise at 60.2% of GDP in 2023/24.

Government's total contingent liability (including guarantees to SOCs, independent power producers and public-private partnerships) was projected to increase to R880 billion in fiscal 2018/19 and to R1.0 trillion in fiscal 2021/22.

Significant risks to the fiscal outlook include uncertainty regarding the outlook for economic growth and the revenue forecast, the contingent liabilities of SOCs, and the public sector wage bill.

National government gross loan debt



Source: National Treasury