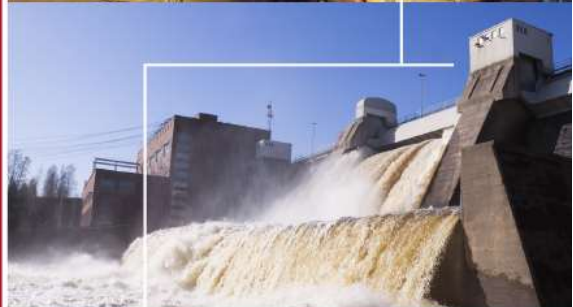




# BUDGET 2017

## TRANSFORMATION FOR INCLUSIVE GROWTH

March 2017



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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# 1. KEY HIGHLIGHTS

# Global growth reality.....

## IMF growth projections

| Region/country                                   | GDP projections <sup>1</sup> |            |            |            |
|--------------------------------------------------|------------------------------|------------|------------|------------|
|                                                  | 2015                         | 2016       | 2017       | 2018       |
| <b>Percentage</b>                                |                              |            |            |            |
| <b>World</b>                                     | <b>3.2</b>                   | <b>3.1</b> | <b>3.4</b> | <b>3.6</b> |
| <b>Advanced economies</b>                        | <b>2.1</b>                   | <b>1.6</b> | <b>1.9</b> | <b>2.0</b> |
| United States                                    | 2.6                          | 1.6        | 2.3        | 2.5        |
| Euro area                                        | 2.0                          | 1.7        | 1.6        | 1.6        |
| United Kingdom                                   | 2.2                          | 2.0        | 1.5        | 1.4        |
| Japan                                            | 1.2                          | 0.9        | 0.8        | 0.5        |
| <b>Emerging markets and developing economies</b> | <b>4.1</b>                   | <b>4.1</b> | <b>4.5</b> | <b>4.8</b> |
| Brazil                                           | -3.8                         | -3.5       | 0.2        | 1.5        |
| Russia                                           | -3.7                         | -0.6       | 1.1        | 1.2        |
| India                                            | 7.6                          | 6.6        | 7.2        | 7.7        |
| China                                            | 6.9                          | 6.7        | 6.5        | 6.0        |
| <b>Sub-Saharan Africa</b>                        | <b>3.4</b>                   | <b>1.6</b> | <b>2.8</b> | <b>3.7</b> |

Source: IMF World Economic Outlook Update, January 2017

- The world economy is projected to grow by 3.4 per cent in 2017 and 3.6 per cent in 2018.
- Growth in advanced economies is projected to remain around 2 per cent over the medium term, but this is premised on the introduction and success of a fiscal stimulus in the US.
- Developing economies are expected to remain the main contributors to higher global growth in 2017 and 2018. Growth in India is projected to remain above 7 per cent, and Chinese growth is forecast to decelerate but remain above 6 per cent.

# G20 conversations: Brexit, Trump, – a bellwether and a risk

## KEY TRENDS GLOBALLY

- Cry for inclusivity
- Rise of far-right, anti-immigration, anti-establishment politicians, anti-globalization sentiment
  - Bred from inequality and lack of inclusive growth
- De-globalization
  - Heightened trade protectionism and volatility
- Uncertainty about the US

## IMPLICATIONS FOR SA

- Heightened global uncertainty raises importance of focusing on domestic constraints
- Trade relations need to be renegotiated; improve regional trade
- Potential to re-position SA as Need to ensure macro stability to manage potentially volatile capital flows

# South African realities....

- Income growth has been uneven – the bottom 20 per cent have benefited from social grants and better access to services, the top 20 per cent have benefited from the rising demand for skills and pay increases. Those in the middle have been left behind.
- Wealth remains highly concentrated – 95 per cent of wealth is in the hands of 10 per cent of the population.
- 35 per cent of the labour force are unemployed or have given up hope of finding work.
- Despite our progress in education, over half of all children in Grade 5 cannot yet read adequately in any language.
- More than half of all school-leavers each year enter the labour market without a senior certificate pass. 75 per cent of these will still be unemployed five years later.
- Our towns and cities remain divided and poverty is concentrated in townships and rural areas.
- Our growth has been too slow – just 1 per cent a year in real per capita terms over the past 25 years, well below that of countries such as Brazil, Turkey, Indonesia, India or China.

# Our challenges and opportunities for inclusivity

## Challenges

- Declines in agriculture, mining and manufacturing are reducing demand for low skilled workers
- Increasing skills intensity across all sectors is resulting in a bias against the poorest, least educated
- SA has been losing out on global trade markets as manufacturing sector is not very export oriented and we have not been able to take advantage of those markets where trade is expanding.
- Low employment results in low savings, this in turn drives our reliance on foreign capital, which increases our vulnerability to external shocks

## Opportunities

- Large share of the economy is in services sector, which can absorb labour
- Growth in tourism a key opportunity to expand employment for low skilled workers
- Access to continent a key upside
- Deep and liquid financial markets and sound institutions attract capital
- Increased investment in networks enabling South Africans to connect to the local and global economies
- Regulatory reforms can result in a decrease in overall cost structure, boosting opportunities for new businesses to grow

# Stronger and more inclusive growth is required

- The projected rate of economic growth is insufficient to reduce unemployment, inequality and poverty.
- The budget is highly redistributive, but stronger economic growth is needed to sustain the fiscal position.
- Moving to a path of stronger and more inclusive growth requires:
  - Transforming patterns of asset ownership and production, promoting competition and de-concentrating product markets.
  - Mobilising private and public capital investment in tandem to help modernise and diversify the economy.
  - Providing workers and the poor with access to markets, and social and economic infrastructure.
  - Strengthening transparent government and the rule of law.
  - Investing in research and development, and innovation.
  - Improving the quality of education and training to meet the needs of a modern economy.



## 2. TRANSFORMING THE ECONOMY

# Collaborating to support growth and investment

| Improve ease of doing business                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Changes to competition law                                                                                                                                                                                                                                        | Opportunities in tourism                                                                                                                                                                                                                                                                                                                                                          | SMME's support                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• <b>Ease of Doing Business project</b> in nine largest municipalities, in collaboration with the World Bank, is working to find ways to reduce red tape</li> <li>• <b>The National Treasury (Cities Support Programme)</b> has rolled out support programmes to assist metros to improve and especially to implement their reform action plans. A follow-up survey of administrative and regulatory performance by the metros will be conducted in 2018</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Changes to the Competition Act</b> have criminalised cartel like behaviour</li> <li>• <b>Competition Commission</b> has been empowered to <b>undertake enquiries into strategic sectors</b>, such as ports</li> </ul> | <ul style="list-style-type: none"> <li>• The tourism work-stream focuses on issues such as regulations, marketing, branding and inclusive growth. This work will be carried out by various tourism bodies.</li> <li>• An additional <b>R230 million</b> has been allocated to the <b>Tourism Destination Development and Marketing Programme</b> over the medium-term.</li> </ul> | <ul style="list-style-type: none"> <li>• Private sector has invested R1.5 billion in a <b>mentorship fund</b></li> <li>• Over the medium term, <b>R3.9 billion</b> is provided for <b>SMMEs and cooperatives</b>.</li> <li>• <b>The national informal business upliftment scheme</b> aims to develop more than 5 000 informal businesses and cooperatives through financial and other support.</li> <li>• <b>The Black Business Supplier Development Programme</b> will provide about 2 000 SMME's</li> </ul> |

# Actions to remove structural constraints

| Investing in Research & Development                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Labour markets reforms                                                                                                                                                                                                                                                                                                                                                                                                                      | Removing infrastructure bottlenecks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Electricity supply constraints alleviated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• R13.6 billion budgeted over MTEF for R&amp;D</li> <li>• <b>The R&amp;D Tax Incentive Programme</b> catalysed R30 billion of private investment in R&amp;D in the decade to 2016</li> <li>• The <b>Council for Scientific and Industrial Research</b> is allocated R9.3 billion over MTEF for health, energy, advanced manufacturing and mining research and development</li> <li>• The <b>MeerKAT radio telescope project</b> has a 75 per cent local content requirement and will receive R2.2 billion over the medium term</li> </ul> | <ul style="list-style-type: none"> <li>• The <b>employment tax incentive</b> will be extended</li> <li>• NEDLAC social partners have signed an agreement to introduce a <b>national minimum wage</b> of R20 an hour, to be implemented from no later than 1 May 2018.</li> <li>• Government has been engaged in the past year with social partners through Nedlac to formulate practical ways to <b>improve labour relations</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>R947.2 billion</b> allocated to <b>infrastructure spending</b> over the medium term. Bulk spending is budgeted towards energy (R234.5 billion), transport (R327.7 billion) and water and sanitation (R125.4 billion)</li> <li>• <b>State-owned companies</b> accounts for about 77% of the total economic infrastructure spending</li> <li>• A <b>new infrastructure facility</b> is to be launched this year. The facility would address many problems in the existing infrastructure budgeting process</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Full operation of Medupi</b> expected in March 2018 while <b>Kusile's</b> first unit is expected in July 2018</li> <li>• In total, <b>IPP contracts</b> (including renewable energy and coal) under negotiations have the potential to generate R500 billion in investment and create more jobs</li> <li>• In his 2017 SONA speech, the President announced that Eskom will sign outstanding power purchase agreements, alleviating uncertainty around the future of REIPP's</li> </ul> |

# Government striving to obtain better value for public money

## Economic transformation through preferential procurement

The **revised Preferential Procurement Regulations** were gazetted in January 2017 and will take effect from the 1st of April. Key changes aiming to enhance transformation:

- Tenders can be targeted to empower specific groups, such as black women
  - Bids up to R50 million will be evaluated in terms of the 80/20 preference point system (the previous threshold was R1 million), which will help smaller, black-owned firms to compete.
  - Public entities will be allowed to negotiate prices and value for money with preferred service providers.
  - Procurement of locally manufactured goods will be supported.
  - Preference points will be allocated in line with broad-based black economic empowerment status.
  - Compulsory subcontracting of at least 30 per cent for tenders above R30 million will be implemented, where feasible, to advance designated groups.
- The **Public Procurement Bill** is in the process of being finalised.
  - **Contracts with the top 100 suppliers** are being renegotiated, to achieve better value for money.
  - To increase market access and competition, the **National Treasury will give private companies access to its supplier database** and allow them to publish their own tenders on the **eTender portal**.

# 3. SUSTAINABLE GOVERNMENT FINANCES

# The 2017 budget does the following

- Expenditure revised down by R10 billion in 2017/18 and an additional R28 billion will be raised in taxes.
- The budget deficit for 2017/18 will be 3.1 per cent of GDP, in line with government's commitments.
- Government net debt will stabilise at about 50 per cent of GDP over the next three years.
- Redistribution in support of education, health services and municipal functions in rural areas remains the central thrust of our spending programmes.
- Government's wage bill has stabilised. Procurement reforms continue to improve the effectiveness of public spending and opening opportunities for small business participation.
- Our state-owned companies and finance institutions play a substantial role in infrastructure investment and financing development. Restructuring of governance and improved financial performance is necessary to ensure they can deliver on their developmental mandates.

# Economic growth expected to rebound over the medium term

## Domestic macroeconomic forecasts

|                                          | 2016           | 2017           | 2018           | 2019           |
|------------------------------------------|----------------|----------------|----------------|----------------|
| Percentage change                        | Estimate       | Forecast       |                |                |
| Final household consumption              | 0.9            | 1.3            | 2.0            | 2.3            |
| Final government consumption             | 1.4            | 0.9            | 0.0            | 0.4            |
| Gross fixed-capital formation            | -3.6           | 1.5            | 1.6            | 2.8            |
| Gross domestic expenditure               | -0.3           | 1.3            | 1.8            | 2.2            |
| Exports                                  | -1.2           | 1.9            | 4.9            | 5.0            |
| Imports                                  | -3.6           | 2.0            | 4.3            | 4.9            |
| <b>Real GDP growth</b>                   | <b>0.5</b>     | <b>1.3</b>     | <b>2.0</b>     | <b>2.2</b>     |
| GDP inflation                            | 7.2            | 6.4            | 5.9            | 5.8            |
| <b>GDP at current prices (R billion)</b> | <b>4 322.3</b> | <b>4 657.5</b> | <b>5 029.9</b> | <b>5 440.6</b> |
| CPI inflation                            | 6.4            | 6.4            | 5.7            | 5.6            |
| Current account balance (% of GDP)       | -4.0           | -3.9           | -3.7           | -3.8           |

Source: National Treasury & South African Reserve Bank

- GDP growth will gradually improve from 0.3 per cent in 2016 to 1.3 per cent in 2017 and 2 per cent in 2018
- Greater availability of electricity should also support growth in 2018 and 2019
- Fixed investment expected to grow to 2.8 per cent in 2019 from contraction in 2016
- Consumer price inflation expected to decline to 5.7 per cent by 2018 from 6.4 per cent in 2016
- Current account deficit expected to decline from 4 per cent in 2016 to 3.7 per cent in 2018 and 3.8 per cent in 2019

# Service sectors increasingly important in growth and job creation

## Sector growth trends

| Percentage                                 | 2011       | 2012       | 2013       | 2014       | 2015       | 2016 <sup>1</sup> |
|--------------------------------------------|------------|------------|------------|------------|------------|-------------------|
| Agriculture, forestry and fishing          | 2.0        | 1.8        | 3.6        | 6.9        | -5.9       | -7.0              |
| Mining and quarrying                       | -0.7       | -2.9       | 4.0        | -1.4       | 3.2        | -4.1              |
| Manufacturing                              | 3.0        | 2.1        | 0.8        | 0.1        | -0.3       | 0.7               |
| Electricity and water                      | 1.5        | -0.4       | -0.6       | -1.3       | -1.0       | -2.9              |
| Construction                               | 0.4        | 2.6        | 4.6        | 3.6        | 2.0        | 1.4               |
| Wholesale and retail trade                 | 4.1        | 4.0        | 1.9        | 1.4        | 1.4        | 1.1               |
| Transport and communication                | 3.5        | 2.4        | 2.8        | 3.1        | 1.4        | -0.1              |
| Finance, real estate and business services | 4.3        | 3.0        | 2.5        | 2.4        | 2.8        | 2.1               |
| Personal services                          | 2.5        | 2.1        | 2.2        | 1.7        | 1.1        | 1.1               |
| General government                         | 4.7        | 3.0        | 2.9        | 2.7        | 0.7        | 1.7               |
| <b>GDP</b>                                 | <b>3.3</b> | <b>2.2</b> | <b>2.3</b> | <b>1.6</b> | <b>1.3</b> | <b>0.4</b>        |

1. Up to September 2016

Source: Statistics South Africa

- Taken together, mining and manufacturing employment declined by 80 thousand jobs in 2016. The services sector created 119 thousand jobs over the same period
- **During 2016:**
  - Real value added in the mining sector contracted by 4.1 per cent due to safety stoppages, lower commodity prices and rising operating costs.
  - Real value added in the agriculture, forestry and fishing sector contracted by 7 per cent in the year to September 2016 due to drought conditions.
  - Finance, insurance, real estate and business services sector remain the largest contributor to



# Government remains committed to maintaining sustainable fiscal framework

- Budget deficit is expected to decline from 3.4 per cent of GDP in 2016/17 to 2.6 per cent in 2019/20
- Main budget non-interest expenditure ceiling has been lowered by R26 billion over the next two years
- Additional tax revenues of R28 billion will be raised in 2017/18, with measures to increase revenue by a proposed R15 billion in 2018/19 will be outlined in Budget Review 2018/19

## Consolidated fiscal framework

|                                 | 2013/14        | 2014/15        | 2015/16        | 2016/17          | 2017/18               | 2018/19        | 2019/20        |
|---------------------------------|----------------|----------------|----------------|------------------|-----------------------|----------------|----------------|
|                                 | Outcome        |                |                | Revised estimate | Medium-term estimates |                |                |
| R billion/percentage of GDP     |                |                |                |                  |                       |                |                |
| <b>Revenue</b>                  | <b>1 008.1</b> | <b>1 098.9</b> | <b>1 222.0</b> | <b>1 297.3</b>   | <b>1 414.1</b>        | <b>1 535.2</b> | <b>1 668.5</b> |
|                                 | 27.8%          | 28.4%          | 29.9%          | 29.4%            | 29.8%                 | 29.9%          | 30.1%          |
| <b>Expenditure</b>              | <b>1 143.4</b> | <b>1 233.5</b> | <b>1 364.2</b> | <b>1 445.2</b>   | <b>1 563.1</b>        | <b>1 677.1</b> | <b>1 814.3</b> |
|                                 | 31.5%          | 31.9%          | 33.4%          | 32.8%            | 33.0%                 | 32.7%          | 32.7%          |
| <i>Non-interest expenditure</i> | <i>1 033.8</i> | <i>1 112.1</i> | <i>1 227.9</i> | <i>1 291.8</i>   | <i>1 393.8</i>        | <i>1 489.5</i> | <i>1 608.0</i> |
|                                 | 28.5%          | 28.8%          | 30.0%          | 29.3%            | 29.4%                 | 29.0%          | 29.0%          |
| Interest payments               | 109.6          | 121.4          | 136.3          | 153.4            | 169.3                 | 187.6          | 206.4          |
|                                 | 3.0%           | 3.1%           | 3.3%           | 3.5%             | 3.6%                  | 3.7%           | 3.7%           |
| <b>Budget balance</b>           | <b>-135.4</b>  | <b>-134.6</b>  | <b>-142.2</b>  | <b>-147.9</b>    | <b>-149.0</b>         | <b>-141.9</b>  | <b>-145.8</b>  |
|                                 | -3.7%          | -3.5%          | -3.5%          | -3.4%            | -3.1%                 | -2.8%          | -2.6%          |
| <b>Primary balance</b>          | <b>-25.8</b>   | <b>-13.2</b>   | <b>-5.9</b>    | <b>5.5</b>       | <b>20.3</b>           | <b>45.7</b>    | <b>60.6</b>    |
|                                 | -0.7%          | -0.3%          | -0.1%          | 0.1%             | 0.4%                  | 0.9%           | 1.1%           |

Source: National Treasury

# Tax proposals to raise additional R28 billion

- A new top personal income tax rate of 45 per cent for those with taxable incomes above R1.5 million.
- An increase in the dividend withholding tax rate from 15 per cent to 20 per cent.
- Limited bracket creep relief, increasing the tax free threshold from R75 000 to R75 750.
- An increase of 30c/litre in the general fuel levy and 9c/litre in the road accident fund levy.
- Increases in the excise duties for alcohol and tobacco, of between 6 per cent and 10 per cent.

| Revenue impact of tax proposals                |                         |
|------------------------------------------------|-------------------------|
| R million                                      | Effect of tax proposals |
| Gross tax revenue (before tax proposals)       | 1 237 464               |
| Budget 2017/18 proposals                       | 28 024                  |
| <b>Taxes on individuals and companies</b>      |                         |
| <b>Personal income tax</b>                     | <b>16 516</b>           |
| Revenue from not fully adjusting for inflation | 12 148                  |
| <i>Revenue if no adjustment is made</i>        | 14 628                  |
| <i>Bracket creep adjustment</i>                | -2 480                  |
| New top marginal income tax bracket            | 4 369                   |
| <b>Dividend withholding tax</b>                | <b>6 822</b>            |
| <b>Taxes on property</b>                       | <b>-448</b>             |
| <b>Indirect taxes</b>                          | <b>5 133</b>            |
| Gross tax revenue (after tax proposals)        | 1 265 488               |

Source: National Treasury

# Government gross borrowing requirement and financing edging up over the medium term

## Financing of national government borrowing requirement, 2015/16 – 2019/20

| R million                                            | 2015/16         | 2016/17         |                 | 2017/18               | 2018/19         | 2019/20         |
|------------------------------------------------------|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|
|                                                      | Outcome         | Budget          | Revised         | Medium-term estimates |                 |                 |
| <b>Main budget balance<sup>2</sup></b>               | <b>-168 389</b> | <b>-156 342</b> | <b>-170 532</b> | <b>-166 798</b>       | <b>-171 153</b> | <b>-180 678</b> |
| <b>Redemptions</b>                                   | <b>-32 023</b>  | <b>-73 194</b>  | <b>-72 912</b>  | <b>-54 078</b>        | <b>-53 008</b>  | <b>-103 763</b> |
| Domestic long-term loans <sup>3</sup>                | -28 144         | -57 800         | -57 222         | -49 514               | -50 622         | -55 634         |
| Foreign loans <sup>3</sup>                           | -3 879          | -15 394         | -15 690         | -4 564                | -2 386          | -48 129         |
| <b>Total</b>                                         | <b>-200 412</b> | <b>-229 536</b> | <b>-243 444</b> | <b>-220 876</b>       | <b>-224 161</b> | <b>-284 441</b> |
| <b>Financing</b>                                     |                 |                 |                 |                       |                 |                 |
| <b>Domestic short-term loans</b>                     | <b>13 075</b>   | <b>25 000</b>   | <b>41 000</b>   | <b>21 000</b>         | <b>21 500</b>   | <b>22 000</b>   |
| Treasury bills <sup>4</sup>                          | 7 252           | 25 000          | 41 000          | 21 000                | 21 500          | 22 000          |
| Corporation for Public Deposits                      | 5 823           | –               | –               | –                     | –               | –               |
| <b>Domestic long-term loans</b>                      | <b>174 316</b>  | <b>174 000</b>  | <b>173 132</b>  | <b>191 500</b>        | <b>195 000</b>  | <b>197 000</b>  |
| Market loans                                         | 176 795         | 174 000         | 174 000         | 191 500               | 195 000         | 197 000         |
| Loans issued for switches                            | -2 479          | –               | -868            | –                     | –               | –               |
| <b>Foreign loans</b>                                 | <b>–</b>        | <b>23 205</b>   | <b>52 069</b>   | <b>29 600</b>         | <b>30 400</b>   | <b>31 060</b>   |
| Market loans                                         | –               | 23 205          | 50 958          | 29 600                | 30 400          | 31 060          |
| Loans issued for switches                            | –               | –               | 1 111           | –                     | –               | –               |
| <b>Change in cash and other balances<sup>5</sup></b> | <b>13 021</b>   | <b>7 331</b>    | <b>-22 757</b>  | <b>-21 224</b>        | <b>-22 739</b>  | <b>34 381</b>   |
| Cash balances                                        | 11 698          | 3 230           | -29 179         | -25 443               | -27 077         | 30 102          |
| Other balances <sup>6</sup>                          | 1 323           | 4 101           | 6 422           | 4 219                 | 4 338           | 4 279           |
| <b>Total</b>                                         | <b>200 412</b>  | <b>229 536</b>  | <b>243 444</b>  | <b>220 876</b>        | <b>224 161</b>  | <b>284 441</b>  |

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review

2. A negative number reflects a deficit

3. Net of loans issued and redeemed in switch transactions

4. Treasury bills are disclosed on a net basis (gross issuance less redemptions)

5. A negative value indicates an increase in cash and other balances. A positive value indicates that cash is used to finance part of the borrowing requirement

6. Net movement in national departments' bank balances due to differences between funds requested and actual cash flows

Source: National Treasury

## 4. STATE-OWNED COMPANIES

# Improving the performance of state-owned enterprises

- Operational inefficiencies, poor procurement practices, weak corporate governance and failures to abide by fiduciary obligations have plagued several companies that are now in serious financial difficulty.
- Addressing this requires not only stabilisation measures at troubled entities, but a broader restructuring of state-owned companies to ensure they can deliver on their developmental mandates.
- **In November 2016, Cabinet:**
  - Endorsed a framework to guide collaboration between state-owned companies and the private sector on infrastructure projects.
  - Adopted a guideline for the remuneration and incentive standards for directors of state-owned entities.
  - Approved the broad thrust of a guide for the appointment of boards and executive officers.
  - Recommended further consultation on the first draft of a new government shareholder policy, which will culminate in overarching legislation for state-owned companies.
  - Noted the proposal to determine and cost the developmental mandates of state-owned enterprises.

# Guarantee exposure of major state-owned companies

## Guarantee exposure to major SOCs and DFIs, 2014/15 – 2016/17

| R billion                                         | 2014/15      |                       | 2015/16      |                       | 2016/17      |                       |
|---------------------------------------------------|--------------|-----------------------|--------------|-----------------------|--------------|-----------------------|
|                                                   | Guarantee    | Exposure <sup>2</sup> | Guarantee    | Exposure <sup>2</sup> | Guarantee    | Exposure <sup>2</sup> |
| <b>Public institutions</b>                        | <b>469.6</b> | <b>220.9</b>          | <b>469.9</b> | <b>255.8</b>          | <b>477.7</b> | <b>308.3</b>          |
| <i>of which:</i>                                  |              |                       |              |                       |              |                       |
| <i>Eskom</i>                                      | 350.0        | 149.9                 | 350.0        | 174.6                 | 350.0        | 218.2                 |
| <i>SANRAL</i>                                     | 38.9         | 27.4                  | 38.9         | 27.2                  | 38.9         | 30.1                  |
| <i>Trans-Caledon Tunnel Authority</i>             | 25.6         | 20.8                  | 25.8         | 21.2                  | 25.7         | 20.7                  |
| <i>South African Airways</i>                      | 14.4         | 8.4                   | 14.4         | 14.4                  | 19.1         | 17.9                  |
| <i>Land and Agricultural Bank of South Africa</i> | 6.6          | 2.1                   | 6.6          | 5.3                   | 11.1         | 5.4                   |
| <i>Development Bank of Southern Africa</i>        | 12.9         | 4.1                   | 13.9         | 4.4                   | 12.7         | 4.2                   |
| <i>South African Post Office</i>                  | 1.9          | 0.3                   | 4.4          | 1.3                   | 4.4          | 3.9                   |
| <i>Transnet</i>                                   | 3.5          | 3.8                   | 3.5          | 3.8                   | 3.5          | 3.8                   |
| <i>Denel</i>                                      | 1.9          | 1.9                   | 1.9          | 1.9                   | 1.9          | 1.9                   |
| <i>South African Express</i>                      | 1.1          | 0.5                   | 1.1          | 0.5                   | 1.1          | 1.0                   |
| <i>Industrial Development Corporation</i>         | 1.6          | 0.3                   | 2.0          | 0.2                   | 1.9          | 0.2                   |
| <i>South African Reserve Bank</i>                 | 7.0          | –                     | 3.0          | –                     | 3.0          | –                     |
| <b>Independent power producers</b>                | <b>200.2</b> | <b>96.2</b>           | <b>200.2</b> | <b>114.0</b>          | <b>200.2</b> | <b>125.8</b>          |
| <b>Public-private partnerships<sup>3</sup></b>    | <b>10.1</b>  | <b>10.1</b>           | <b>10.3</b>  | <b>10.3</b>           | <b>10.9</b>  | <b>10.9</b>           |

1. A full list of guarantees is given in Table 11 of the statistical annexure

2. Total amount of borrowing and accrued interest for the period made against the guarantee

3. This amount only includes the national and provincial PPP agreements

Source: National Treasury

- Where funding or guarantees are issued by Government:

- Public entities must demonstrate sound business plans
- Public entities will be required to strengthen internal governance and improve operational performance
- Close monitoring will take place to ensure improved commercial performance

## 5. RISKS TO MEDIUM TERM OUTLOOK

# Government's fiscal risks framework

- Macroeconomic risks
  - Impact of slower than expected nominal GDP and revenue growth
  - Debt sustainability under different economic scenarios
  - Effect of macroeconomic outlook on expenditure and debt service costs
- Policy and budget execution
  - Unplanned spending requests leading to pressures on expenditure ceiling
  - Implementation risk around proposed in-year expenditure estimates
- Contingent and accrued liabilities
  - Quality of guarantee exposure in SOCs
  - Funding status of social security funds and GEPF
- Long-term spending commitments
  - Impact of long-run growth, demographic changes and new policy on spending



Thank you