Budget 2017

Introduction

In delivering Budget 2017 in parliament, the finance minister, Pravin Gordhan, emphasised that South Africa was at a conjuncture "which requires the wisdom of our elders to help us make the right choices and keep the trust of our citizens."

He made reference to the Constitution and its requirement that all citizens should have access to housing, medical care, social security, water and education.

"There should be a progressive realisation of access to tertiary education and other elements in a comprehensive set of social entitlements. Wealth and economic opportunities must be equitably shared", he said.

According to the minister, all stakeholders have a shared responsibility to address the social and economic challenges before us.

South African realities such as uneven income growth, 95% of the country's wealth in the hands of 10% of the population, 35% of the workforce unemployed or no longer looking for work and a low economic growth rate called for a "radical transformation of economic models" and a move to inclusive growth.

The minister stressed that transformation would be achieved through economic participation, partnerships and mobilisation of all capacities in the country.

In a nutshell, the envisaged transformation will have to unite South Africans and not divide them.
The minister also pointed out that tough choices would have to be made to achieve the necessary development outcomes.

A new national consensus and a new commitment to deliver were necessary to address the triple challenges of poverty, unemployment and inequality.

The growth challenge went hand in hand with the need to transform.

"We need to transform in order to grow, we need to grow in order to transform. Without transformation, growth will reinforce inequality; without growth, transformation will be distorted by patronage", he said.

Some of the principles that should guide the transformation agenda include programmes that create jobs, reducing poverty and narrowing the inequality gap; mass-based; mobilizing both public and private investment; confronting cartels and collusion; a more balanced ownership and control structure in the economy and the strengthening of democracy.

Global Economy

Global growth declined to 3.1% in 2016 due to policy uncertainty, slow investment growth and sluggish global trade.

The International Monetary Fund predicts that the world economy will grow by 3.4% in 2017 and 3.6% in 2018.

In terms of developed economies, growth is projected to remain around 2% over the medium term.
In particular, the United States is expected to attain growth of 2.3% in 2017 and 2.5% in 2018.

Germany, Japan, Spain and the United Kingdom have recently received improved growth forecasts.

The main contributors towards higher economic growth in 2017 and 2018 will continue to be developing countries with Russia and Brazil returning to moderate growth while growth in India is projected to remain above 7%.

Chinese growth is forecast to decelerate but remain above 6%.

Notably for South African manufacturers, growth in Sub-Saharan Africa has been revised marginally up to 3.7% for 2018.

Global inflation is forecast to increase moderately over the short term as a result of stabilizing commodity prices and increasing use of productive capacity in China.

Monetary policy in advanced economies is expected to support growth in the short term but higher interest rates in the United States could increase capital flow volatility.

Local Economy

Projected economic growth is projected to stand at 1.3% in 2017, 2% in 2018 and 2.2% in 2019.
The Reserve Bank's economic indicator increased for four months in a row at the end of 2016 suggesting a positive turn in the business cycle.

According to national treasury, a recovery will be supported by moderately stronger global growth, an improvement in weather conditions, reliable electricity supply, more stable labour relations, recovering business and consumer confidence and stabilizing commodity prices.

Unemployment stood at 26.5% in the fourth quarter of 2016.

Work opportunities are being created for semi-skilled and skilled workers but unskilled jobs are being lost which reinforces poverty and inequality and widens the wage gap.

Unemployment amongst 18 to 29 year olds averaged 43% in the fourth quarter of 2016.

On the positive side, the number of work days lost to strikes has dropped in the last two years.
A national minimum wage is expected to be introduced in May 2018 at R20 per hour.

Growth in household spending decelerated to 0.9% in the first three quarters of 2016 from 1.7% over the same period in 2015.

However, household spending is projected to increase by 1.3% in 2017 and 2% in 2018 as a result of moderate employment growth, improved consumer confidence and lower inflation.

The ratio of household debt to disposable income declined to 74% in the third quarter of 2016 from 76.9% in 2015.

With regard to investment, investment in fixed capital fell by 3.9% during the first three quarters of 2016.

However, investment growth is expected to recover moderately from 1.5% in 2017 to 2.8% in 2019.

The current account deficit stood at 4.1% in the third quarter of 2016 down from 4.3% in 2015.

Export growth is expected to reach 5% in 2019.

Imports declined during the first three quarters of 2016 but are expected to recover over the medium term in line with domestic demand.

Moderate terms of trade gains are expected to continue in 2017.

Inflation increased from 4.6% in 2015 to 6.4% in 2016 driven by higher food prices and petrol prices.

Headline inflation is expected to remain above 6% in 2017 and to decline to 5.7% in 2018.

Overall, the economy grew by 0.4% in the first three quarters of 2016.

According to treasury, the main risk to the outlook is a combination of higher global uncertainty and continuing unresolved policy issues in areas such as mining, land and broadband.

Other risks include rising interest rates in developed economies and lower Chinese demand.

Fiscal Policy

Fiscal policy is directed at containing the budget deficit and slowing the pace of debt accumulations in order to maintain spending programmes and boost confidence in the economy.

R28 billion in additional revenue will be raised in 2017/18.

Expenditure ceiling reductions amount to R10 billion in 2017/18 and R16 billion in 2018/19.

The main budget primary deficit will reduce from 1% of GDP in 2015/16 to 0.5% of GDP by the end of 2016/17.

Net debt is forecast to stabilize at 48.2% of GDP in 2020/21.

In order to address heightened risks to the fiscus, government is managing the national and provincial wage bill, improving the way the budget is spent and stabilizing financially stressed public entities.

The consolidated budget deficit is projected to narrow to 2.6% by 2019/20.

Taxes for the current financial year are projected to be R30 billion below the 2016 budget estimate.

Government will have to borrow R43 billion more between 2016/17 and 2018/19 than was projected in the 2016 budget.

Non-interest spending is projected to remain stable at 26.2% of GDP over the medium term.

Tax revenue will increase from 26% of GDP in the current year to 27.2% of GDP in 2019/20.

Spending for 2017/18 stands at R1.56 trillion while interest on debt amounts to R169 billion.

Projected revenues for 2017/18 amount to R1.41 trillion with the balance of R149 billion being borrowed. Government debt now stands at R2.2 trillion or 50.7% of GDP.

Revenue Trends and Tax Proposals

The revenue shortfall has now been revised to R30.4 billion which means that an estimated R1.144 trillion will be collected for 2016/17.

The tax proposals for 2017/18 will raise an additional R28 billion.

They include:

- A new top personal income tax rate of 45% for those earning R1.5 million per annum and above.
- An increase in the dividend withholding tax rate from 15% to 20% - effective from 22 February 2016.
- The tax-free threshold will increase from R75 000 to R75 750.
- An increase of 30c/litre in the general fuel levy and 9c/litre on the Road Accident Fund levy – effective 5 April 2017.
- Increases in the excise duties for alcohol and tobacco of between 6% and 10%.
- A rate of R3.61 per litre for unfortified wine – increase of 23 cents per 750ml.
- A rate of R11.46 per litre for sparkling wine – increase of 70 cents per 750ml.
- A rate of R14.30 for a pack of 20 cigarettes – increase of 106 cents.
- Beer to increase by 12 cents per 340ml.
- Spirits to increase by 443 cents per 750ml.
- The medical tax credit will increase for the first two beneficiaries from R286 to R303 per month.
- The annual allowance for tax free savings accounts will increase to R33 000.
- The withholding tax on immovable property sales will increase from 5% to 7.5% for individuals, 7.5% to 10% for companies and 10% to 15% for trusts
- The duty free threshold on purchases of houses from R750 000 to R900 000 – effective 1 March 2017
- Tax on sugary beverages and a carbon tax in the pipeline

Spending plans

Public spending is expected to increase from R1.4 trillion in 2016 to R1.8 trillion by 2019/20.

The expenditure ceiling has been reduced by R26.1 billion over the next three years by reducing non-core goods and services and compensation budgets.

R30 billion has been reprioritized with R16.1 billion allocated to higher education and increased support for social protection and health.

Over the medium term, government will spend:

- R490.4 billion on social grants.
- R105.9 billion on transfers to universities.
- R54.3 billion to the National Student Financial Aid Scheme.
- R751.9 billion on basic education – R48.3 billion for direct subsidies to schools, R42.9 billion for infrastructure and R12.7 billion for learner and teacher support materials.
- R114.8 billion on subsidized public housing.
- R94.4 billion on water resources and bulk infrastructure.
- R189 billion on transfers of local government equitable share to provide basic services to poor households.
- R142.6 billion to support affordable public transport.
- R606 billion on health – R59.5 billion on HIV/AIDS conditional grant.
- R3.9 billion for small, medium and micro enterprises.
- R4.2 billion for industrial infrastructure in special economic zones and industrial parks.
- R1.9 billion for broadband implementation.
- R3.9 billion for the Council for Scientific and Industrial Research.
- R494 million for tourism promotion.
- R266 to support the aquaculture sector.
- R30 billion on agriculture, rural development and land reform.
- R15.4 billion to SANRAL to maintain the national road infrastructure.
- R16.7 billion for 70 new train sets for Metrorail.

In 2017/18, government will spend:

- R241.6 billion on economic affairs and agriculture.
- R198.7 billion on defence and public safety.
- R70.7 billion on general administration.
- R162.4 billion on debt service costs.
- R320.5 billion on education.
- R187.5 billion on health.
- R195.8 billion on local development and infrastructure.
- R180 billion on social protection.

The old age grant will increase by R90 to R1600 for pensioners over the age of 60 and R1620 for those over 75.

Disability and care dependency grants increase by R90 to R1600 a month.

Foster care grants increase by R30 to R920 a month.

The child support grant increases by R20 to R380 a month.

On the Horizon

A Draft Public Procurement Bill will be published soon. It will set up a single procurement authority and will consolidate the fragmented regulatory environment.

The Reserve Bank and treasury have started work on a more comprehensive Financial Markets Review to address financial market abuses.

A Financial Sector Summit is also on the cards in 2017 to consider transformation in the sector.

The Tirisano Fund will be set up in 2017 utilising money from the Competition Commission settlement with construction companies. It will finance skills development amongst black South Africans and support emerging enterprises.

A NHI Fund to be established to initially improve access to maternal health and ante-natal and family planning services, expand the integrated school health programmes and improve services for people with disabilities, the elderly and mentally ill patients.

Work is being done to revise and finalise the NHI White Paper and the longer-term financing arrangements.

Some of the measures to boost investment in the short-term include:

- Finalizing legislation relating to mining development and land redistribution.
- Implementing the transition from analogue to digital television.
- Continuation of the renewable energy power programme.
- Further strengthening of economic regulatory functions and making investment approval processes easier.
- Speedy resolution of industrial disputes.
- Assistance to small business – leveraging both public and private sector procurement budgets.
- Focused support on labour-intensive areas such as agriculture, agro-processing and tourism-related services.
- Safeguarding South Africa's investment-grade credit rating.

A new proposed financing facility for large infrastructure projects that require funding or other state support such as sovereign guarantees – address shortcomings in the planning and execution of infrastructure projects with particular regard to life-cycle budgeting, operations and maintenance costs.

A Draft National Gambling Tax Bill and National Gambling Tax Administration Bill will be placed before cabinet for approval in 2017.