This budget brief is one of five that explores the extent to which the national budget and social services sector budgets address the needs of children under 18 years in South Africa. The briefs analyse the size and composition of budget allocations for fiscal year 2019/20 as well as offer insights into the efficiency, effectiveness, equity and adequacy of past spending.
Key messages and recommendations

The South African economy grew by 0.8 per cent in 2018. The benefits of this growth are likely to be unequally distributed and the recent trend of falling standards of living for ordinary South Africans will persist.

Against this background, Budget 2019 sets aside 1.6 trillion South African rand (R) (or 29 per cent of gross domestic product (GDP)) to finance national, provincial and local government programmes. By fiscal year (FY) 2021, the government will spend R1.8 trillion, and plans to grow expenditure by 2 per cent on average over the next three years. Given the need to allocate emergency funds to the national energy entity, budgets that directly impact children (basic education, health and social development) will decline in FY2019.

Given a persistent drop in standards of living, rising unemployment, food inflation that exceeds headline inflation, and the introduction of a slew of new taxes, the government is encouraged to:

1. Increase its cash transfers to households and children by a rate that is marginally above headline inflation; and
2. Recommit to end all exclusion errors in the implementation and delivery of cash transfers for very young children and children who are close to the upper age limits of the child support grant.

South Africa is predicted to reach the end of its potential demographic dividend in less than 10 years. In the context of the scourge of HIV/AIDS and unemployment among young people, the government is encouraged to:

1. Maximise its financing support for the key services in basic education, technical and vocational colleges, social security and health;
2. Expedite the implementation of national health insurance due to the anticipated higher demand on health services because of an ageing population; and
3. Rebalance the expansion of the post-school education and training system with sustained investment in basic services that benefit children.

Underspending has become endemic at all levels of government. While recent years have seen improvements, underspending requires a careful and considerate response. The government is encouraged to:

1. Expedite the finalisation of its non-profit organisation financing framework to improve the predictability of financing for non-profit organisations;
2. Improve the management and effectiveness of public entities that fall under national departments; and
3. Commit to put into place plans to address growing spending arrears in the health and other social service sectors, and provide effective monitoring of these plans.
1. Macroeconomic trends

For almost a full decade, economic activity has not kept pace with the growth of the population, as evidenced by growth in the GDP per capita that has consistently lagged behind the country’s overall growth rate (Figure 1). The economy grew by 0.8 per cent in 2018, while the real GDP per capita declined by 0.6 per cent. The latest data cement the decade-long slide in real per capita rates.

Financial and business services (finance, insurance, real estate and the business services sector) increased by 1.8 per cent in 2018, while real value added in the agriculture sector contracted by 4.8 per cent (Figure 2).

Figure 1: Real GDP and real GDP per capita growth trends, 2007 to 2018

![Figure 1](image)

Source: South African Reserve Bank online query (for 2007 to 2018) for real GDP and GDP per capita; Statistics South Africa for 2018 real GDP growth

Figure 2: Real growth of economic sectors in 2018 (National Treasury projections and actual economic data)

![Figure 2](image)

General government services added real value of 1.3 per cent, while another crucial sector to the South African economy, namely mining, contracted by 1.7 per cent, despite the government’s attempt to introduce greater policy certainty in this sector.

Food inflation was consistently higher than the overall inflation rate for the four-year period represented in Figure 3. In FY2016, the food inflation rate was almost double that of the country’s headline inflation, which meant hardship for individuals and households that are dependent on government’s cash transfers, which are pegged to the overall inflation rate. There is a much closer correspondence between the inflation rate for rural areas and the country’s headline inflation, although FY2016 brought clear divergence with a much higher rate in the rural areas.
Economically active women continue to bear the brunt of unemployment and have unemployment rates that are consistently greater than the overall unemployment rate for the country (Figure 4). In the fourth quarter of 2018, the national unemployment rate was 27.1 per cent, while the female unemployment rate stood at 29.5 per cent. In the first quarter of 2019, the national unemployment rate rose to 27.6 per cent, with female unemployment at 29.3 per cent.

The percentage of young people (15–24 years) who were not in education, employment or training increased from roughly 32.4 per cent in Quarter 1 in 2018 to 33.2 per cent in the same quarter in 2019 (Figure 5). While the unemployment rate for young girls and women in this category hardly changed between 2018 and 2019, the corresponding rate for boys and men increased from 29.6 per cent in Quarter 1 in 2018 to 31.4 per cent in Quarter 1 in 2019. However, over the period 2010 to 2016, the gross enrolment rate in technical and vocational colleges doubled for individuals between the ages of 16 and 24, suggesting that some of the unemployment pressures for young people may have been addressed in the post-school education and training sector.

Social development trends

In 2018, the estimated population size in South Africa was 57.4 million, of which 19.6 million (or 34.2 per cent) were children under the age of eighteen (Figure 6). United Nations data show a progressive decline in the ratio (or percentage) of children to the total population, falling off a peak of 34 per cent in 2019 to 31 per cent by 2030. By 2050, children’s share of the total population will have fallen to 26 per cent, eight percentage points lower than the corresponding estimate in 2019.

Using population projections that are very similar to those presented in this budget brief, the National Treasury (2014) concluded that population trends will have differential implications for different services. Falling numbers of school-going children will make basic education more affordable. The same dynamic will also mean that social grant take-up rates for children will not threaten fiscal sustainability. However, the analysis predicts that changes in demographic pressures (the population becoming older) may put strain on the health care system, as would a higher rate of service utilisation in that sector.

The dependency ratio is projected to fall from 55 per cent in 2007 to 52 per cent in 2019, and is expected to be 49 per cent by 2030 (Figure 7). Its lowest projected point is 46 per cent in 2045. According to the government’s National Development Plan, when the share of those aged 65+ exceeds 7 per cent of the total population, the country’s population is regarded as old. This would also represent the close of the demographic window. In South Africa, this point is predicted to be reached in 2029, thus leaving the country with only a few years to maximise its investment in young children and young adults to reap the social and economic benefits of declining dependency ratios. The National Development Plan does note, however, that the incidence of HIV/AIDS and a large unemployment rate among young people complicate planning for the future and reduce the gains the country derives from its youthful population.
Figure 6: Population trends for children (0–17 years) and adults in South Africa, 1950–2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions</th>
<th>% of total</th>
<th>2019 % increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>19.7</td>
<td>34%</td>
<td>–</td>
</tr>
<tr>
<td>2030</td>
<td>20.0</td>
<td>31%</td>
<td>1.4</td>
</tr>
<tr>
<td>2050</td>
<td>18.8</td>
<td>26%</td>
<td>-6.1</td>
</tr>
<tr>
<td>2100</td>
<td>15.0</td>
<td>20%</td>
<td>-19.9</td>
</tr>
</tbody>
</table>

Source: UNICEF Eastern and Southern African Regional Office calculations based on United Nations Department of Economic and Social Affairs World Population Prospects: 2017 Revision

Figure 7: Dependency ratio trends and projections in South Africa, 1950 to 2100 (as a percentage)

Source: UNICEF Eastern and Southern African Regional Office calculations based on United Nations Department of Economic and Social Affairs World Population Prospects: 2017 Revision

Note: The dependency rate is calculated by adding the number of children under 14 and the elderly (over 65) and dividing by the size of the working population (15–64 years)
Policy frameworks and plans
The main instruments that affect planning in government are the National Development Plan,⁵ which sets out long-term planning goals for various facets of social and economic life in South Africa, and the Medium Term Strategic Framework (MTSF),⁶ which serves to domesticate the electoral mandate of the governing party. The target-setting of the National Development Plan was based on robust economic growth rates of 5 per cent annually, whereas the South African economy grew by less than 2 per cent on average between 2011 and 2018. This will require revisions to the target-setting process and a concomitant slowdown in the implementation and expansion of key services that benefit children. Furthermore, the pace at which allocations for the post-schooling and education training sector grew during the past few years will mean more challenges for services and programmes that benefit children, especially very young children.

National elections will be held in May 2019, and the MTSF that is produced after the elections will factor in the changes in the economic growth environment, possibly introduce a fewer number of departments (as a cost-saving measure) and should provide greater clarity on how some of the compromises in children’s services and programmes were negotiated.
Takeaways

• The standard of living of most South Africans continues to fall as measured by declining GDP per capita rates over the last decade.

• The government has been successful in keeping headline inflation in the 3–6 per cent targeting band, but food inflation is consistently higher, which suggests that beneficiaries of cash transfers are short-changed and will struggle to achieve a nutritionally diverse diet.

• Unemployment was 27.1 per cent in 2018 and the rate of unemployment was greater among economically active women (29.3 per cent), while approximately one third of young persons between the ages of 15 and 24 were not in education, employment or training in 2018.

• The government has, however, invested heavily in the technical and vocational sector, and enrolment rates have doubled for individuals between 16 and 24, suggesting that the rising impact of unemployment might be countered with this level of investment.

• Demographic studies suggest that the proportion of children in the total population will decline, and by 2030 children will make up only 31 per cent of the total population.

• The National Treasury has predicted that this trend will have positive implications for basic education and the take-up of social grants for children, but an ageing population will put pressure on the country’s health system.

• South Africa appears to have a narrow window of opportunity to maximise its investment in young children and young adults, because by 2030 persons who are 65+ may constitute an increasingly larger share of the population.
2. Aggregate spending trends and priorities

Size of spending
Consolidated government expenditure and proposed allocations constitute approximately 29–30 per cent of GDP over recent and projected years (Figure 8). Over the 2019 MTEF, consolidated government spending does not breach the 30 per cent mark and is indicative of the government’s attempt to moderate aggregate spending. At the end of the 2019 MTEF in 2021/22, consolidated government allocations constitute 29.3 per cent of the country’s projected GDP.

South Africa appears to spend in the upper end of the regional spending scale (34 per cent of GDP), while the Angolan Government spending constitutes only one-fifth of the country’s GDP (Figure 9). Lesotho’s government spending makes up 44 per cent of that country’s GDP, while the corresponding figure for Namibia is 38 per cent.

Spending changes
Consolidated government expenditure is projected to grow by 2 per cent in real terms on average over the 2019 MTEF (which includes FY2019–2021. (See Figure 10). The largest real annual growth rate is achieved in FY2019 (4.1 per cent) to accommodate the hefty increases by the country’s energy entity (Eskom), while much slower rates of growth are projected for FY2020 (0.6 per cent) and FY2021 (1.3 per cent). The country’s energy crisis has seemingly put a halt to years of fiscal consolidation and more than R70 billion has been added to the 2019 baseline spending.

Figure 8: Consolidated government expenditure (excluding debt service costs) as a percentage of GDP, FY2015–2021

Source: Budget Review 2019 (own calculations)
Figure 9: Total government expenditure as a percentage of GDP in a select number of countries in the southern Africa region.

Source: International Monetary Fund, World Economic Outlook Database, October 2018

Note: These totals appear to be inclusive of debt service costs and will differ from the numbers provided for South Africa in Figure 8.

Figure 10: Nominal and real government spending trends, FY2018–2021 (in billion rand, FY2018=100)

Source: Budget Review 2019 (own calculations)

Figure 11: Government spending by sector, FY2018–2021 (percentage): excluding debt servicing costs

Source: Budget Review 2019 (own calculations)
Basic education, as a share of the total government budget, is 16.2 per cent in FY2019, while allocations to health and social protection (inclusive of social grants) represent 14 per cent and 13 per cent respectively of total government spending (Figure 11). These shares are maintained over the 2019 MTEF, and collectively, the three social service sectors consume roughly 43 per cent of total government resources. The post-school education and training sector (technical/vocational colleges and universities) consumes 7 per cent of the country’s resources and was the main beneficiary (prior to 2019) of additional increases to government baseline budgets. The community development function (which includes housing) has a sizeable share of total government spending and consumes roughly 13 per cent of total government spending over the 2019 MTEF.

The main winners in Budget 2019 are the post-schooling education and training sector, which increased by 0.4 per cent in real terms, the community development function (+0.3 per cent) and the energy entity with extensive provisions as reflected in the ‘payment for financial assets’ spending category (Eskom, up 0.8 per cent). What is noticeable is that the key functions that service children’s programmes are projected to decline in 2019, although the margin of that decline is relatively small. However, if one factors in the relatively large increases to personnel spending, which will not be compensated for nationally, then the spending deficits in the three social service sectors are cause for concern.

Recurrent and capital spending and allocations in the consolidated government budget

Spending and allocations on compensation of employees remain around 39 per cent of the total budget, which is the largest expense. Transfers to households are projected to remain at roughly 19 per cent throughout the 2019 MTEF, while allocations to goods and services continue to be trimmed as part of the government’s cost-saving measures. At the end of the 2019 MTEF, the goods and services category consumes 15.9 per cent of total government resources against its share of 16.4 per cent in FY2018. Expenditure and allocations to capital programmes hover around 6 per cent of total government resources, while transfers to non-profit organisations consume 2.3 per cent of government resources on average over the 2019 MTEF. (See Figure 13).
The economy grew by 0.8 per cent in 2018, while the real GDP per capita declined by 0.6 per cent.

Compensation of employees includes both a wage and a non-wage component (medical aid and other subsidies); goods and services refers to all government payment in exchange for goods and services, excluding those items used by the government for the construction of and improvements to capital assets; subsidies and other current transfers refers to non-repayable payments by government for current purposes, i.e. payments for which no goods and services are received in return; payment for capital assets includes the acquisition of fixed capital assets (assets that can be used continuously for at least one year), the acquisition of land and intangible assets (payment for purchase of land, forests, subsoil deposits, patents and leases) and capital transfers (non-repayable payments or transfers to enable recipient government entities to acquire capital assets etc.); payment for financial assets includes lending to public corporations or making equity investments in them for policy purposes.

Source: National Treasury, Budget Review 2018 (Structure of Government Accounts)

Source: Budget Review 2019 (own calculations)  
Note: The consolidated government budget totals above exclude debt servicing costs
Takeaways

- While large additional amounts have been set aside to deal with the country’s energy crisis, this has not led to remarkable changes in the government's overall contribution to the economy through its aggregate spending.

- Non-interest government spending remains at 29–30 per cent of GDP and this expenditure is expanded moderately over the 2019 MTEF (at 2 per cent on average).

- Emergency allocations to the country’s energy entity have reduced the available allocations to services and programmes in basic education, health and social welfare in FY2019.

- Government has continued to support increased funding in the post-schooling education and training sector and additional resources were set aside to assist the country’s housing programme.

- Allocations to employee compensation continue to dominate the spending profile of government programmes and consume 39 per cent of non-interest expenditure on average, while allocations to goods and services continue to be trimmed.
3. Budget credibility and execution

Budget credibility in a select number of national departments, FY2015–2018

Underspending has become the norm in most service delivery departments that have extensive procurement functions, whether these are national policy-making entities or provincial departments that are responsible for actual service delivery to designated beneficiaries (Figure 14). Underspending in basic education is driven by poor and variable spending on (indirect) infrastructure grants and lower rates of participation of volunteers in community-based expanded public works programmes that target adult basic education. In the health sector, poor infrastructure spending on indirect grants, the initial lag in implementing the national health insurance grant, and delays in implementing large surveys (the South Africa Demographic and Health Survey) explain most of the underspending. In social development, lower take-up rates for various grants, including the foster child grant and the old age pension explain the variances, while tardy spending on two conditional grants, namely the substance abuse grant and learners with profound disabilities grant are further reasons for underspending. In the case of the human settlements department, underspending on infrastructure procurement and low transfers to government entities explain the underspending across the various fiscal years.

Budget execution in a select number of national departments, FY2015–2018

National policy-making departments underspent their final allocations because a significant part of spending is done in provinces, via indirect grants over which

Figure 14: Comparing adjusted expenditure with final outcomes in a select number of national departments, FY2015–2018 (deviation from adjusted appropriations as percentage)

Source: Estimates of National Expenditure 2019 (own calculations)
they appear to have little control. The use of intermediaries to implement nationally-approved projects, especially infrastructure projects, has proved to be problematic (see Figure 15). A further factor in the lower-than-100 per cent execution rates relates to accounting and administrative challenges in the various entities that report to the national departments and the national departments’ dealings with non-profit organisations that are non-compliant in terms of their reporting obligations as per the Public Finance Management Act (PFMA). While these challenges must be addressed, budget execution rates are relatively high, ranging from a ‘low’ of 95.8 per cent for basic education in FY2016 to a ‘high’ of 99.8 per cent for human settlements in FY2014.

Figure 15: Budget execution in a select number of national departments, FY2015–2018 (deviation from benchmark of 100 per cent)

Source: Estimates of National Expenditure 2019 (own calculations)

Takeaways

- Underspending in national policy-making departments continues to be driven by poor planning and implementation of infrastructure programmes.
- Both national entities that fall under these departments and external non-profit organisations that perform functions on behalf of these departments are often the sources of underspending at this level.
- Poor compliance with the PFMA, reporting deficits, inconsistent government transfer schedules and lack of capacity drive some of the underspending dynamics within non-profit organisations.
- While underspending is a concern, the budget execution rates of the social sector departments are relatively high, suggesting some level of internal efficiency in how they approach their respective spending mandates.
4. Decentralisation and sub-national spending

Decentralisation context and sub-national funding guidelines

Revenue is divided vertically (among the three spheres of government), horizontally (among the sub-national entities) and through special allocations (or conditional grants) to sub-national governments. The country’s vertical division of revenue is not subject to an objective funding formula and political and policy judgement is used to arrive at the respective shares of the three spheres of government.

National government departments and entities are allocated 47–48 per cent of the nationally-raised revenue, while provinces’ share of the revenue stabilises at 42 per cent over the 2019 MTEF. The share of the local government hovers around the 9 per cent mark (Figure 16). The Budget Review (2018: 72) mentions an interesting, yet disturbing fact: “Since 2011/12, interest payments have grown faster than allocations to national, provincial or local government, crowding out space for increasing productive expenditure.” The Budget Review (2019: 67) follows this up with a mutually reinforcing statement: “For example, to service its debt over the next three years, government will spend 62 per cent more on debt-service costs than transfers to local government.”

Except for FY2016, all three spheres of government experience positive, yet small real increases to their shares of nationally-raised revenue (Figure 17). Allocations to the local government shares are projected to grow by 2.9 per cent on average over the 2019 MTEF, while the corresponding numbers for national and provincial governments are 1.4 per cent and 1.6

Figure 16: National, provincial and local government shares of nationally raised revenue, FY2015–2021 (percentage)

Source: Budget Review 2019 (own calculations)

Note: The shares are calculated on the total non-interest expenditure on the country’s main budget (funding financed from the National Revenue Fund, excluding any sub-national own revenue streams)
per cent respectively. Additional funding at the provincial level will fund upgraded sanitation at public schools, free sanitary products for learners from low-income households, recruitment of more health professionals and the broadening of housing market interventions. Additional funding through the local government shares targets the higher costs of basic services and (partly) compensates municipalities for variable revenue collection rates.

The inflation-adjusted provincial equitable share allocations for the Eastern Cape province shows no real upward (or downward) movement, while the allocations to Gauteng and the Western Cape are positively adjusted upwards (Figure 18). Gauteng and the Western Cape are not the only provinces that receive real additional increases, because KwaZulu-Natal and Limpopo also benefit, albeit at a less steep rate of increase. Gauteng and the Western Cape receive higher increases to their equitable share allocation due to rapid in-migration from neighbouring provinces, which has led to a spike in the number of households and children who live in these provinces.

**Figure 18:** Inflation-adjusted growth in the provincial equitable shares, by province, FY2018–2021 (in billion rand, FY2018/19=100)

Reductions in departmental baseline spending (R50.3 billion over the 2019 MTEF) are balanced by additions to baseline spending of R75.3 billion (Figure 19). The additions fund emergency allocations for the country’s energy entity, while reductions to baseline spending affect services that benefit children directly. Discounting
positive additions and negative adjustments, the government adds R23 billion to its 2018 Medium Term Budget Policy Statement (MTBPS) baseline estimates. While ordinarily the large additions would signify the end of the government’s fiscal consolidation programme, services that are benefiting children benefit marginally from the cash injection in 2019 and over the 2019 MTEF.

Figure 18: Changes to the expenditure ceiling since the MTBPS (in million rand)

Source: Budget Review 2019 (own calculations)

Takeaways

- The government’s debt service costs exceed the total transfers it provides to the local government sphere by 62 per cent, putting the sustainability of its debt position in stark perspective.

- Over the 2019 MTEF, all spheres of government experience a moderate increase in their shares of nationally-raised revenues. Additions should broadly benefit children in public schools and support the government’s expanded housing market interventions in low-income households.

- The extent of these inflation-adjusted increases is limited, because of the pressing need to finance energy-related expenses.

- Gauteng and the Western Cape receive higher than average increases to their provincial equitable share allocations due to rapid in-migration of households and children to these provinces.

- Budget 2019 represents a direct trade-off between more aggressive financing and expansion of services that benefit children directly, and the need to spend large additional resources on fixing the country’s energy crisis.
5. Financing the national budget

Sources of revenue for total government budget

Tax revenues (inclusive of personal income, corporate income and income on consumption) account for roughly 80 per cent of the country’s total revenue, while domestic financing contributes approximately 11–12 per cent of total revenues (Figure 20). External financing is becoming more important over the 2019 MTEF, even though it still accounts for a small percentage of the country’s total revenue (less than 2 per cent). Non-tax revenues (mineral and petroleum royalties, mining leases, departmental revenues and sales of capital assets) make up the remaining shares and average just more than 6 per cent over the 2019 MTEF.

Personal income tax and taxes on consumption (most notably value-added tax) dominate the total tax revenue the government levies on citizens and corporations (Figure 21). The share of personal income tax of total gross tax revenue is projected to increase from 38.2 per cent in FY2018 to 39.4 per cent in FY2021, while the introduction of the higher value-added tax rate (1 per cent increase in 2018) increases the contribution of this indirect tax from 25.0 per cent in FY2018 to 25.3 per cent at the end of the 2019 MTEF. Corporate tax as a share of total gross tax revenue has declined and the latest projections confirm this trend. By the end of the 2019 MTEF, corporate tax will only account for

![Figure 20: South Africa’s revenue mix that finances the consolidated government budget, FY2015–2021 (percentage)](image)

*Source: Budget Review 2019 (own calculations)*
15.3 per cent of total tax revenues in South Africa. The gross tax revenue to GDP ratio stabilises at roughly 27 per cent over the new MTEF.

South Africa’s revenue to GDP ratio ranks among the highest in southern Africa and was pegged at 29 per cent of GDP (inclusive of sub-national revenues). Lesotho has the highest revenue to GDP ratio, but a large chunk of this revenue is made up of transfers via the Southern African Customs Union. Burundi has a revenue-to-GDP ratio that is less than half that of South Africa, while Namibia and South Africa share a similar revenue-to-GDP ratio (Figure 22). These figures suggest that South Africa has less room for substantial increases to its revenue pool in the absence of increases to its GDP and will have to tread carefully in increasing its overall revenue stock without adversely affecting productivity and the broader economy.

Source: Budget Review 2019 (own calculations)

Source: International Monetary Fund, Government Finance Statistics Yearbook and data files, and World Bank and Organisation for Economic Co-Operation and Development GDP estimates

Note: The South African data are from Budget Review 2019 and represent the consolidated revenue to GDP ratio (inclusive of sub-national revenue and other revenues)
Borrowing

Total government debt is set to increase from 43.8 per cent in FY2013 to 56.2 per cent of GDP in FY2019 (Figure 23). Based on the Organisation for Economic Co-Operation and Development guidelines and review, South Africa has breached the 40–55 per cent debt-to-GDP ratio, which is considered prudent for developing countries. However, a case can be made that because the largest portion of its debt is in the local-denominated currency, it has space to expand its overall debt portfolio. Angola has a much higher gross debt-to-GDP ratio (80.5 per cent in 2019), while Botswana boasts an incredible 13.1 per cent debt-to-GDP ratio.

Debt service is increasing: the costs of servicing the country’s rising debt increases from R146.5 billion (or 10.2 per cent of total expenditure) in FY2016/17 to R247.4 billion (or 11.9 per cent of total expenditure) at the end of the present MTEF. Over a period of six years, debt servicing costs have increased by 2 per cent and of every R100 made available for spending, R12 is devoted to servicing the interest associated with the country’s growing debt (Figure 24).

Figure 23: Gross public debt as a percentage of GDP in a select number of southern African countries, FY2013 and FY2019

![Graph showing gross public debt as a percentage of GDP in select southern African countries, FY2013 and FY2019.](image)

- Source: Eastern and Southern African Regional Office calculations May 2019
- Note: The South African data were extracted from the Budget Review 2019

Figure 24: Rising costs of servicing public debt, FY2016–2021 (billion rand)

![Graph showing rising costs of servicing public debt, FY2016–2021.](image)

- Source: Budget Review 2019
Takeaways

- Tax revenues and domestic financing (borrowing) account for 90 per cent of South Africa’s total revenue.
- Within the gross tax revenue category, personal income tax makes the largest contribution (around 39 per cent), while corporate tax’s overall share has dwindled from 17.9 per cent in FY2015 to 15.3 per cent in FY2021.
- Value-added tax contributes 25 per cent on average to gross tax revenue over the 2019 MTEF.
- South Africa has a revenue-to-GDP ratio of 29 per cent and it is debatable whether it has room for substantial increases to its various revenue sources in the absence of increases to its economic output.
- The government’s gross public debt-to-GDP ratio has breached the 55 per cent upper limit spelled out in an Organisation for Economic Co-Operation and Development Review, but because the bulk of its debt is issued in the local currency, there might be room to grow its overall debt stock.
- Servicing the growing debt, however, has become burdensome and has led to a situation where 12 per cent of available revenue is used to service debt costs, instead of being spent on services that make a difference to children’s lives.
Key events in the annual South African budget process

- **January–February**: Budget is approved and presented to Parliament.
- **March–April**: Portfolio committees and provincial standing committees hold hearing and report to legislators.
- **March–May**: Departments estimate expenditure and submit MTEFs.
- **May–June**: Estimations for vertical and horizontal allocations.
- **June–August**: Consolidation of departmental estimates to be matched with Budget Council allocation.
- **September**: Departments have final say on estimates.
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4. The United Nations Department of Economic and Social Affairs (UNDESA) estimates the dependency ratios for the following Southern and Eastern African countries in 2019: Botswana (54 per cent), Ethiopia (76 per cent), Namibia (66 per cent), Rwanda (74 per cent) and Tanzania (91 per cent). See UNDESA (2017) World Population Ageing: Highlights.


7. Consolidated government spending includes provisions for the contingency reserve over the MTEF and allocations to public entities that are connected to departmental votes, but excludes debt service costs. This expenditure aggregate provides a more reliable indication of the total resources that are devoted to service delivery. This definition differs from our 2017 Budget Brief series where we excluded public entities from total consolidated government spending.

8. See Statistics South Africa press release ‘Migrants flock to Gauteng’: http://www.statssa.gov.za/?p=11331 and the University of Cape Town’s Child Gauge 2018 (page 132), which states that “The number of children living in the Eastern Cape and Limpopo have decreased, while the numbers of children living in Gauteng and Western Cape have risen by 40 per cent and 21 per cent respectively.”

9. Estimates per country and date of the data: Burundi (2015); Angola and Rwanda (2016); Lesotho, Namibia and the Comoros (2017); and Malawi, Eswatini and Botswana (2018).