



SUBMISSION ON THE 2020 FISCAL FRAMEWORK AND REVENUE PROPOSALS

3 March 2020

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MANDATE

MANDATE

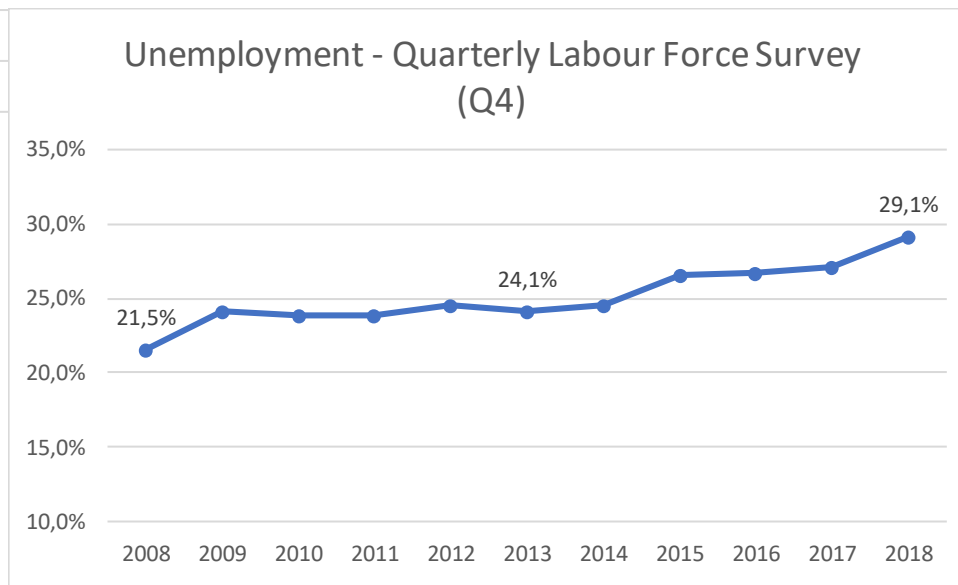
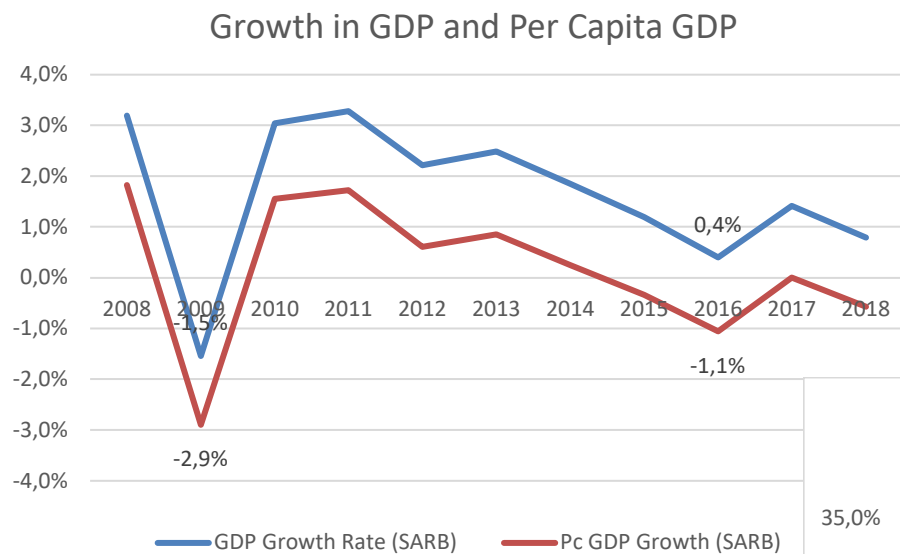
- Constitution S220:
 - establishes Financial and Fiscal Commission
 - to make recommendation envisaged in Constitution/legislation
 - Recommendations on Division of Revenue (DoR) to be considered and lists to consider for DoR
- FFC Act 99 of 1997 as amended
 - To make recommendations to organs of state on financial and fiscal matters in accordance with section 220 of the Constitution
- Invited to comment on fiscal framework and DoR



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ECONOMY

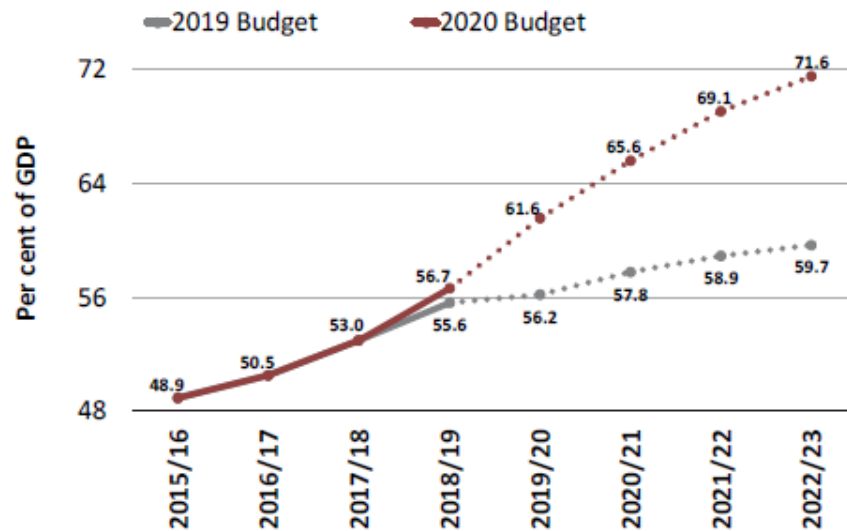
GROWTH SLOWDOWN ASSOCIATED WITH RISING UNEMPLOYMENT



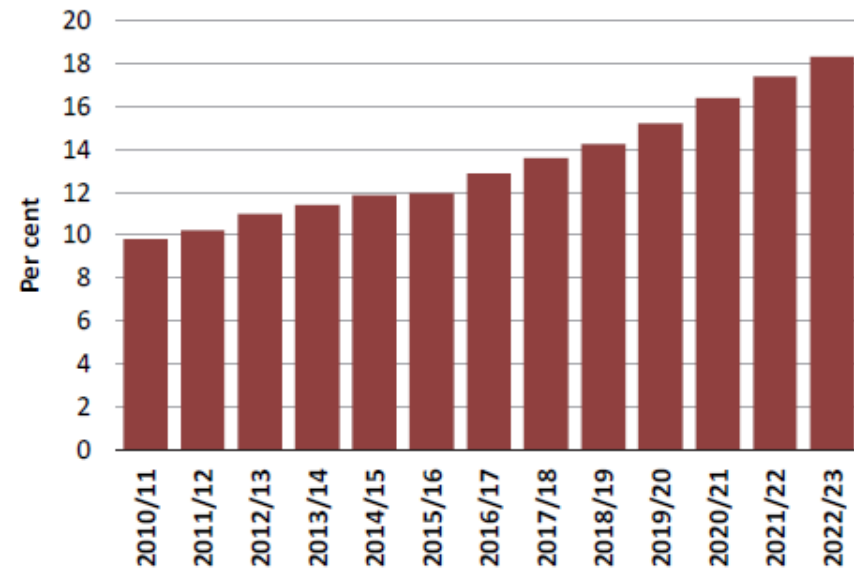
Sources: SARB; StatsSA

SLOWDOWN IMPACTING ON PUBLIC FINANCES

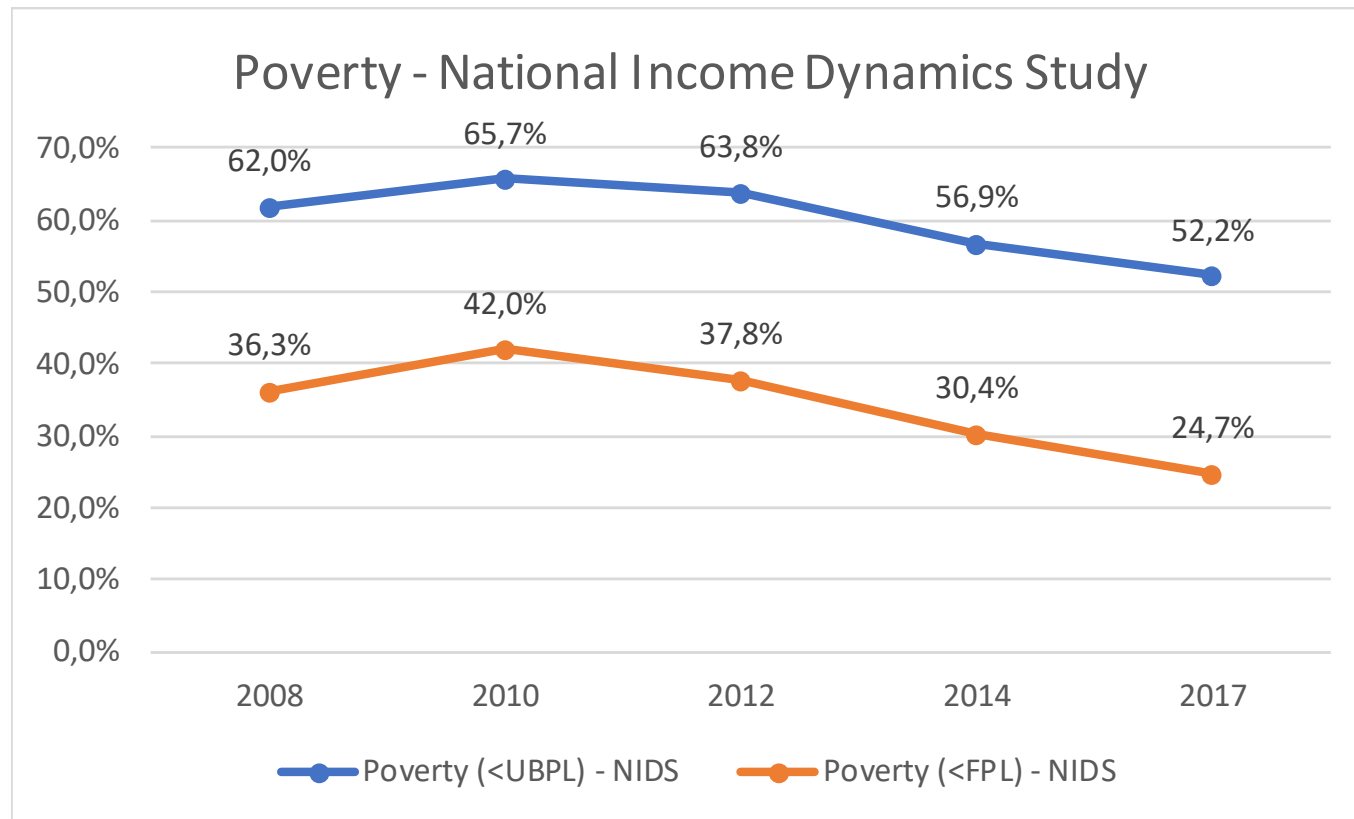
Gross debt to GDP projections



Debt-service cost to main budget revenue

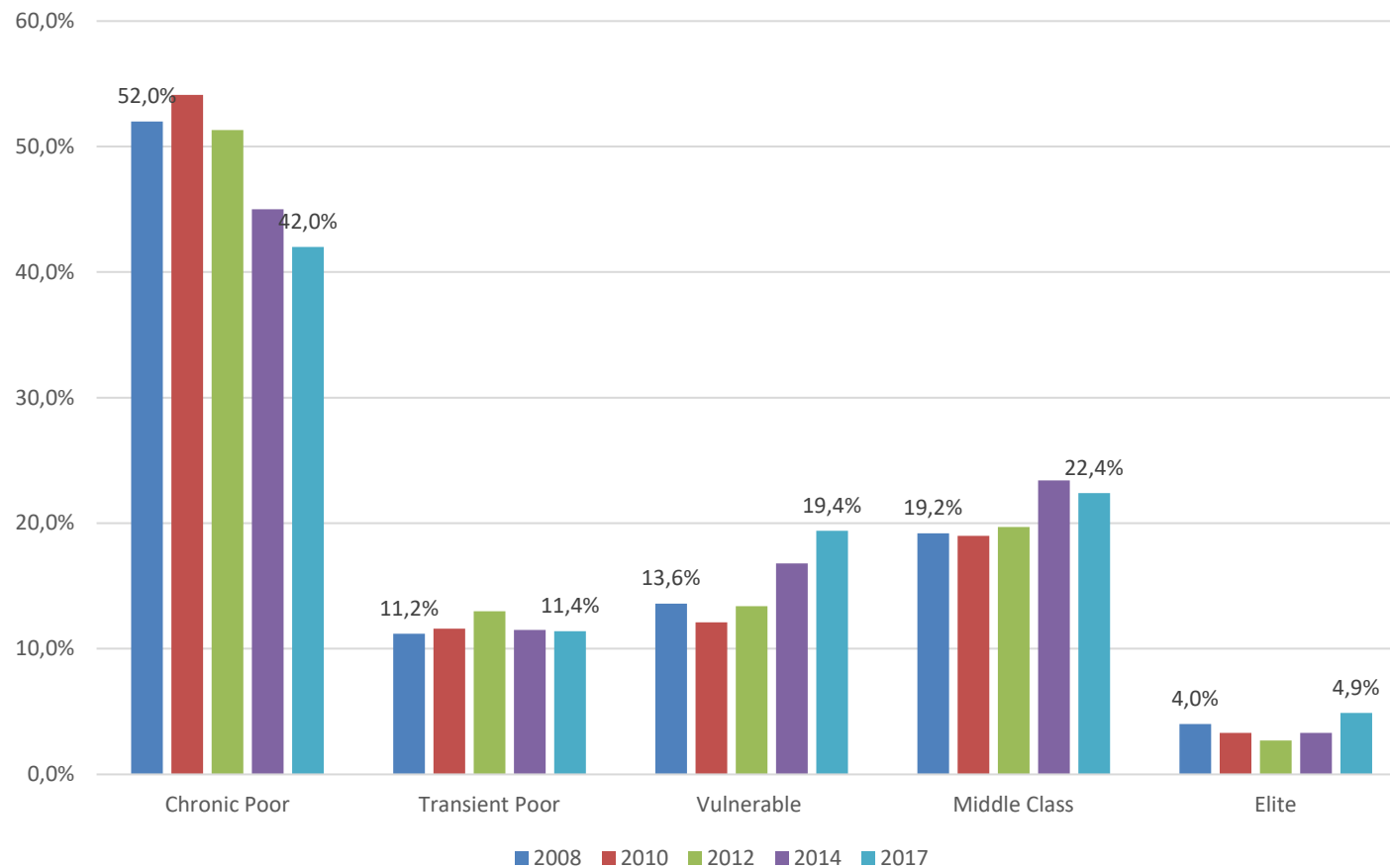


LAGGED EFFECT ON POVERTY ?

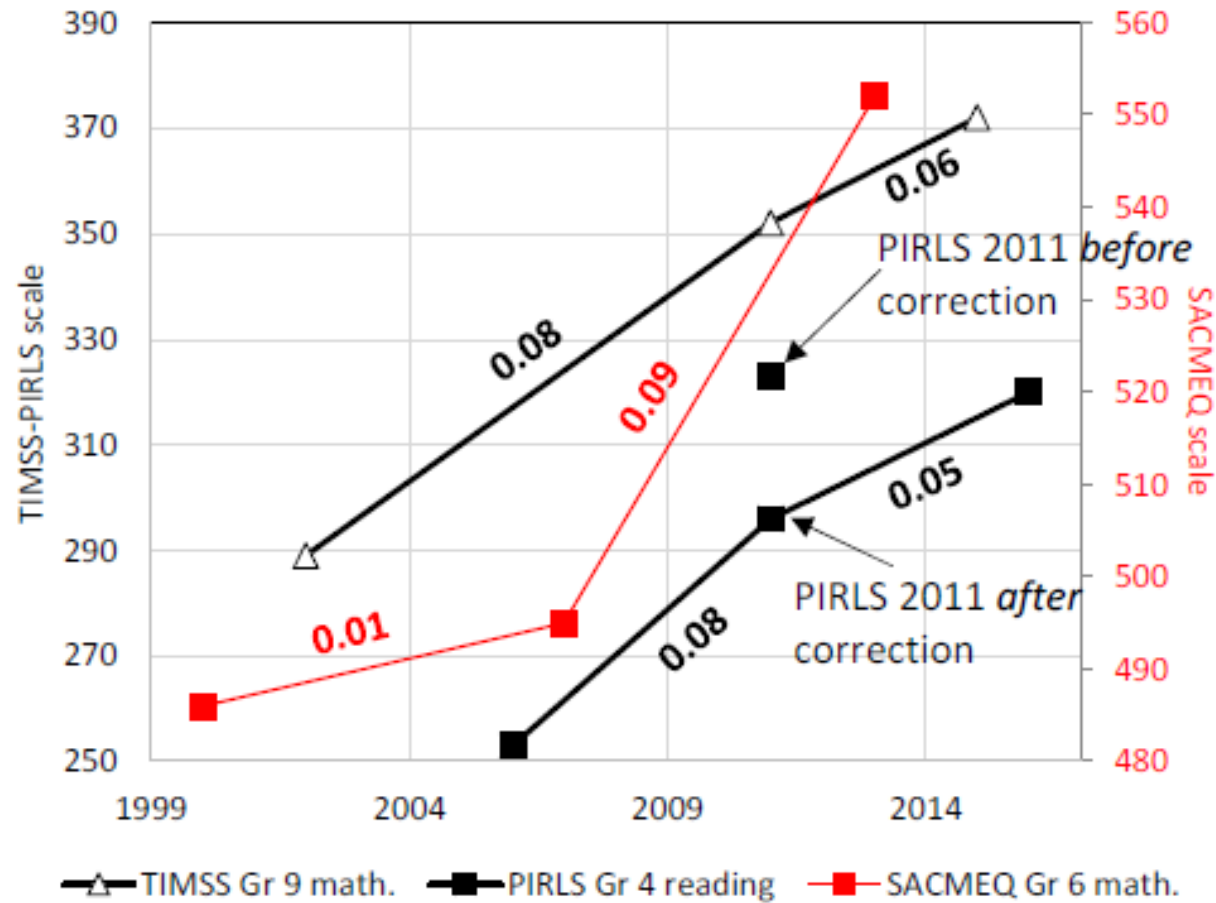


... AND INEQUALITY

Class Structure - National Income Dynamics Study



... AND GAINS IN EDUCATION AND ...



Source: Gustafsson 2020

... LIFE EXPECTANCY AND MORTALITY



Source: StatsSA, Mid-year population estimates, 2019

PROSPECTS

- Big risks in the international environment
 - Trade: trade environment and Coronavirus
 - Investor sentiment to emerging markets
 - No real green shoots in the local environment
 - Investment
 - Consumption
 - But some investments have been paying off:
 - Basic education outcomes
 - Life expectancy
- Must guard the gains (education, health, poverty, inequality)

GOVERNMENT (BUDGET) STRATEGY

- Macroeconomic policy and fiscal consolidation
- Structural change – reducing cost of business, work and living through
 - Network industries, competition, boosting exports labour intensive sectors
 - Education
 - Regulatory environment and government efficiency
- Capable, developmental & efficient (& clean state)
 - Regulatory efficiency
 - Policy certainty and implementation

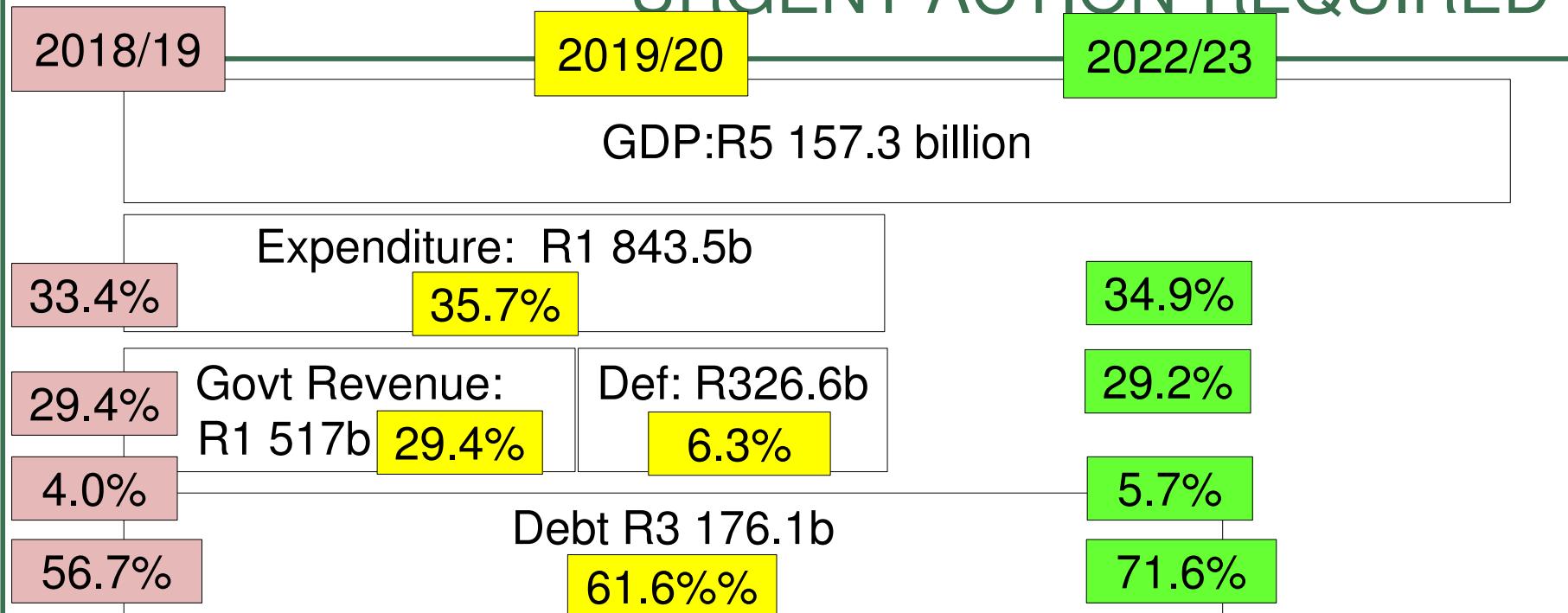
FFC PERSPECTIVES

- Need to look at factors behind policy uncertainty
 - Balance of power between winners and losers – and the need for buying all in
 - Ability to block change: spectrum licensing; digital transition; e-tolls; ride-hailing
 - Need to create a stakeholder society (social protection? shared wealth fund?)
- The structural drivers: climate, technology, population and power shifts – are we positioning ourselves to minimise costs and maximise benefits
- The long list of structural factors and the need for focus
 - The potential of a moderate, phased approach
 - Clarity on sectoral focus, and the promotion of informal activity
- The real government capacity issues – structure, systems, clear allocation of functions
- Inequality remains exceptionally high and influences a range of other factors: social cohesion and respect for the “rules of the game”



FISCAL FRAME AND REVENUE PROPOSALS

WEAKENING IN FISCAL FRAMEWORK; URGENT ACTION REQUIRED



Key issues:

- Rapid weakening, difficulty of turning around
- Comparative picture (e.g. tax:GDP 26.3%)
- Weakens composition of spend
- Impact on perceptions, confidence and cost of borrowing

WEAKENING IN FISCAL FRAMEWORK; URGENT ACTION REQUIRED

	2016/17	2019/20	2022/23
% of GDP	Outcome	Revised estimate	Estimate
Revenue	29,1%	29,4%	29,2%
Expenditure	32,6%	35,7%	34,9%
Non-interest expenditure	29,1%	31,6%	30,0%
Budget balance	-3,6%	-6,3%	-5,7%
Gross loan debt	50,5%	61,6%	71,6%
Debt-service costs	3,7%	4,0%	4,7%
Borrowing requirement	5,7%	7,9%	6,9%

Key issues:

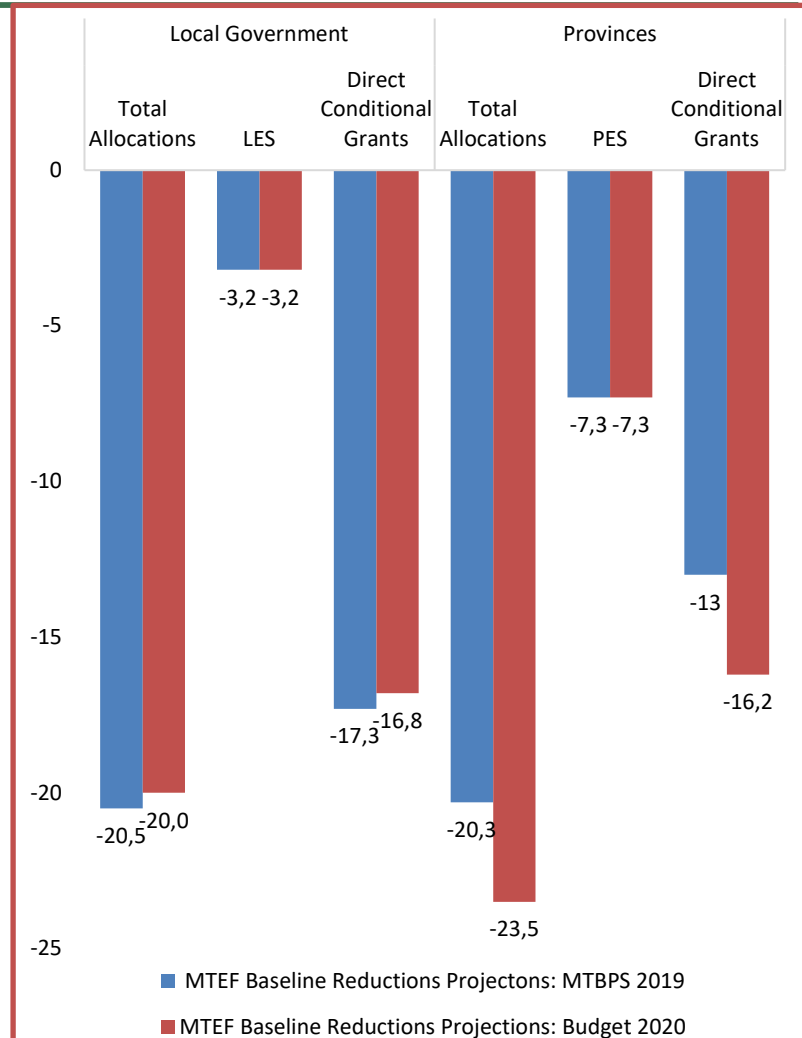
- Rapid weakening, difficulty of turning around
- Comparative picture (e.g. tax:GDP 26.3%)
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GOVERNMENT STRATEGY FOR CONSOLIDATION

- No tax increases – adjustment for inflation, arguing
 - “Tax rates comparatively high”
 - “Increased taxes may hurt short-run economic recovery”
 - Increased tax rates may not bring in more tax
- Cut back on expenditure: Reduce over MTEF
 - Reduce programme baseline (Budget 2019) allocations over MTEF (R101b over MTEF)
 - Reduce baseline wage bill allocations (R160b)
- Bargaining on
 - Return of confidence: containing borrowing costs (credit rating) and investment trends turning around
- Impact on composition of revenue

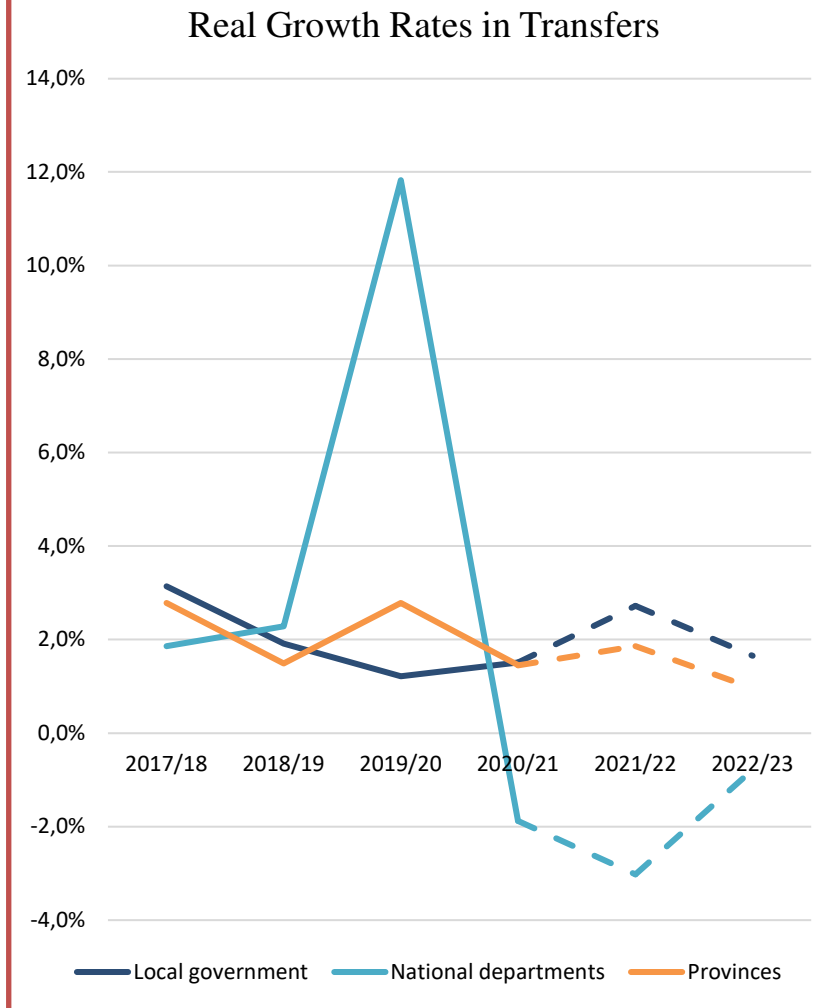
DoR baseline cuts

R million	2020/21	2021/22
National departments	24 597	-8 804
Provinces	-7 858	-9 049
Local government	-5 352	-7 056
Allocated expenditure	11 387	-24 910



TRENDS IN DOR - FUNDS AVAILABLE

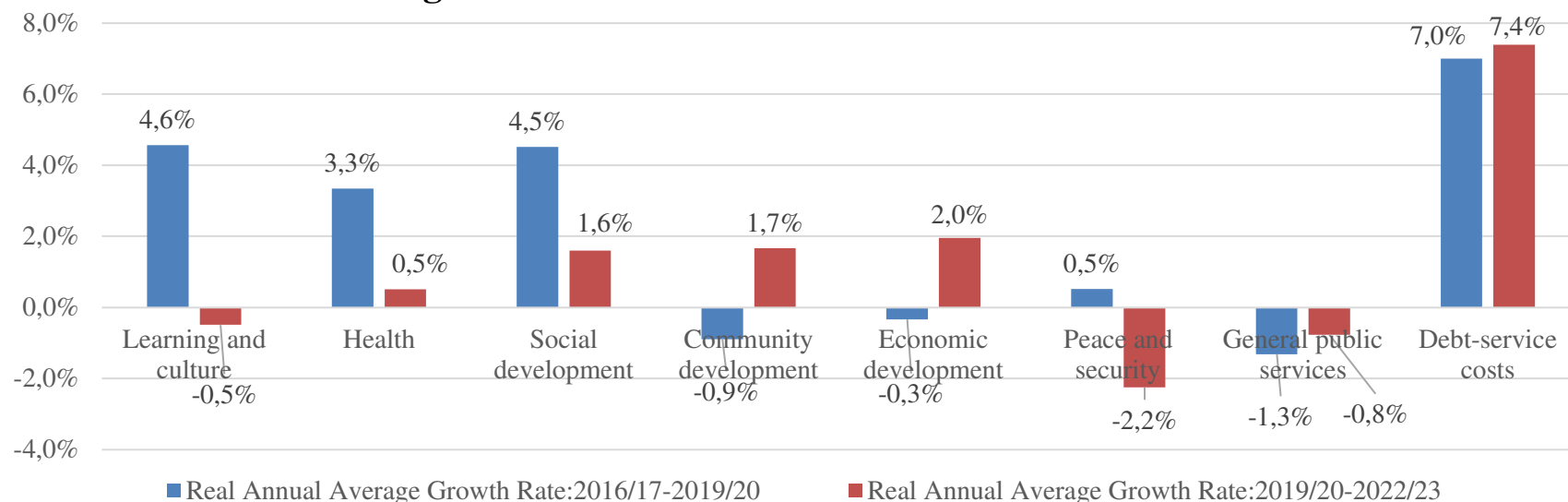
- National allocation erratic, because of financial support to SOCs, declines over MTEF
- Some real growth in provincial and local transfers
- Key expenditure lines somewhat protected but confronted by demand pressure (population growth) and high cost increases (especially on personnel and network services)
- Much hinges on the wage agreement



SPENDING BY FUNCTIONAL CLASSIFICATION

- Shift from ‘social sector’ to a focus on economic development, community development, social development
- Peace and security (Defence and State Security and Home Affairs) and general public services (Public Administration and Fiscal Affairs) see reductions
- Unhealthy composition of spending: debt service costs fastest growing item and towards end of 2020 MTEF, will be larger than community development and health

Real Annual Average Growth over the Periods 2016/17-2019/20 and 2020/21-2022/23



... BUT LITTLE CHANGE IN STRUCTURE OF REVENUE

	2016/17	2019/20	2022/23
Proportion of total revenue	Outcome	Revised	
Taxes on income and profits ²	51,7%	51,3%	51,4%
<i>Personal income tax</i> ³	33,0%	34,8%	34,7%
<i>Corporate income tax</i> ⁴	15,9%	14,3%	14,4%
Skills development levy	1,2%	1,2%	1,2%
Taxes on property	1,2%	1,1%	1,1%
Domestic taxes on goods and services	31,3%	32,2%	32,2%
VAT	22,5%	22,7%	22,6%
Taxes on international trade and transactions	3,6%	3,8%	3,9%
Gross tax revenue	89,0%	89,6%	89,9%
Non-tax revenue ⁵	2,6%	2,4%	1,9%
Less: SACU6 payments	-3,1%	-3,3%	-3,5%
Main budget revenue	88,5%	88,6%	88,3%
Provinces etc	11,5%	11,4%	11,7%
Consolidated budget revenue	100,0%	100,0%	100,0%

OTHER REVENUE INITIATIVES

- Strengthening SARS (infrastructure support, legislative change)
- Broadening base & eliminating incentives and deductions (where possible)
- Moving forward on taxing the digital economy – OECD process
- Environmental fiscal reform

FFC CONSIDERATIONS

- Questions being raised about the strategy:
 - Can the wage agreement be successfully renegotiated?
 - Can it an agreement be effectively implemented? (unintended consequences)
 - Is the strategy fair to civil servants? (teachers, nurses, prosecutors, social workers, police, etcetera)
 - SoC risk: economy and expenditure risk
- Are there alternatives for structuring the costs of consolidation – from civil servants (teachers, nurses, police, social workers) to a broader social pact
- Lack of trust in capacity of government and impact on strategy: the moderate strategy/start small?
- Need greater debate about synchronising our fiscal system and the democracy we envisage
 - “Revenue future” – ensuring a handle on “new assets” and income streams
 - “Expenditure future”- extent of solidarity and care and implications for fiscal framework



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THANK YOU