



What keeps me awake at night

Fiscal policy and fiscal sustainability group

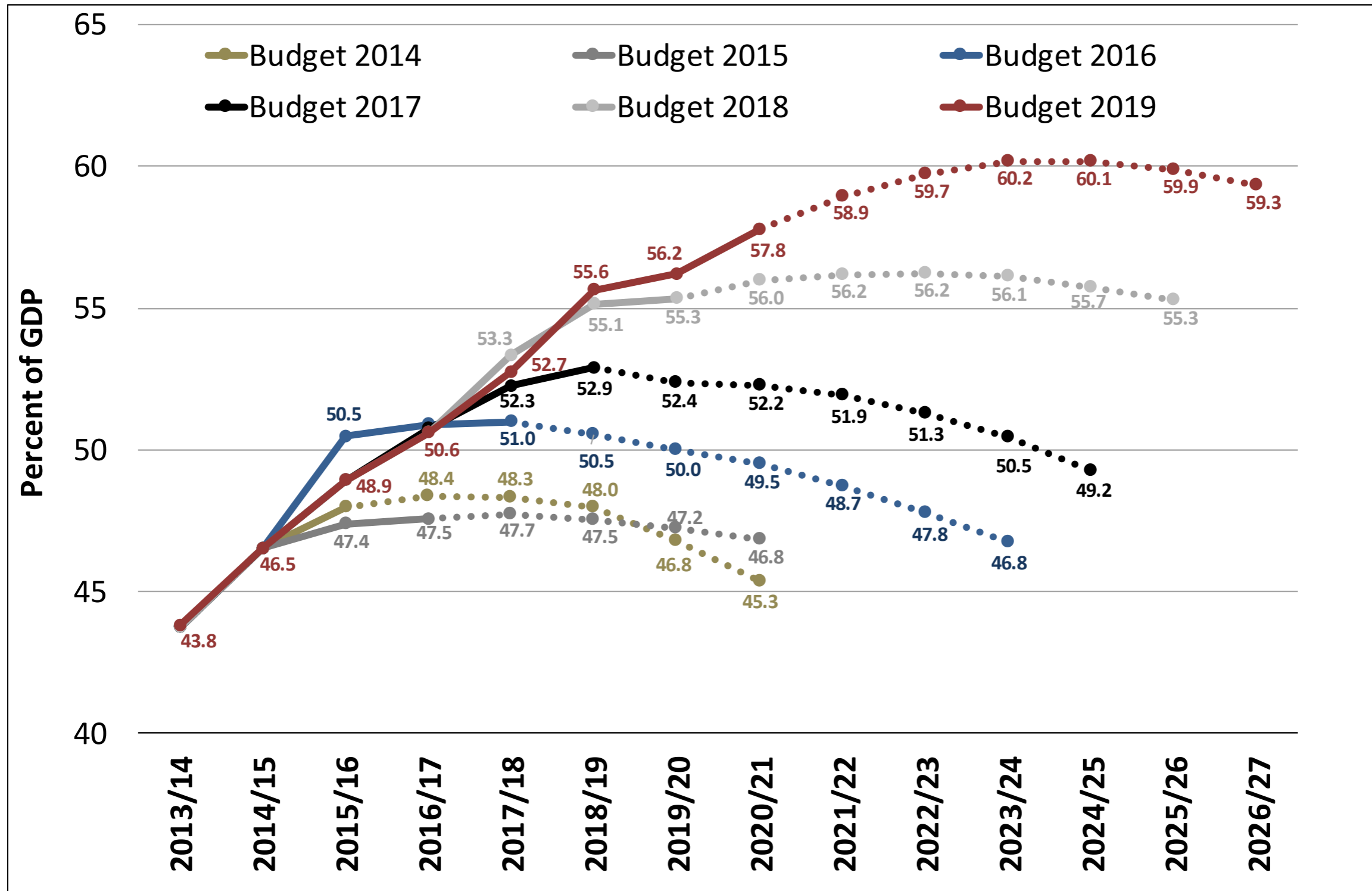


Public Economics

Winter School 2019

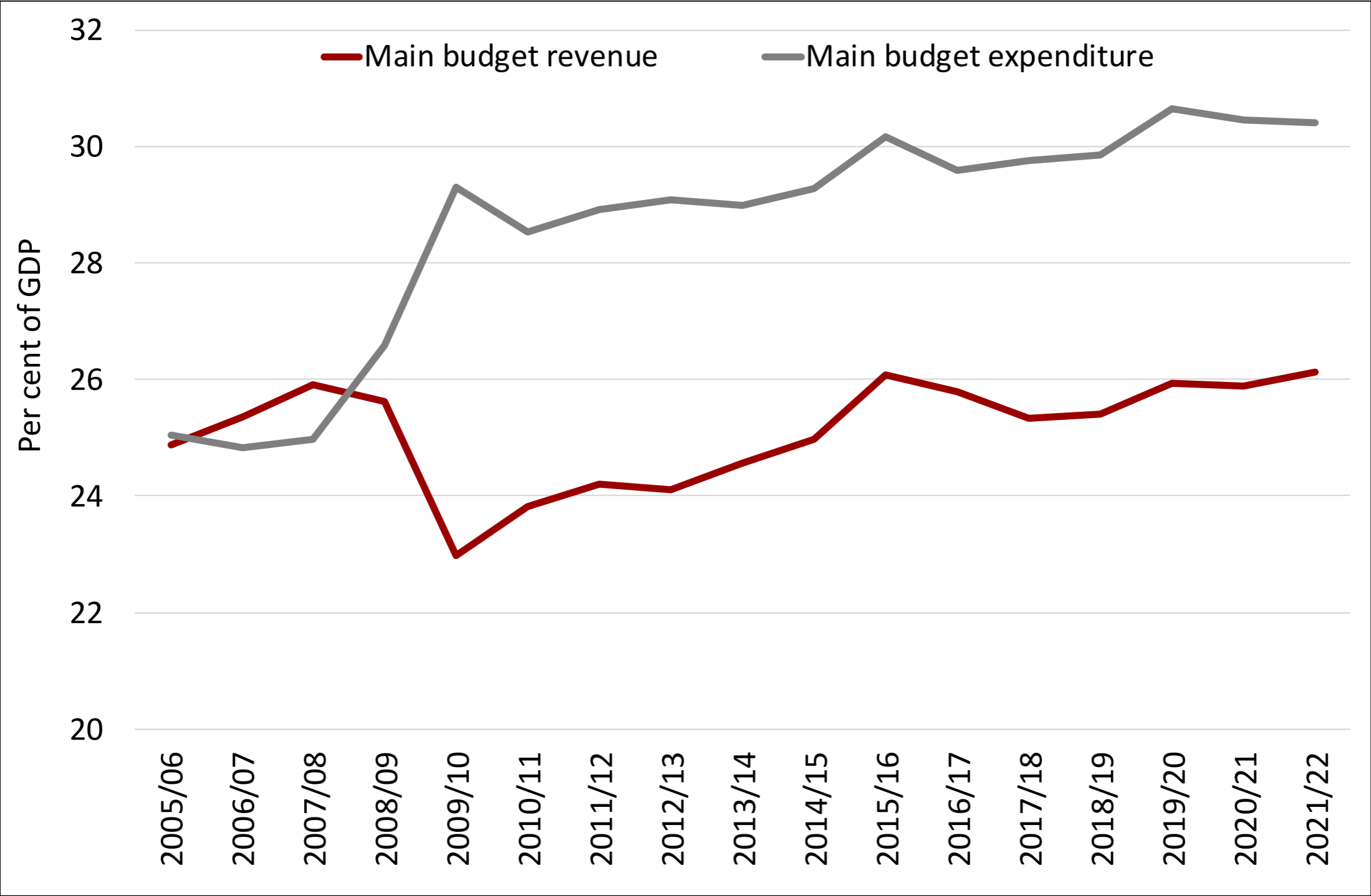
Government has revised up the debt outlook after every budget

Gross debt-to-GDP forecasts



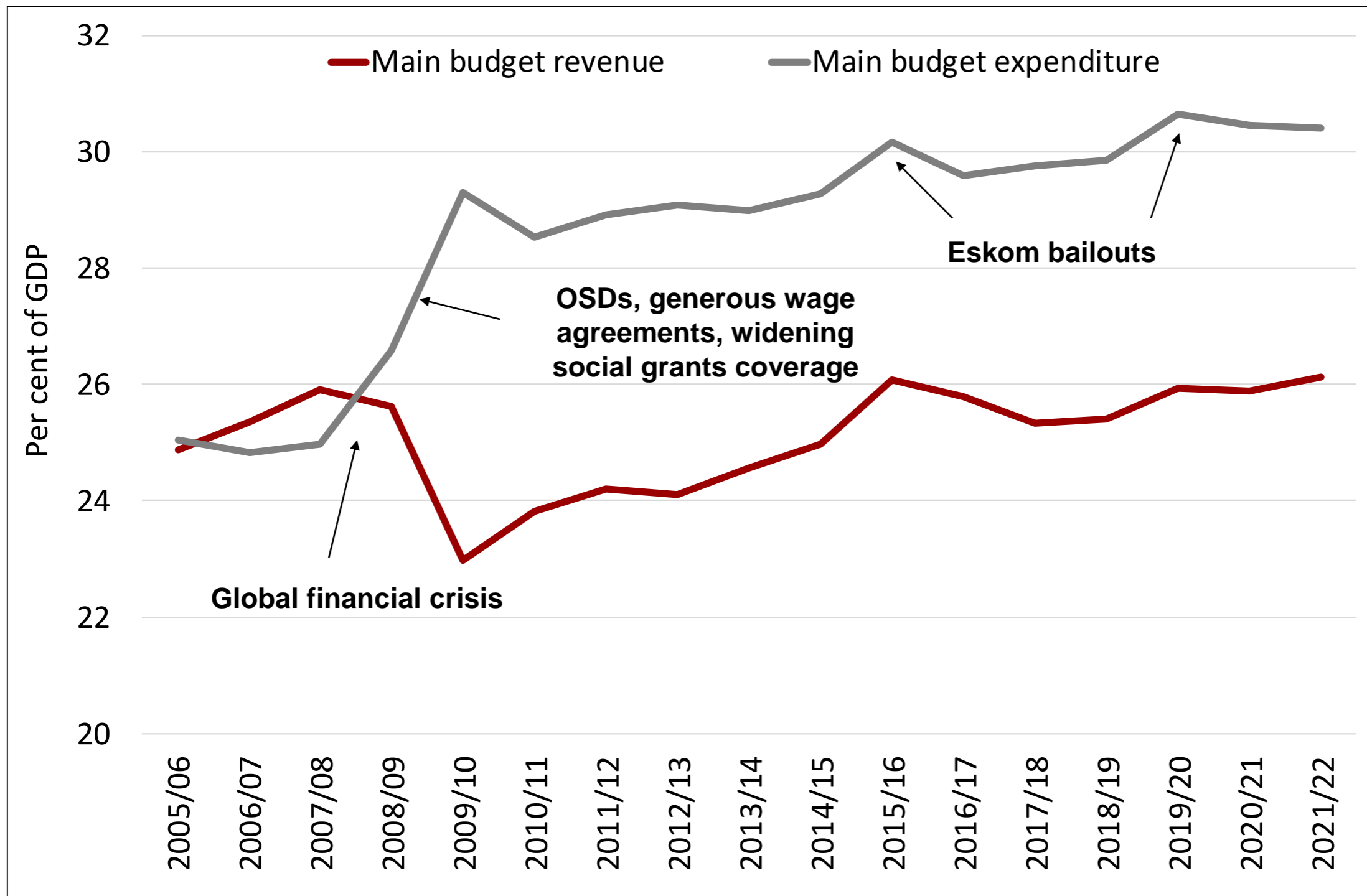
Rising debt reflects a structural deficit between revenue and expenditure

Main budget revenue and expenditure



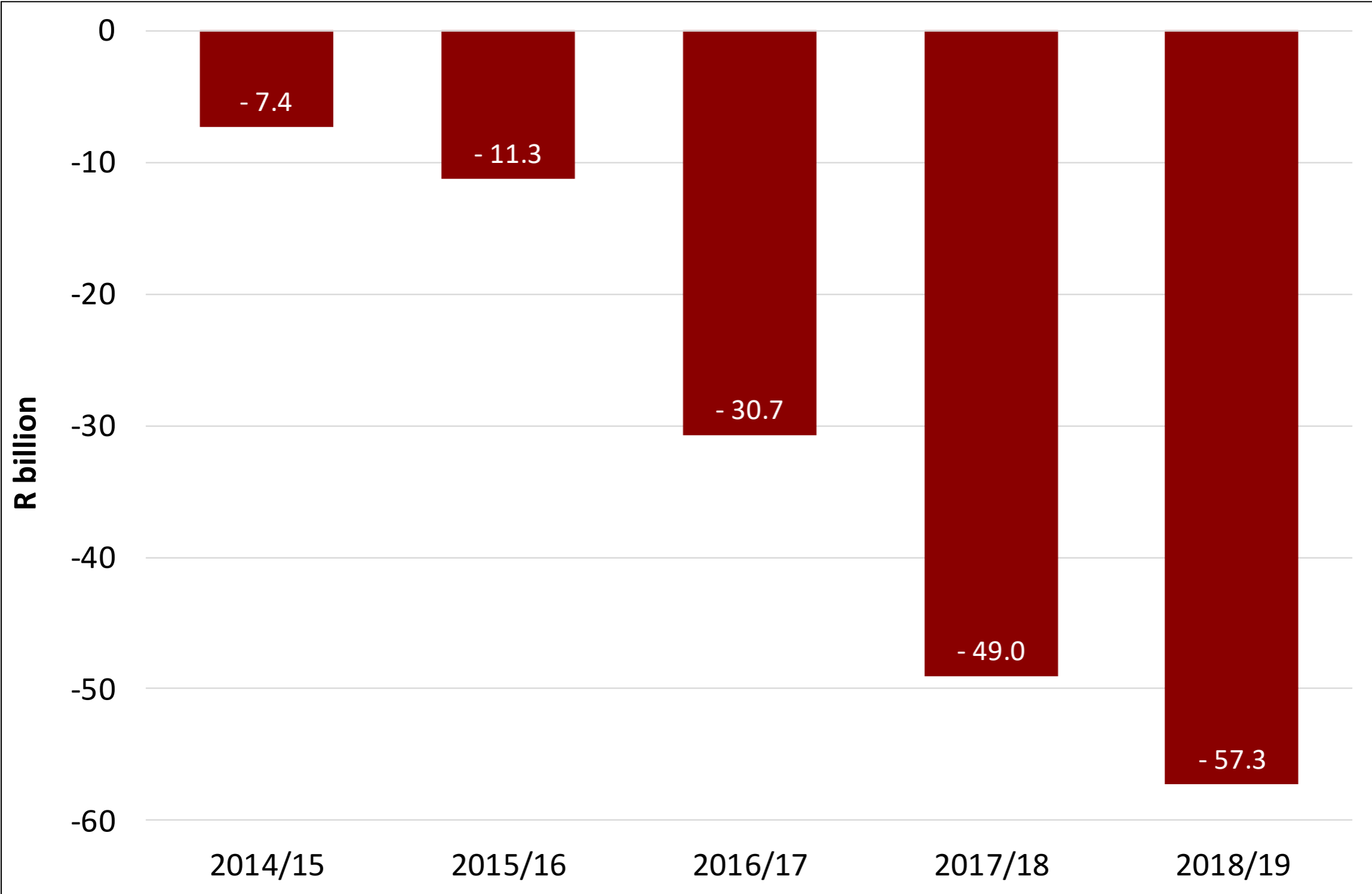
Drivers of spending include wages, social grants, bailouts for SOCs and new policy commitments like subsidised higher education

Main budget revenue and expenditure



Despite tax increases, revenue shortfalls have grown over the past four years

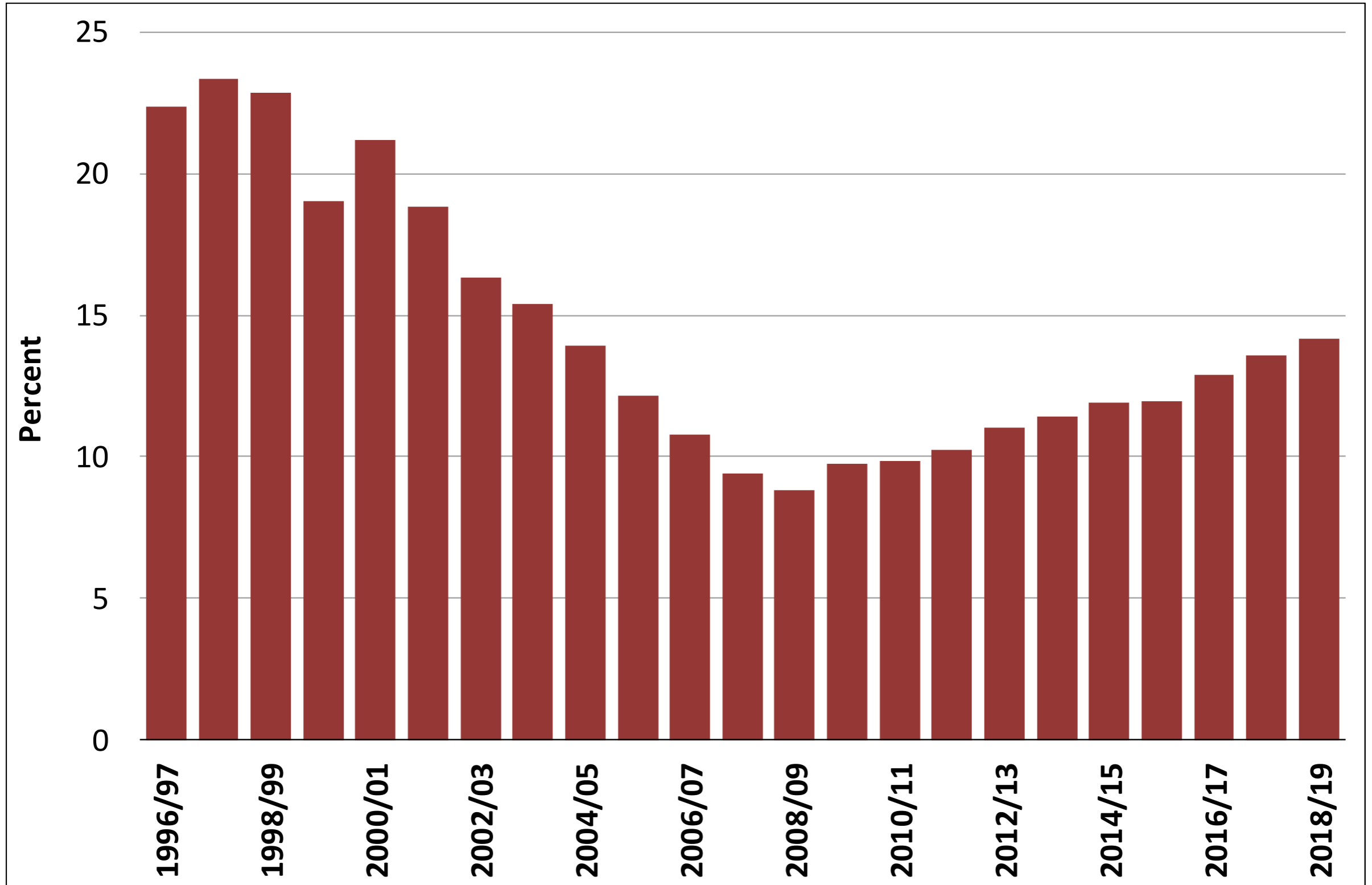
Tax revenue shortfalls against budgeted estimates



Other fiscal pressures are likely to widen the deficit further

- Eskom is unable to service its R420 billion of debt
- Sustained losses at other SOCs are projected for the foreseeable future
- Road Accident Fund liabilities (currently at about R290bn) continue to grow rapidly
- Large accruals are building up at provincial level (R25bn+), including medico-legal claims and unpaid bills
- Intra-government debts are increasing (e.g. municipalities owe Eskom and the water boards over R25bn)
- Cash position of local governments is deteriorating, reflecting declining revenue bases and levels of collection
- New policy commitments imply large additional spending:
 - NHI white paper shows a funding gap of two percentage points of GDP, equivalent to R100 billion per year

Higher debt means an increasing share of revenue going to interest



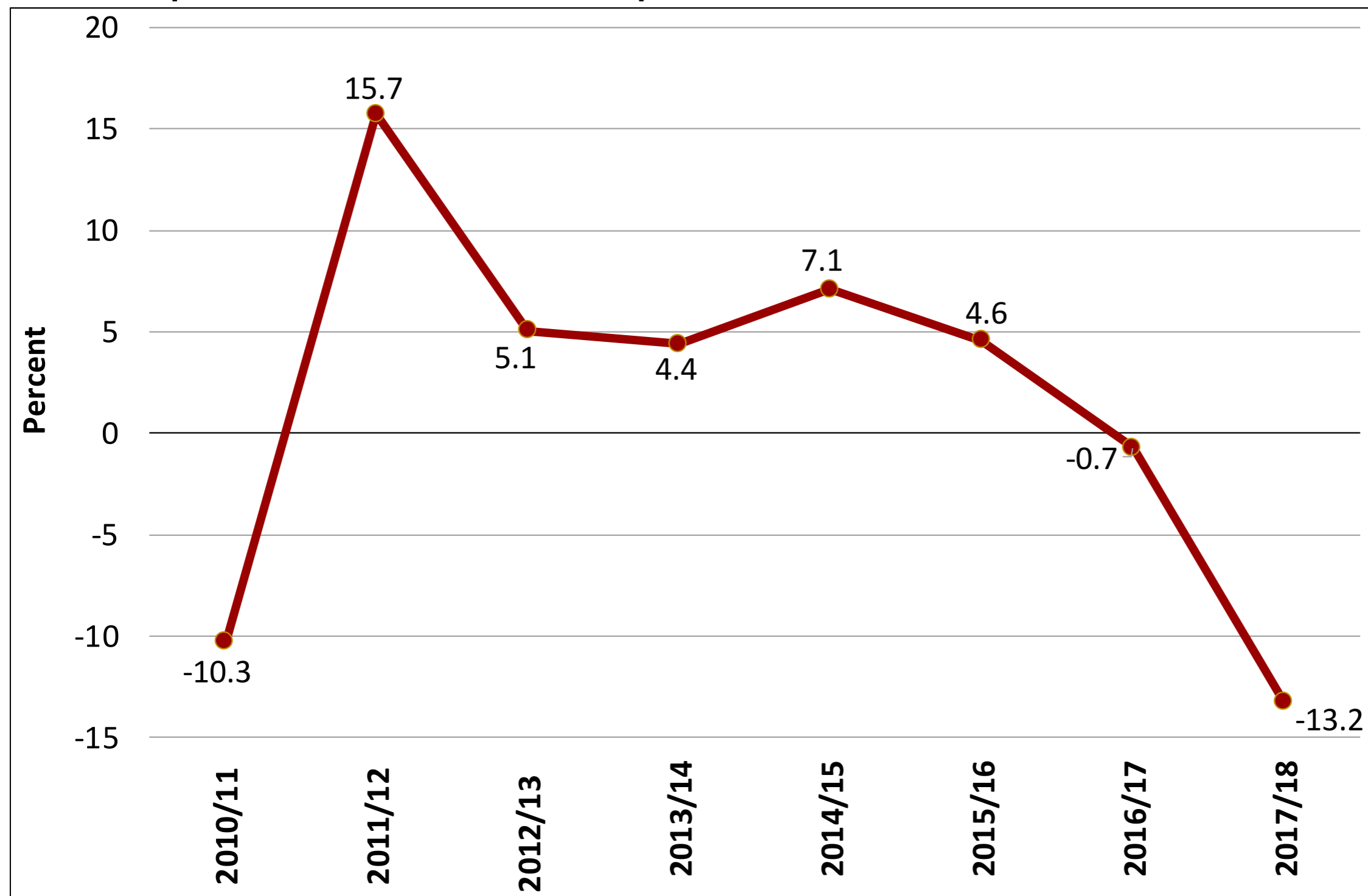
In addition to higher debt-service costs, the wage bill is crowding out spending on goods and services and capital

Compensation as a share of total spending, selected departments

Department/Sector	2008/09 % of Total	2016/17 % of Total	2017/18 % of Total
National labour intensive departments	57,7%	67,7%	68,5%
Correctional services	63,0%	66,9%	68,7%
Defence	38,2%	57,3%	57,3%
Justice	54,1%	55,9%	56,1%
Police	70,0%	76,6%	77,5%
Provincial health departments	57,0%	63,2%	62,2%
Eastern Cape	58,0%	65,6%	65,5%
Free State	64,7%	64,1%	63,9%
Gauteng	52,0%	62,2%	59,7%
KwaZulu-Natal	58,9%	63,1%	61,7%
Limpopo	58,9%	71,0%	70,6%
Mpumalanga	58,5%	63,2%	59,7%
North West	56,6%	62,0%	62,2%
Northern Cape	51,1%	53,1%	56,3%
Western Cape	56,3%	58,9%	59,0%
Total consolidated expenditure	32,4%	35,3%	35,4%

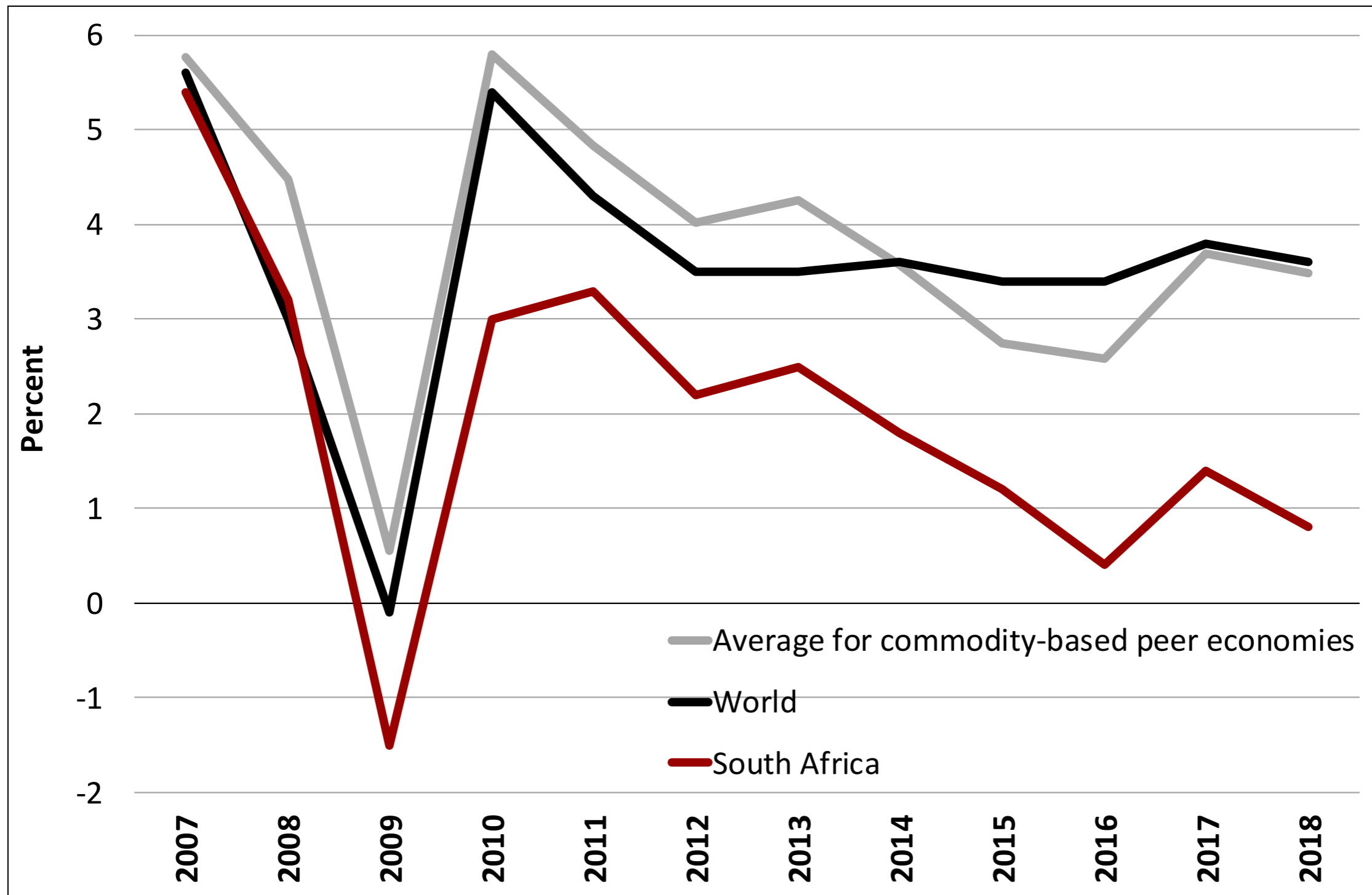
Public sector infrastructure spending is declining, reflecting falling SOC investment and reductions to general government budgets

Growth in public-sector infrastructure expenditure



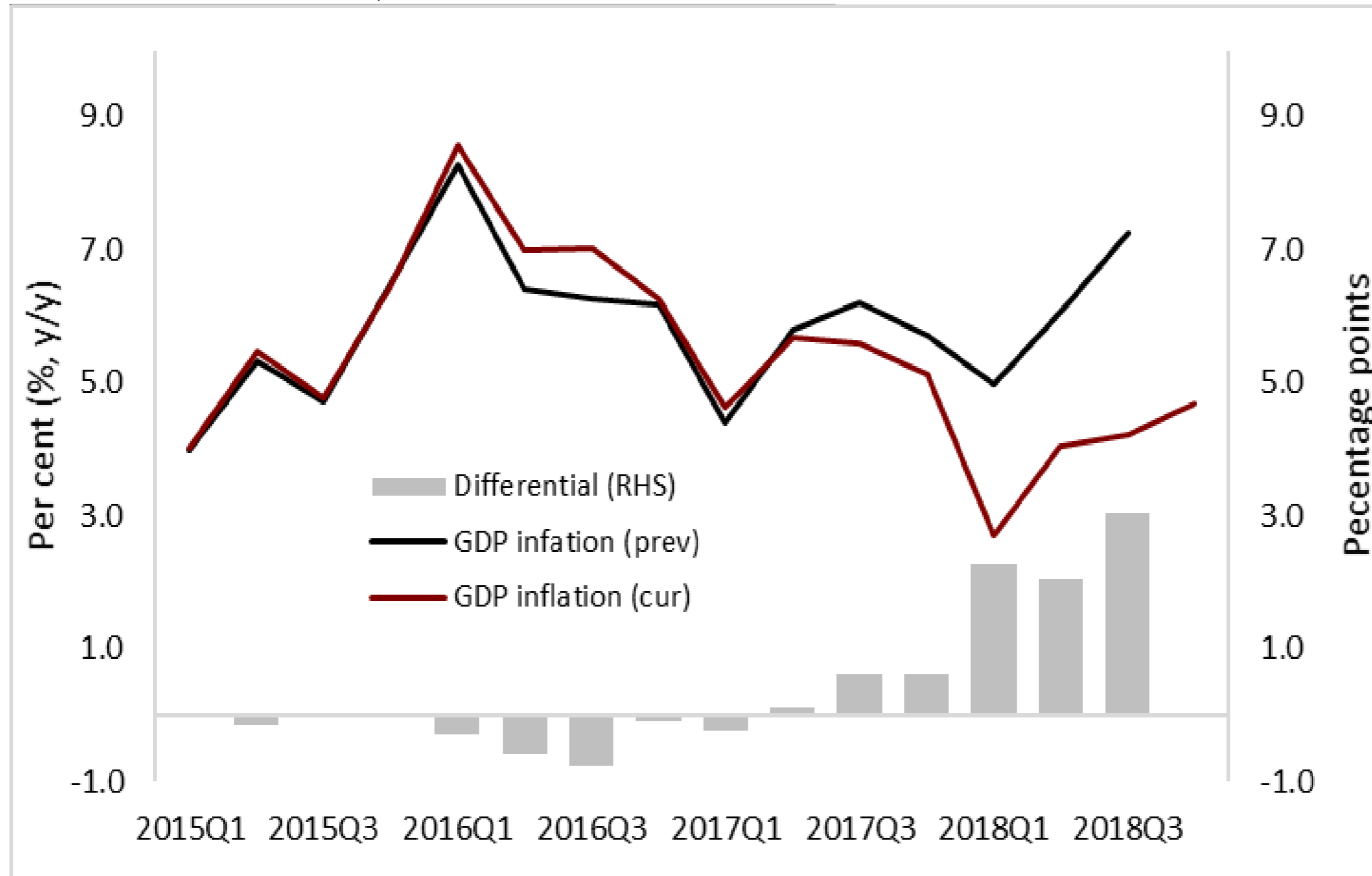
A major cause of fiscal pressure is declining real GDP growth

Real GDP growth



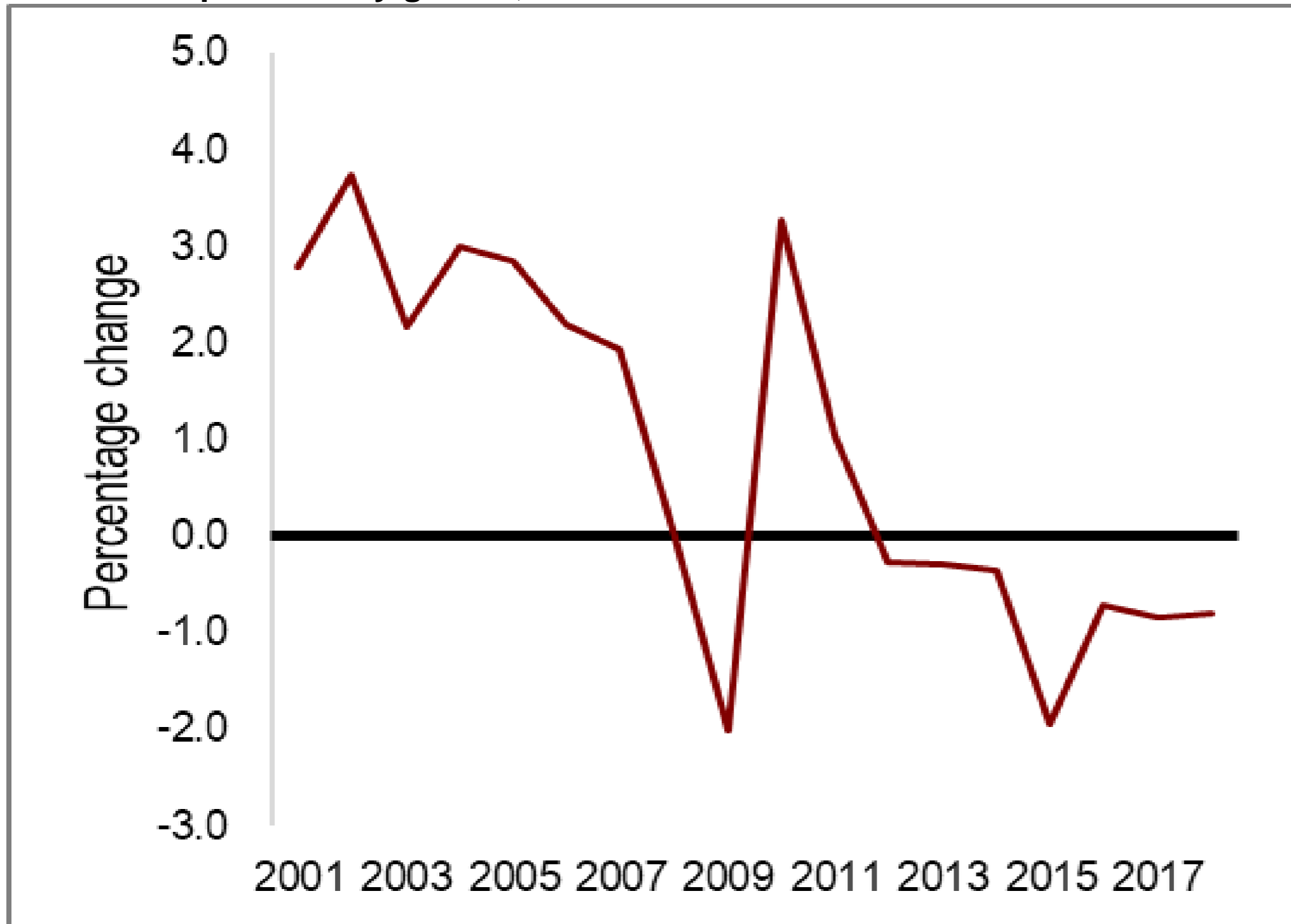
Has something fundamentally changed in our estimates of nominal GDP?

GDP inflation revisions, 2015Q1-2018Q3

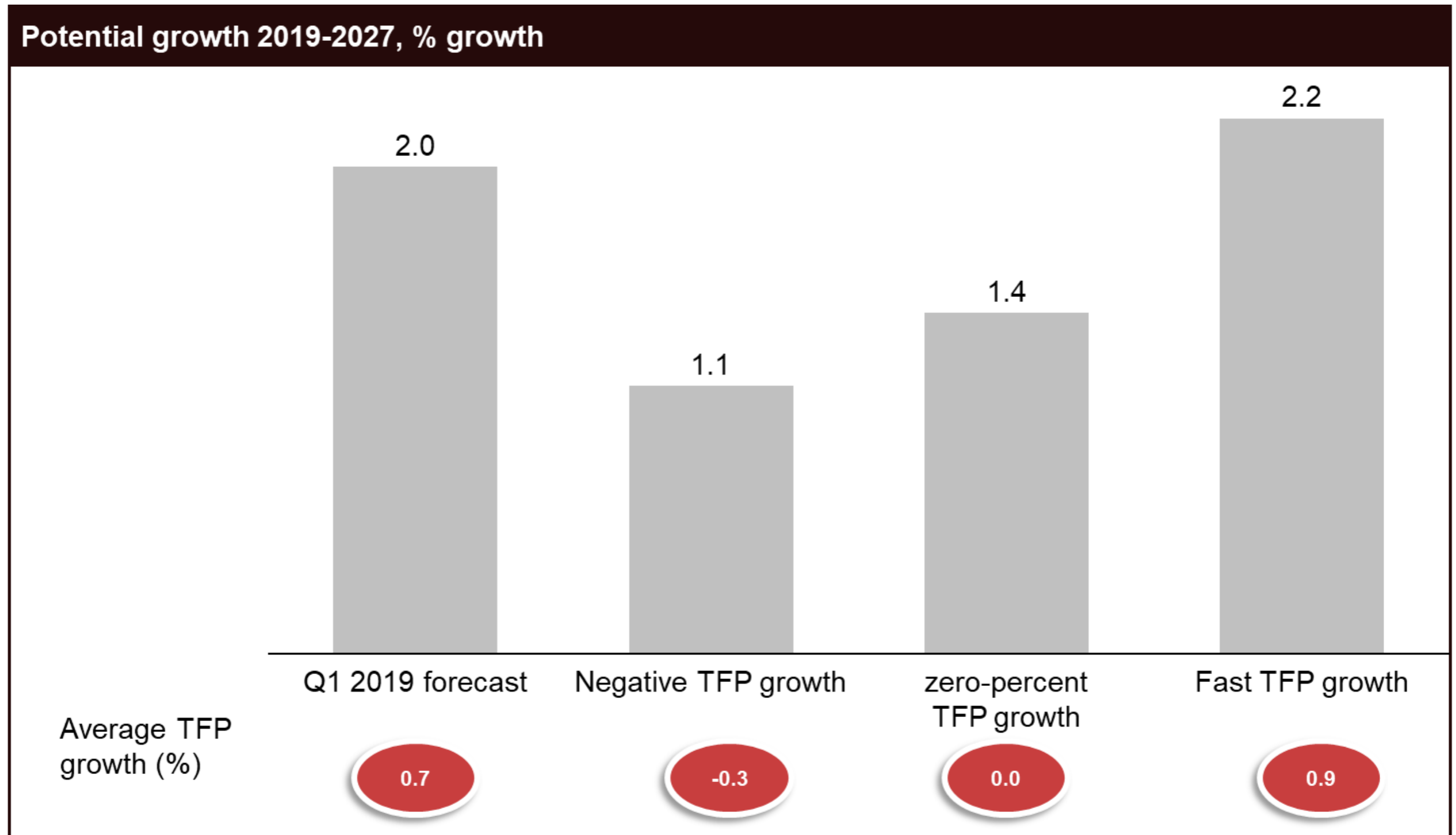


Total factor productivity growth has been negative for the past six years

Total factor productivity growth, 2001-2018

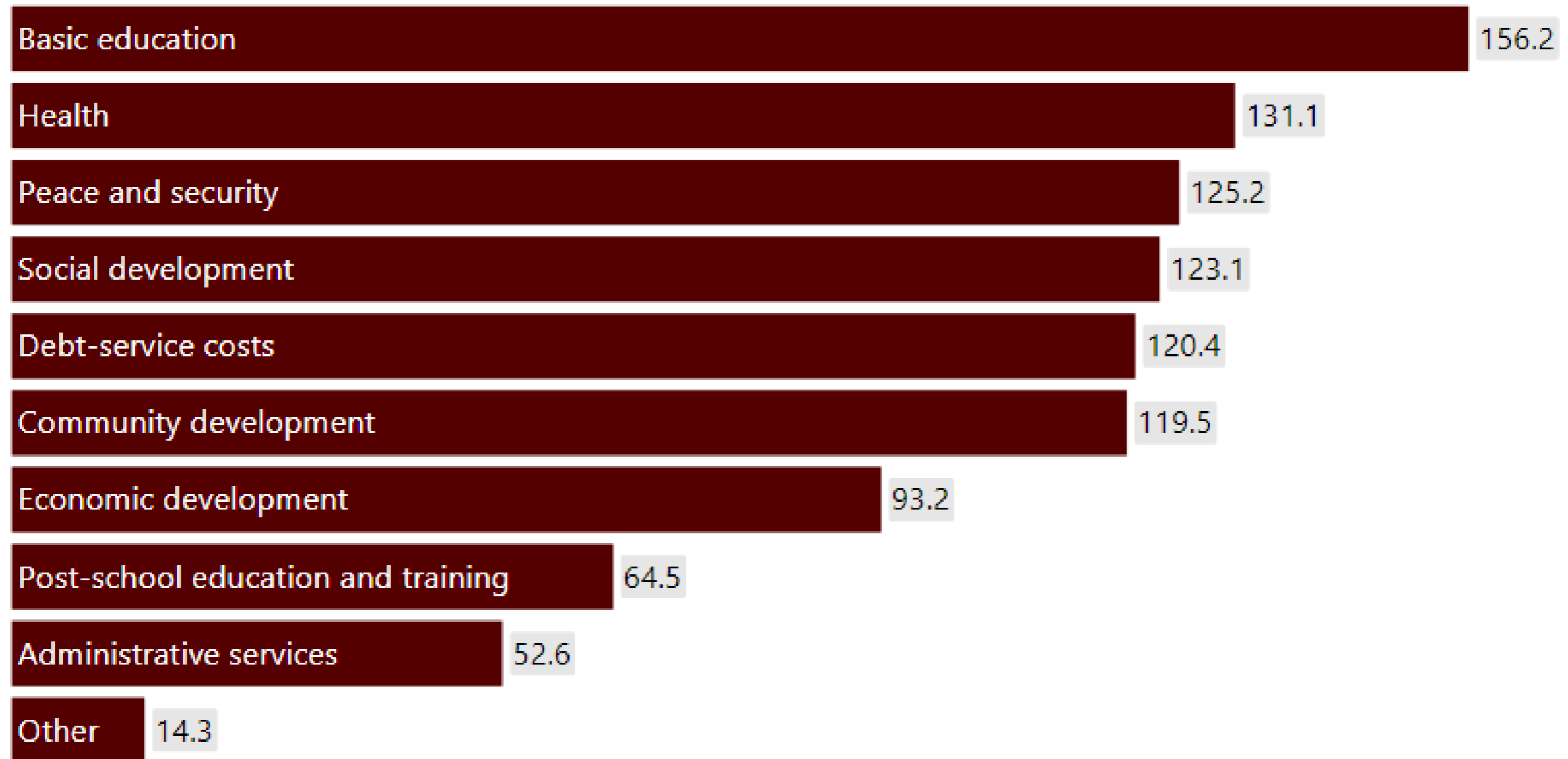


Lower TFP projections would require a reduction to long-run GDP growth



Breakdown of every R1 000 spent by function

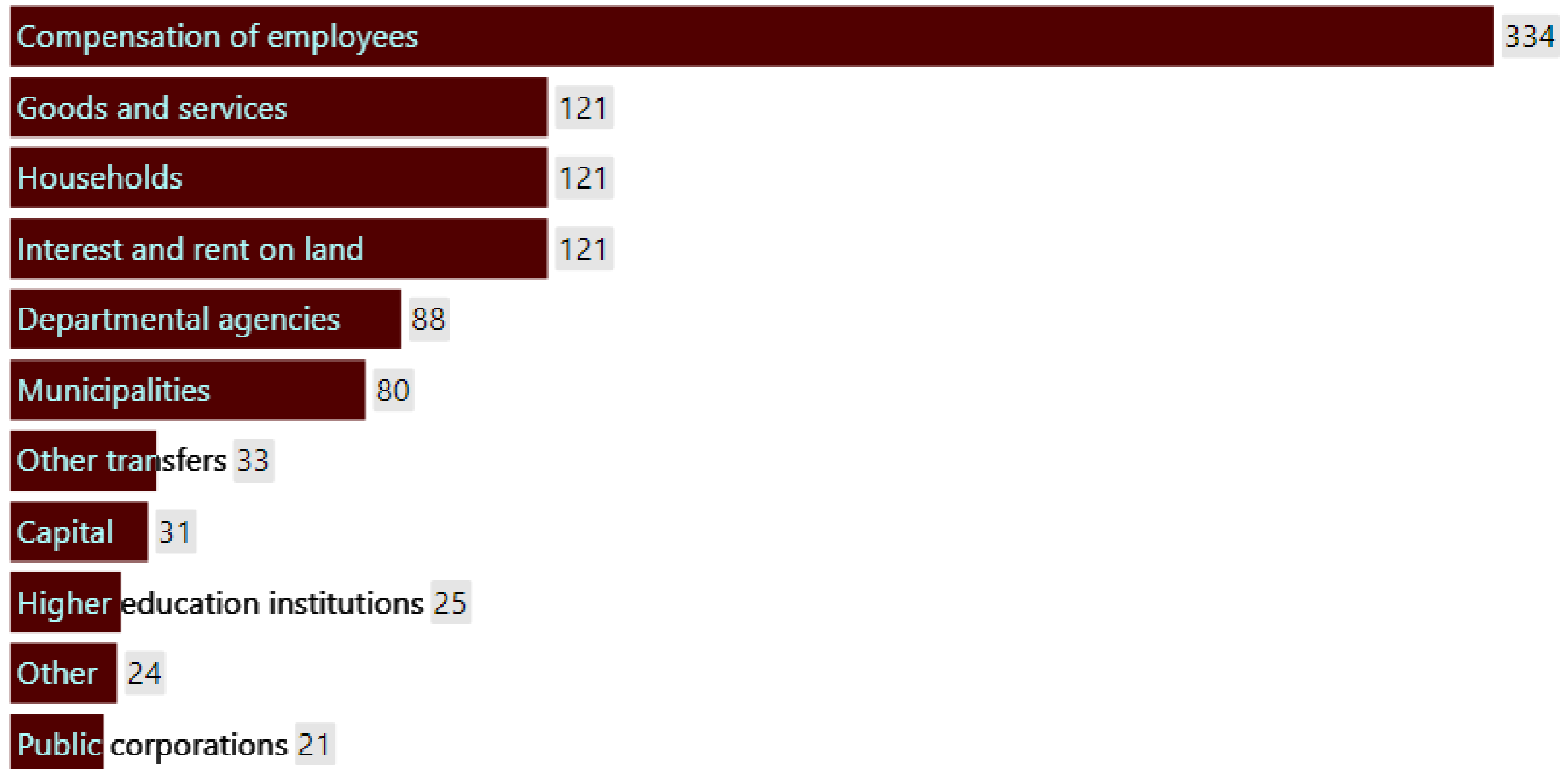
Selected function per R1 000



Consolidated National and Provincial: 2019/20

Breakdown of every R1 000 spent by economic classification

Selected economic classification per R1 000



Consolidated National and Provincial: 2019/20