2021 Pre-budget Briefing

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the Finance and Appropriations Committees.

Director: Dr Dumisani Jantjies

Authors: Rashaad Amra, Fatsani Banda, Dumisani Jantjies, Seeraj Mohamed, Nelia Orlandi, Mmapula Sekatane and Siphethelo Simelane

Enquiries: norlandi@parliament.gov.za

Ref. no. 21/2/2 (February 2021)

To obtain additional copies of this document, please contact:
Parliamentary Budget Office
4th Floor Parliament Towers
103-107 Plein Street
Parliament of the Republic of South Africa
Tel: +27 021 403 2360
Fax: +27 403 3153
Email: pboinfo@parliament.gov.za

Contents

1. Purpose

The purpose of the pre-budget analysis report is to prepare Members for the deliberations on the budget prior to the tabling on Budget day when the Minister of Finance introduces the National Budget, the Division of Revenue Bill, the Appropriation Bill and several tax proposals.

2. Introduction

The Parliamentary Budget Office has been established to assist the Committees of Finance and Appropriations with the implementation of the requirements of the Money Bills Amendment Procedure and Related Matters Act, which includes, amongst others, to ensure:

- An appropriate balance between revenue, expenditure and borrowing
- Reasonable debt levels and debt interest cost
- That the cost of recurrent spending is not deferred to future generations
- Adequate provisioning for spending on infrastructure development, overall capital spending and maintenance

The finance and Appropriations Committees are further required to:

- Consider the short, medium and long -term implications of the fiscal framework, on economic growth and the development of the country
- Take into account economic and public finance factors including extra-budgetary funds, and contingent liabilities

This report includes a summary of the progress made with policy implementation and the Presidential policy priorities, (as presented by the President during the State of the Nation Address) for future planning and funding. It further provides Members of Parliament with an assessment made of progress with the implementation of the immediate interventions for the implementation of the Economic Reconstruction and Recovery Plan (ERRP) and the current situation in providing health services in support of addressing the Covid-19 pandemic.

In addition to the policy matters, the report provides an update on the global and domestic economy, which informs planning and budgeting decisions on policy priorities, and revenue and expenditure estimates. Expenditure trends in a current financial year gives an indication of institution's ability to spend. To guide future budget decisions, progress with the implementation of the 2020 Budget is also included.

3. Policy progress and outlook

3.1. Progress on the 2020 priorities

The outbreak of the Covid-19 pandemic in March, 2020, found a vulnerable South African economy. In fact, at the time that the pandemic reached our shores, the South African economy had experienced two consecutive quarters of a recession. As a result, the Covid-19 pandemic deepened the economic crisis. Many people lost their jobs, many have gone without income for extended periods, and many are going hungry every day.

To contain the spread of the virus, government also had to take extraordinary measures to support ordinary South Africans, assist businesses in distress and protect people's livelihoods.

The social and economic relief package was introduced in April last year, and is said by government to be the largest intervention of its kind in the history of South Africa.

It identified measures worth a total of R500 billion [about 10% of Gross Domestic Product (GDP)] to provide cash directly to the poorest households, to provide wage support to workers and to provide various forms of relief to struggling businesses.

- 18 million people received additional grant payments
    - This grant lifted more than 5 million people above the food poverty line
- More than R57 billion in wage support has been paid to over 4.5 million workers through the Special UIF TERS scheme
- More than R1.3 billion has been provided in support mainly for small- and medium-sized businesses
- Over R70 billion in tax relief was extended to businesses in distress
- Around R18.9 billion of the R200 billion allocated for loans have been approved for 13 000 businesses through the loan guarantee scheme

The Economic Reconstruction and Recovery Plan

In October 2020 the President presented the Economic Reconstruction and Recovery Plan (ERRP) in Parliament. The reconstruction and recovery plan for the South African economy is aimed at stimulating equitable and inclusive growth. Progress has since been made in the implementation of the ERRP:

A massive rollout of infrastructure throughout the country

- The development of an infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications
- The launch of two major human settlements projects that will provide homes to almost 68 000 households in the Gauteng province

- Progress is being made on several major water infrastructure projects:
  - Phase 2A of the Mokolo and Crocodile River project, and the uMkhomazi Water Project
- The Infrastructure Investment Plan identifies roads projects worth R19 billion covering the spine of the South African road network
  - Resources have been committed from the fiscus to support the construction and rehabilitation of the N1, N2, and N3 highways
  - These infrastructure projects will lead to the revival of the construction industry and the creation of much-needed jobs
- The R100 billion Infrastructure Fund is now in full operation
  - The Fund will blend resources from the fiscus with financing from the private sector and development institutions
  - Its approved project pipeline for 2021 is varied and includes the Student Housing Infrastructure Programme, which aims to provide 300 000 student beds
  - Another approved project is SA Connect, a programme to roll out broadband to schools, hospitals, police stations and other government facilities

A massive increase in local production

- Key to this plan is a renewed commitment from government, business and organised labour to buy local
- All social partners who participated in the development of the ERRP agreed to work together to reduce reliance on imports by 20 per cent over the next five years
- Cabinet approved the SMME Focused Localisation Policy Framework which identified 1 000 local products
- Through the implementation of the poultry master plan, the industry has invested R800 million to upgrade production
  - South Africa now produces an additional one million chickens every week
- The sugar master plan was signed during the lockdown, with a commitment from large users of sugar to procure at least 80 per cent of their sugar needs from local growers
  - Through the implementation of the plan, 2020 saw a rise in local production and a decline in imported sugar, creating stability for an industry which employs some 85 000 workers
- Since the signing of the clothing, textile, footwear and leather masterplan in November 2019, the industry has invested more than half a billion rand to expand local manufacturing facilities, including SMMEs

An employment stimulus to create jobs and support livelihoods

- The Presidential Employment Stimulus is one of the most significant expansions of public and social employment in South Africa’s history

- By the end of January 2021, over 430 000 opportunities have already been supported through the stimulus
- A further 180 000 opportunities are currently in the recruitment process
- The National Youth Development Agency and the Department of Small Business Development had to be put on hold due to the coronavirus restrictions
  - It nevertheless managed to reach its target of 1 000 businesses by International Youth Day on 12 August 2020
  - This provides a firm foundation for our efforts to support 15,000 start-ups by 2024

The rapid expansion of our energy generation capacity

- In December 2020, government and its social partners signed the historic Eskom Social Compact, which outlines the necessary actions to be taken, collectively and as individual constituencies, to meet the country's energy needs now and into the future
- Over the last year action was taken to urgently and substantially increase generation capacity in addition to what Eskom generates:
  - The Department of Mineral Resources and Energy will soon be announcing the successful bids for 2 000 megawatts of emergency power
  - The necessary regulations have been amended and the requirements clarified for municipalities to buy power from independent power producers. Systems are being put in place to support qualifying municipalities
  - Government will soon be initiating the procurement of an additional 11,800 megawatts of power from renewable energy, natural gas, battery storage and coal in line with the Integrated Resource Plan 2019

3.2. Policy outlook

The State of the Nation Address (SONA) identified priorities for government action to build a new and more equal economy and a better, more just society. The President identified four overriding priorities for government for the year 2021:

- **Defeat the coronavirus pandemic**

The President noted that the pandemic will be defeated by:

- Intensifying prevention efforts and strengthening the health system
- Undertaking a massive vaccination programme to save lives and dramatically reduce infections across the population

The success of the vaccination programme will rely on active collaboration between all sectors of society.

- **Accelerate economic recovery**

Implement the Economic Reconstruction and Recovery Plan to drive growth.

- **Implement economic reforms to create sustainable jobs and drive inclusive growth**

Overcome poverty and hunger, joblessness and inequality.

- **Fight corruption and strengthen the state**

There is improved cooperation and sharing of resources between the respective law enforcement agencies, enabling a more integrated approach to investigations and prosecutions. The implementation of the National Anti-Corruption Strategy, which lays the basis for a comprehensive and integrated society-wide response to corruption have started. Members of the National Anti-Corruption Advisory Council will be appointed shortly, which is a multi-sectoral body that will oversee the initial implementation of the strategy and the establishment of an independent statutory anti-corruption body that reports to Parliament.

Other pronouncements by the President includes:

- State Owned Enterprises

To support the reform process, the Presidential State Owned Enterprises Council has outlined a clear set of reforms that will enable SOEs to fulfil their mandate for growth and development.

Overarching legislation for state-owned companies will be tabled in Cabinet this financial year and Parliament in the next the financial year. A centralised SOE model is being implemented this financial year, which will ensure a standardised governance, financial management and operational performance framework for all SOEs. The mandates of all SOEs are being re-evaluated to ensure that they are responsive to the country's needs and the implementation of the National Development Plan.

- Crime

Government is taking steps to continue to stop crime and deal with those responsible in terms of the law. Task teams have been set up in a number of provinces to deal with extortion and violence on sites of economic activity. Government is fast-tracking the implementation and capacitation of the Border Management Agency to curb illegal immigration and cross-border crime.

- Gender-Based Violence

Ending gender-based violence is imperative for a society rooted in equality and non-sexism. The National Strategic Plan on Gender-Based Violence was launched in April last year. Three key pieces of legislation were introduced in Parliament last year to make the criminal justice system more effective in combatting gender-based violence.

- Extending the period for the Special COVID-19 Grant of R350 by a further three months. This has proven to be an effective and efficient short-term measure to reduce the immediate impact on the livelihoods of poor South Africans
- Extending the COVID-19 TERS benefit until 15 March 2021 only for those sectors that have not been able to operate
- The National Treasury will work with its partners and stakeholders on improvements to the loan guarantee scheme so that it better addresses the realities of SMMEs and other businesses as they strive to recover

4. Focus of the budget for 2021

4.1. Towards Improved Health Services

According to Statistics South Africa life expectancy at birth for 2020 is estimated at 62.5 years for males and 68.5 years for females (target of 66.6 years by 2024, APP NDH). South Africa, however, continues to face a quadruple burden of disease comprising of pre-transitional diseases, the emerging chronic diseases, injuries, and HIV/AIDS. Deaths due to non-communicable disease, such as hypertension, diabetes and cancer, account for almost 65 per cent of all natural causes of death. To address the remainder of the burden caused by communicable diseases, a sustainable development goal was set to target an end the epidemics of AIDS, Tuberculosis (TB) and Malaria (Communicable diseases) by 2030.

The Annual Performance Plan (APP) of the National Department of Health (NDH) identified that better health outcomes and impacts can be achieved only by ensuring that a high proportion of people receive care that is effective. Improving coverage and quality of care will require system-wide action, which includes:

- Reliable clinical care aligned to norms and standards as set out by the Office of Health Standard Compliance (OHSC)
- A system that is positively perceived by patients (31% of complaints are in terms of waiting times, 29% on patients care and 26% are in terms of staff attitude)

The National Department of Health (NDH) leads and coordinates health services to promote the health of all people in South Africa through an accessible, caring and high quality health system based on the primary health care approach. The Department implemented its mandate with an adjusted budget allocation amounting to R58.1 billion or almost 6 per cent of the total allocations per vote in 2020/21. On average, the Department transfers almost 93 per cent, of the allocated amount, to other institutions of which almost 89 per cent is transferred to provinces in the form of conditional grants, to deliver services on behalf of the NDH.

At a provincial level, the Member of the Executive Council (MEC) responsible for provincial public health services must ensure the implementation of national health policy and health services norms and standards in his or her province. Provinces receive a PES specific for health purposes as well as health conditional grants to provide provincial health services and to implement national health policies. Table 1 shows that 36 per cent of provincial budgets are allocated to provincial departments of health. It further shows that provinces have spent 44.7 per cent of their health budgets in the first six months of the financial.

Table 1: Health expenditure per Province, 2020/21 financial year

R million	Total Adjusted budget	Health budget	Health budget as % of total Adjusted budget	Actual spending April to September
Eastern Cape	**85 406**	28 135	32.9%	51.9%
Free State	**39 055**	12 477	31.9%	44.3%
Gauteng	**146 389**	60 277	41.2%	46.0%
KwaZulu-Natal	**140 005**	53 140	38.0%	46.2%
Limpopo	**71 609**	23 227	32.4%	47.1%
Mpumalanga	**53 579**	16 776	31.2%	44.5%
Northern Cape	**18 450**	5 761	31.2%	48.1%
North West	**45 895**	14 483	31.6%	47.3%
Western Cape	**72 791**	27 857	38.3%	46.6%
Total	**673 179**	**242 133**	36.0%	44.7%

Source: National Treasury

In the 2019/20 financial year, the NDH allocated conditional grants to provinces to provide for:

- National tertiary services
- HIV, TB, malaria and community outreach
- Human Papilloma Virus vaccine
- Health facility revitalisation
- Health Professional Training and Development Grant (Direct Grant)
- National Health Insurance Grant: Personal Services Component
- National Health Insurance Grant: Non Personal Services Component
- National Health Insurance Grant: Health Facility Revitalisation Component
- Human Resources Capacitation

An analysis of the performance of the Health Conditional Grants in 2019/20 shows that:

The National Tertiary Service Grant:

- Underspending due to delays in delivery of equipment. A rollover was requested
- All performance outputs have exceeded the targets

HIV, TB, Malaria and Community Outreach Grant (Direct Grant)

- Under-spending of 0.8 per cent (due to: NHLS and ARV invoices not paid by KZN, misallocation of expenditure by FS & GP)
- Under-performance on TB, HIV and Malaria targets

The Health Facility Revitalisation Grant (Direct Grant)

- Underspending of 3.0 per cent of the transferred amount is reflected
- Only three of the five planned new facilities were completed due to poor performance, which caused delays in completion of some capital projects. The Department indicated that additional regular monitoring and oversight tools will be implemented to ensure adequate project execution

National Health Insurance Grant: Health Facility Revitalisation Component (Indirect)

- There was under-spending of 22 per cent on the original budget allocated for the NHI Grant caused by invoices that were received late
- The conditional grant also underperformed on the completion of new facilities (2 of the planned 6 completed); facilities maintained (39 of 45 planned) and only two of the planned 10 facilities were upgraded or renovated and refurbished

Health Professional Training and Development Grant (Direct Grant)

- Almost the full transferred amount for the conditional grant was spent
- The recruitment of specialists and other staff was slow. The reason for the slow recruitment was due to the need to obtain approval from Provincial Treasury or Premiers' Offices for these appointments in some provinces
- This is the only grant that shows the number of administration staff (of 23) as an output

Full expenditure without performance raises questions about the credibility of the budget and whether there was efficient expenditure of the funds. If such a relatively small grant, with only 4 outputs, requires 23 administrative staff members, other conditional grants might then require much more. The cost of administration should play a crucial role in structuring the funding of a sector.

Human Papilloma Virus

- There was underspending of 19 per cent on the original budget allocated for this grant
- The planned vaccination of 80 per cent of 9-year old girls was almost met (76.7%)

This conditional grant has been merged with the HIV, TB, Malaria and Community Outreach Grant (Direct Grant).

National Health Insurance Grant: Personal Services Component (Indirect)

- The department spent 13 per cent of this budget
- No district level observations for psychiatric services, clinical psychological services and forensic mental services were provided
- There was no spending on General Practitioner Contracting (Capitation)

The reason given for not contracting private health professionals was non-compliance of health professionals to supply chain management requirements. A capitation model was, however, developed but was not implemented due to capacity challenges to implement the reimbursement model. In future the contracting of health professionals will be decentralised to the Provincial Departments of Health.

National Health Insurance Grant: Non Personal Services Component (Indirect)

- The Department has spent only 64 per cent of the original budget allocated for this conditional grant
- The Department performed or over-performed on the planned outputs
- 381 731 more patients were enrolled in the chronic medicines dispensing and distribution (CCMDD) programme

Although a phased implementation of national health insurance is planned, the performance outputs or the budget for this grant should be reviewed. Such review will ensure the implementation of the different health systems (stock, dispensing, registration, etc.) that are required for the implementation of a proper national health service and to prevent under-spending or over budgeting for services that are already provided by the health sector.

One of the central aspects of the 2017 National Health Insurance White Paper is the establishment of the National Health Insurance Fund as a public entity. Funds were reprioritised to the National Health Insurance programme for establishing a capacitated unit within the department. This unit will be transferred to the new entity once it is created.

Prior to the formation of the National Health Insurance Fund, national health insurance will largely be funded through the national health insurance indirect grant, which is managed and spent by the national department on behalf of provinces. The grant was initially comprised of three components. The non-personal services component funds initiatives to strengthen the health system in preparation for national health insurance. These include information systems, the ideal clinic initiative, the centralised dispensing and distribution of chronic medicines, including antiretroviral drugs, and the piloting of the national quality health improvement plan.

The second component was allocated towards a personal services component to contract private general practitioners to provide primary health care services in their own practices. The allocations and scope of the component has been significantly narrowed, and has been changed to a direct conditional grants (National Health Insurance Grant) to provinces. These reallocations include funding for the contracting of general practitioners to do session work in public primary health care facilities, and to strengthen the provision of mental health and oncology services.

The third part of the national health insurance indirect grant was the health facility revitalisation component. This component remains the same although the ideal is to merge this conditional grant with the direct Health Facility Revitalisation Grant (see above).

Human Resources Capacitation (HRC) Grant (now merged with Health Professional Training and Development Grant (Direct Grant)

- Over-expenditure as well as over-performance on this conditional grant was due to the statutory obligation to place medical interns for completion of their studies

4.2. Towards economic growth and job creation

The South African Economic Reconstruction and Recovery Plan (ERRP) is planned to be implemented in three phases:

- Immediate: focuses on the protection of the supply base and livelihoods
- Medium-term: focuses on recovery of the economy
- Long-term: focuses on growing and transforming the economy

The Presidential Coordinating Committee (PCC) will receive monthly reports on the implementation of the plan. These reports are, however, not available to Parliament. To determine the progress with the implementation of the immediate interventions on priority areas, the quarterly performance data on the implementation of Annual Performance Plans of lead departments were consulted on their contributions to the priority areas:

- **Ensuring energy security:** The Department of Mineral Resources and energy is the lead department in improving energy supply security. The department planned to, amongst others, to develop several frameworks for the transition to a low carbon economy, municipal infrastructure asset management, an integrated energy plan as well as legislation to improve the electricity policy and a regulatory framework. A draft national energy regulatory bill has been submitted to the State Law Adviser. The planned output for the development of an integrated energy plan and others have been postponed due to lack of resources (Software and Human). Another reason for not achieving some of the other planned outputs are, delays in procurement of a service provider for the task.

- **Industrialisation/growing the productive economy**: The Department of Trade, Industry and Competition is the lead department in growing the productive economy. The Department has discontinued the planned approval of:
  - Financial support to100 enterprises/projects
  - Support to retain 2500 jobs from approved enterprises/projects
  - Support for 1 500 new jobs from enterprises/projects
  - R3 billion of projected investments to be leveraged from projects/enterprises
  - Export Development and Support (EDS) inclusive of women, youth and people with disabilities (WYPD) to Companies

  The Department has, however produced several analysis reports on public interest matters, such as the reports from the competition commission. It is not clear whether the Department's interventions addressed the needs of the ERRP such as the:
  - Sustainable increase in state procurement from local manufacturers in strategic value chains
  - Diversion of firms in distress from closure/retrenchments
  - Improved turnaround times and investor confidence rankings
- **Employment protection and stimulation** through mass public employment interventions. The Departments of Public Works; Environment, Forestry and Fisheries; Higher Education; Basic Education; Agriculture, Land Reform and Rural Development; Sport, Art and Culture are all leading departments on interventions to protect and stimulate employment.
- **Infrastructure that meets NDP 2030** intermediate targets are mainly lead by the Departments of Transport, Communication and Digital Technologies, and Water and Sanitation
  - The Department of Transport committed to develop and invest in affordable public transport, protect and sustain commuter rail transport infrastructure. The Department has allocated R2.25 billion to improve the public transport network infrastructure and services that function optimally and are accessible, safe, convenient, affordable, well managed and maintained. The Department also committed to invest in rural and municipal road maintenance in the first six months of the financial year.

    In terms of the progress made the Department reported that:
    - A report on a National Household Travel Survey was developed
    - An initial draft of the High-Speed Rail (HSR) Corridor Framework was developed

- An Analysis Report on the PRASA Modernisation Programme, as at end of September 2020, a total of eight (8) new trains (against a targeted 15 for the period under review) were provisionally accepted for delivery
- Targets to report on the revision of the Public Transport Funding Model developed, the Rolling Stock Fleet Renewal Programme, PRASA Rail Operations and the number of rail safety occurrences reported were revised and the Department of Transport (DoT) Annual Performance Plan was re-tabled in July 2020
- Preliminary analysis on provincial road maintenance showed that the Free State and Northern Cape rehabilitated 276 329 m^2 of surfaced roads, re-gravelled 86.84 km of gravel roads; bladed 26 287 km of gravel roads and did blacktop patching on 94 665 m^2
- Although a Quarterly Analysis Report on the jobs created through the Deep Rural Roads Maintenance Programme was not compiled, a report on job creation through the SANRAL Road Maintenance Programme was compiled
- Virtual bilateral progress engagements were conducted with the cities operating integrated public transport networks
- A total of 522 old taxi vehicles were scrapped against a target of 350 per quarter

- The Department of Communication and Digital Technologies is responsible for an intervention to implement digital migration and committed to subsidise 4.7 million indigent households in the first phase of implementation. A monitoring report was developed on the implementation of the Broadcasting Digital Migration Programme. No numbers were, however, indicated in the quarterly performance report. The monitoring report is not available to Parliament.

- The Department of Water and Sanitation is responsible for bulk water infrastructure, which they indicated that are not fully funded

  - The completion of construction tender evaluations for bulk raw water projects were not ready for implementation by the end of the second quarter as planned; therefore, the construction contracts will also not be awarded by the third quarter as planned

- Immediate Macro-economic interventions and enablers for economic growth are mainly lead by the National Treasury, Departments of Justice and Constitutional Development, Higher Education, Employment and Labour, Human Settlements, Small Business Development and Public Service and Administration

  - The Department of Justice and Constitutional Development committed to take immediate steps to implement the anti-corruption strategy and to fight illicit economic activities

- Most of the targets for conviction rates were achieved by the second quarter of 2020/21
- Delays were experienced in high value cases. Justice recovered R2.6 million (target R350 million) and R500 000 (Target R600 million) worth of freezing orders were obtained for corruption or offences relating to corruption in the second quarter of 2021/22

- Department of Employment and Labour continues to protect workers through the UIF
  - In the second quarter of 2020/21, 405 523 work-seekers were registered on the Employment Services of South Africa database against a target of 187 500, while 43 881 employment opportunities were registered and 18 971 employment opportunities were filled by registered work seekers
- The Department of Human Settlements is mandated to provide decent housing and integrated human settlements and committed to interventions in the form of gap housing products. The provision of Human Settlements is mainly funded through provincial and local government conditional grants.
  - The quarterly performance report (QPR) on the Annual Performance Plan mainly reflects progress on research, and monitoring and evaluation reports of the respective programmes. Outputs in terms of gap housing could not be detected in the QPR. The QPR does not reflect any progress on service delivery performance.
  - A quarterly performance assessment report was compiled on the number of households that received financial assistance and purchased units through the Finance Linked Individual Subsidy Programme (FLISP), while a report on the subsidies allocated to approved beneficiaries is outstanding for quarters one and two.
- Department of Small Business Development committed to use current resources to review and integrate government support for formal and informal SMMEs, start-ups and cooperatives.
  - A report on the 10 000 competitive SMMEs and Co-operatives supported has not been compiled
  - Most of the financial support to SMMEs, informal businesses and cooperatives was diverted/reprioritised to newly-developed Covid-19 Relief programmes
  - To date, R316 million of the R513 million has been disbursed, and supported the maintenance of 23 254 jobs in the economy

- **Green economy**
  - The Department of Environment, Forestry and Fisheries is leading the interventions that will make an impact on the green economy. These interventions relate to waste management and climate change.
    - Outputs are reflected in the APP and progress is reported as part of the QPR. Although the lockdown had an effect on the progress, progress has been made in programmes such as chemicals and waste management.
- **Agriculture and food security** is mainly funded by conditional grants on a provincial level. The national department included indicators in the APP that can be used to monitor food security. The monitoring of progress with the implementation of conditional grants will, however, be more useful.
  - The Department of Agriculture Land Reform and redistribution is committed to improve the quality supply and market linkages with institutional markets and to upscale production schemes, create additional jobs and support new farmers and SMMEs.
    - The lockdown due to the covid-19 pandemic affected most of the targets for rural development, land redistribution and capital projects. Targets were not achieved or moved to the remainder of the financial year.
    - The loss of technical advisors influenced the progress in Agricultural Production, Health and Food Safety.
- **Reviving the tourism sector**
  - To be able to revive the sector the Department of Tourism is committed to increase the diversity of South African tourism products and domestic holiday trips. Although the Department does not report directly on the number of domestic and international holiday trips; they are in the process of developing a concept document for the development of a National Tourism Analytics System Framework. Other indicators that could be useful to monitor the progress with the revival of the tourism sector are:
    - The Department ensures the maintenance of infrastructure in SANParks
    - They finalised the terms of records for the appointment of a Service Provider to develop project concepts for five community-based tourism projects at:
    - A Domestic Tourism Scheme was implemented in Drakensberg, KwaZulu-Natal on 10-11 November 2020

4.3. Towards improved Local government service delivery: The District Development Model (DDM)

The DDM aims to accelerate, align and integrate service delivery in the local sphere of government to address the triple challenges of poverty, unemployment and inequality. It is an intervention of government focusing on the municipal districts and metropolitan spaces. These impact areas will be subject to joint planning, budgeting and implementation. The DDM necessitates the localisation of the Medium Term Strategic Framework (MTSF) to the districts in alignment to their specific development needs and challenges.

A district approach is also an advantage to strategically coordinated responses to service delivery, development and disaster management in the context of each districts specific circumstances.

The first pilot sites of the district-based coordination model were:

- OR Tambo District Municipality in the Eastern Cape
- eThekwini Metro in KwaZulu-Natal
- Waterberg District Municipality in Limpopo

In 2020, the government expanded the DDM roll-out to 23 new districts and planned to reach 44 districts and all eight metros by the end of 2020, drawing on lessons from the three pilot districts. Government plans to conclude all 52 districts by August 2021.

Current progress on the roll-out of the DDM are:

- The establishment of District Hubs in OR Tambo and Waterberg
- The completion of Profiles in relation to all 52 spaces covering situation analysis
- A gap analysis in relation to departmental budgets and spending in the 3 pilot sites
- The establishment of a Programme Management Unit (PMU)
- The appointment of political champions
- Engagements with various stakeholders outside government and the preparation of a stakeholder management and communication plan that needs to be finalised and implemented in a focused manner
- To draft guidelines for the development of 'One Plans'

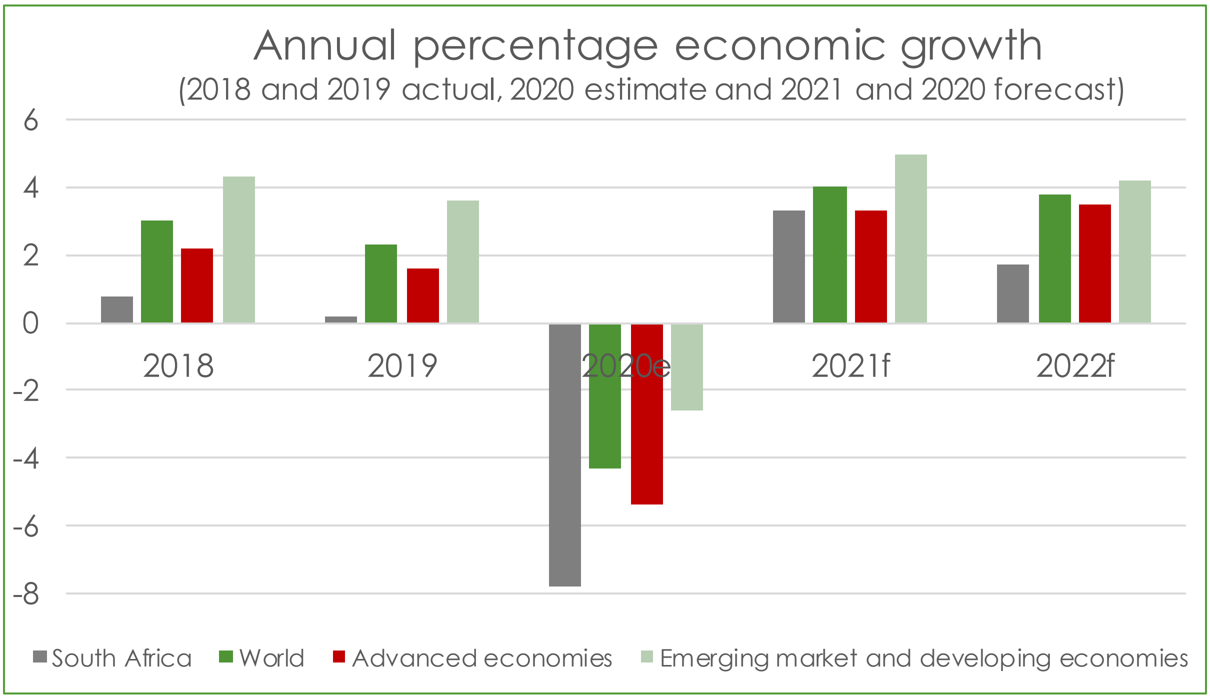
It has become evident that some government role players have different understandings with regard to the intent of the DDM and concerns about introducing new approaches. Findings from a monitoring report by the Department of Planning, Monitoring and Evaluation has, however, indicated that communities whom have suffered spatial disadvantage have been exposed and more vulnerable to the current disaster (Covid-19 pandemic), e.g., particularly with regard to access to water, shelter, economic activity, spatial mapping of the Covid-19 outbreaks, health interventions, and health system readiness (ward profiles). The principles of the DDM enabled government to implement a differentiated approach to Covid-19that could be further strengthened based on the lessons learnt. Future monitoring across the 52 intergovernmental impact zones will include reports on gender based violence.

5. Macro and socio economic factors informing budget decisions

5.1. The global economy

The World economy is expected to contract by about 4.3 per cent this year, primarily due to the effects of the coronavirus.

Figure 1: Economic growth estimates and forecasts for South Africa, the world emerging markets and developing economies



Source: SARB

The world economy – including both overall product and trade in goods and services is expected to rebound in 2021, however, this is dependent on the ability of governments to manage the Covid-19 and its effects on the economy. There exists considerable risks and uncertainties to the outlook emanating from the corona virus crisis, including second and further waves of the virus and successful rolling out of the vaccines, which would further affect economic activity. Therefore, while projected, global economic growth is positive for 2021. Several risks indicate the need for continued fiscal action by governments. There is the added risk that uneven rollout of the vaccine increases inequality across countries and within countries and raises the possibility of increased social and political instability.

Large-scale fiscal stimuli helped ease suffering, but are generally unlikely to have supported longer-term investments and creation of new jobs. The global economy may; therefore, face a lower growth phase unless there is continued support for household income, jobs and investment. There is also heightened risks of financial market stress and crises. Many developing countries have had to increase debt. Unless there is debt relief and forgiveness for developing and lesser developed countries, the likelihood of a debt crises and contagion is high. Further, the huge financial liquidity created by developed country central banks (through measures such as quantitative easing) has led to under-pricing of risk and bubbles in financial markets in both developed and developing countries that increase systemic risks and the possibility of domestic and possibly global financial upheavals.

5.1.1. Global economic outlook

There now exists a common view and the emergence of a broad consensus amongst international agencies about the need for continued fiscal support to address the impact of the Covid-19 pandemic. The United Nations 2021 World Economic Situations and Prospects warns that "A premature embrace of austerity will inevitably weaken the speed and quality of the recovery and undermine resilience to future shocks." According to the World Bank 2021 World Economic Outlook, key immediate policy priorities are:

- limiting the spread of the virus;
- providing relief for vulnerable populations; and
- overcoming vaccine-related challenges.

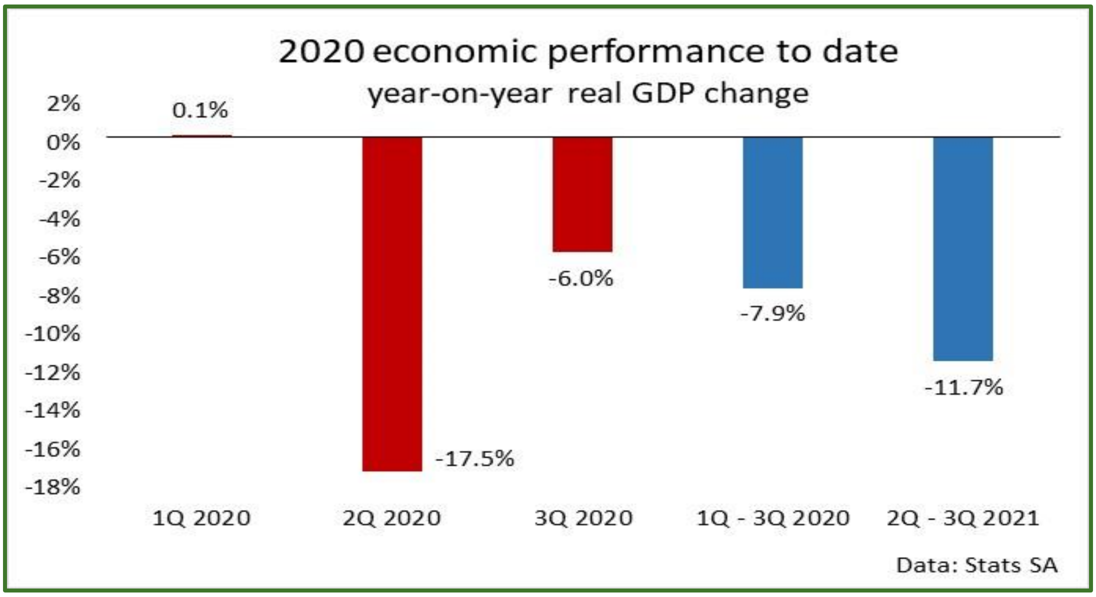
The World Bank also sites that: "As the crisis abates, policy makers need to balance the risks from large and growing debt loads with those from slowing the economy through premature fiscal tightening." This view is similar to that expressed in the United Nation's 2021 World Economic Situation and Prospects that also warns about moving towards fiscal consolidation and austerity too hastily and says: "Austerity measures almost always cut back social sector spending on health and education and public services ….". The World bank in the 2021 WEO points to preparing for a post-pandemic world, but also preparing for future health risks. To confront the adverse legacies of the pandemic, it will be critical to foster resilience by:

- Safeguarding health and education
- Prioritising investments in digital technologies and green infrastructure
- Improving governance, and
- Enhancing debt transparency

5.2. Domestic economy

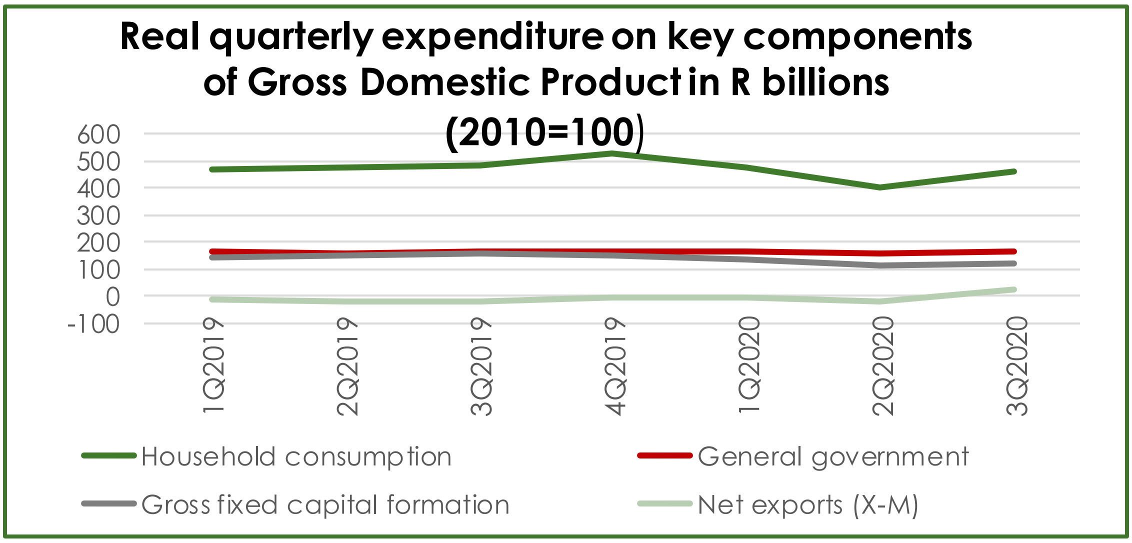
The effects of the coronavirus pandemic and measures introduced to curb its spread, in South Africa and across the world, severely harmed the South African economy during 2020. The South African economy, already in a technical recession at the start of the pandemic, experienced a record-high contraction in the first quarter of the 2020/21 financial year, compared with the previous quarter (52% - seasonally adjusted and annualised), and the same quarter in the previous year (17%). This was largely due to stringent lock-down measures imposed by government from the end of March 2020, which severely restricted economic activity. Over the second fiscal quarter of 2020/21, the economy again experienced a large contraction (6%) compared with the same period in the previous year. Over the first half of the 2020/21 financial year, the economy contracted by 7.9 per cent compared with the same period in the previous financial year.

Figure 2: A deep and unprecedented recession



The effects of continued anaemic economic performance in the period preceding the break-out of the pandemic, combined with the debilitating effects of the pandemic, have contributed to widespread job losses, increasing poverty, hunger and inequality, as well as a worsening of South Africa's fiscal position.

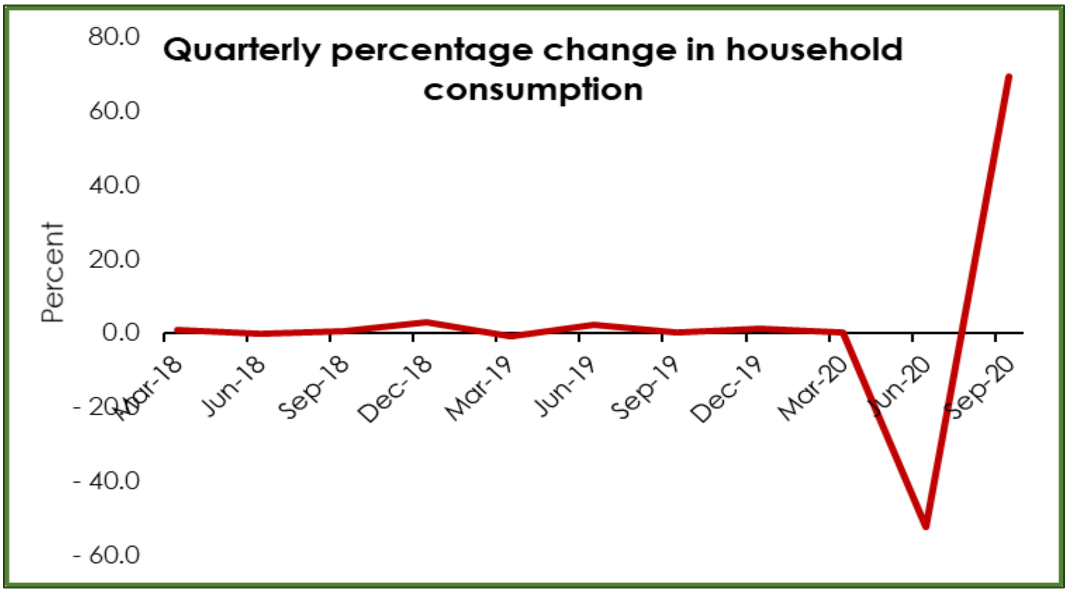
Figure 3: Quarterly expenditure on Gross Domestic Product, 2019 to 2020 quarter 3



Large declines in real household consumption and investment were key drivers of the drop in GDP during 2020. These large declines occurred in an economy that was already struggling where GDP per capita and real investment declined since 2015.

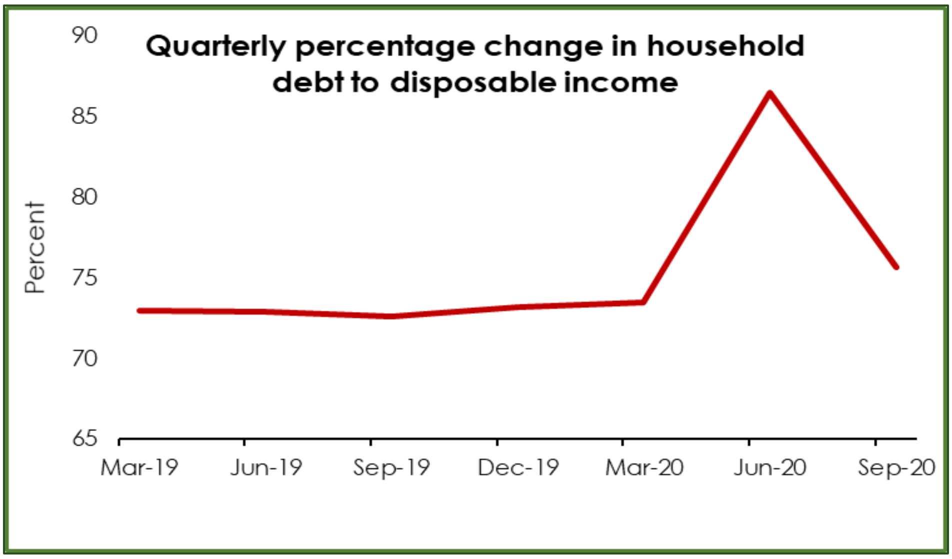
Trends in household income, consumption and indebtedness indicate that household consumption was in line with an increase in real disposable income in the third quarter of 2020, despite rising unemployment and low consumer confidence. In general, the average level of household consumption was 7 per cent lower in the first three quarters of 2020 than in the corresponding period in 2019. Household consumption expanded by 69.5 per cent from the second to third quarter of 2020, having contracted by more than 50 per cent in the second quarter of 2020.

Figure 4: Quarterly change in household consumption



Source: StatsSA

Figure 5: Quarterly change in household debt



Source: StatsSA

Household debt decreased in the third quarter of 2020 following an unprecedented increase in debt in the second quarter. Household debt as a percentage of nominal disposable income decreased from 86.5 per cent in the second quarter of 2020 to 75.7 per cent in the third quarter, as the increase in household disposable income exceeded the increase in debt. Consumers that were more than three months in arrears increased between the second and the third quarter of 2020, from 22.9 per cent to 23.75 per cent.

According to the General Household Survey of 2019, social grants remain a vital safety net for households. Government's COVID-19 response included increased social assistance through a 6-month increase in existing social grants and a Social Relief of Distress (SRD) grant. To further assist households the President announced the extension of the Social Relief of Distress (SRD) grant until the end of April 2021.

Overall, recent improvements in household consumption, income & debt levels are good but the impact of the pandemic will have a long lasting and damaging impact on household incomes and finances over a long period. For example, consumers that were more than three months in arrears increased between the second and the third quarter of 2020, from 22.9 per cent to 23.75 per cent. Therefore, continued extra fiscal support to poor household will be essential to support wellbeing of households and grow aggregate demand for more jobs, investment & growth.

5.2.1. Effect on employment

The most recent data available from the Quarterly Economic Survey (3Q 2020) indicates that the economy shed about 665 000 (6.5%) formal non-agricultural jobs over the first half of the 2020/21 fiscal year. The largest losses were recorded in the trade sector (176 000 – 7.8%) and the financial and business services sector (163 000 – 7%). The most recent data from the Quarterly Labour Force Survey (3Q 2020) estimate job losses of 1.9 million over the first half of the fiscal year, with the employment rate increasing to a record high of 30.8 per cent (broad definition: 43.1%). Figures 6 and 7 shows the employment losses in the formal sector and the quarterly employment performance.

Figure 6: Large employment losses in the formal sector

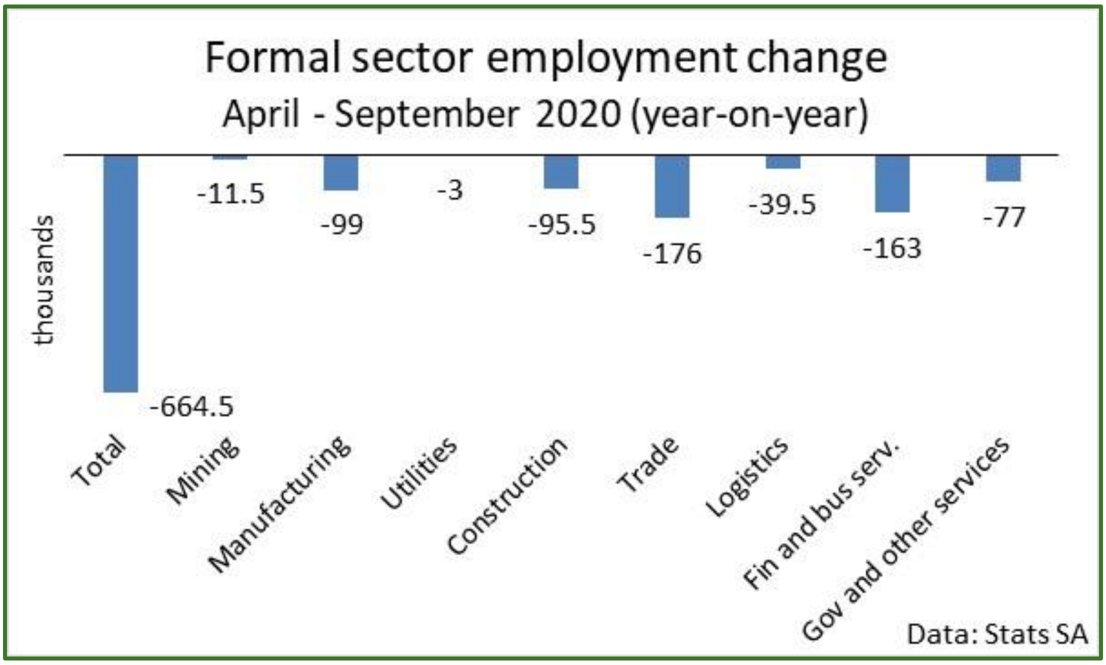
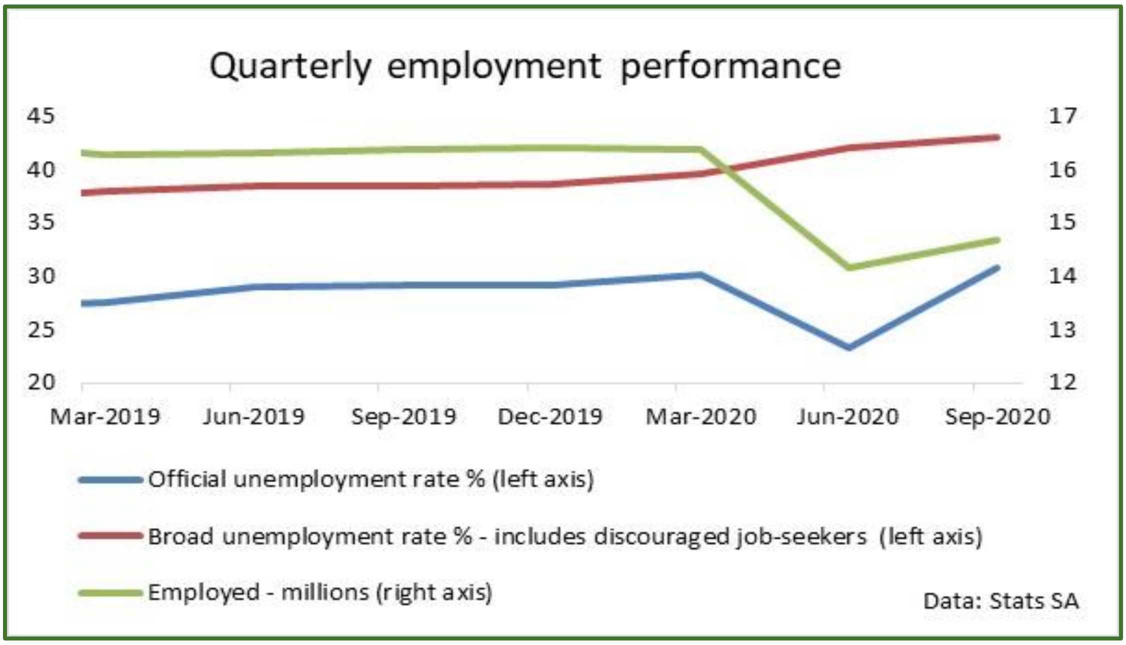


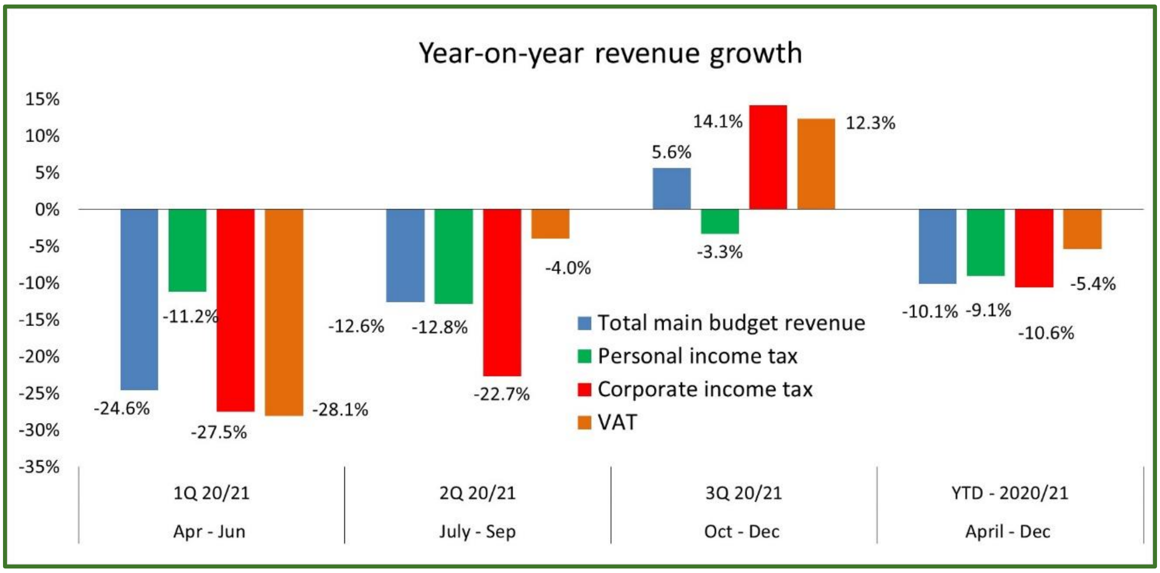
Figure 7: Record-high unemployment and job losses



5.2.2. Effect on revenue

The large and unprecedented contraction in the economy was immediately evident in the fall in government revenue. Over the first fiscal quarter, main budget revenue contraction was 25 per cent compared with the same quarter of the previous year and larger than the contraction in nominal GDP over the quarter (14.8%). The large fall in main budget revenue reflects a reduction in collection across all revenue sources, primarily the contractions in value added tax (28.1%), corporate income tax (27.5%), and personal income tax (11.2%).

Figure 8: Large revenue contraction

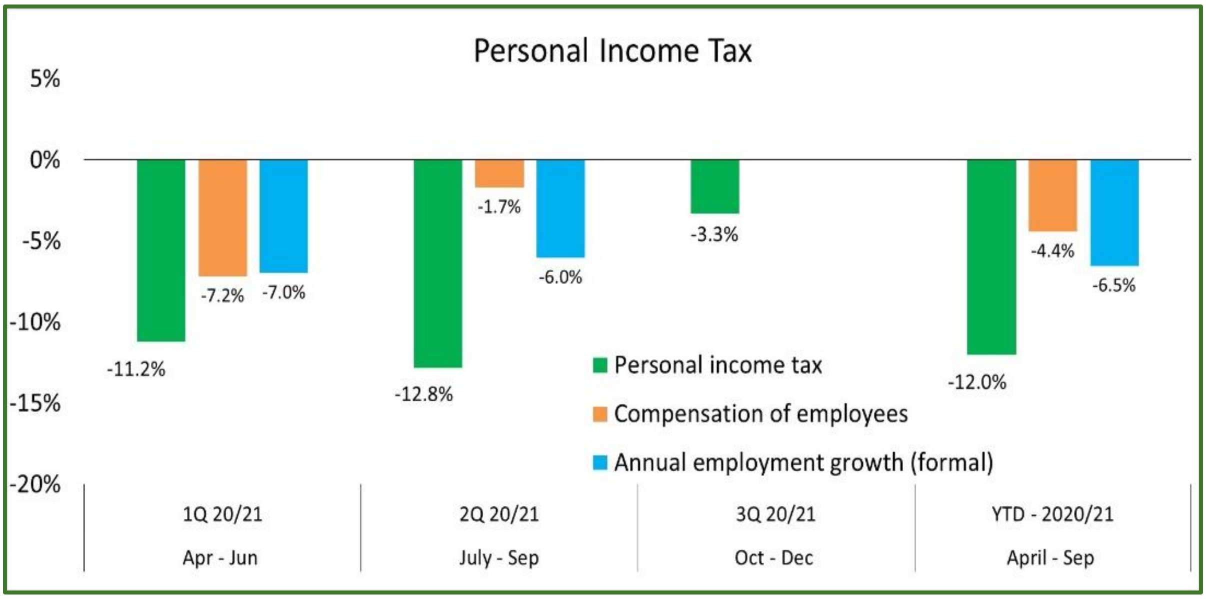


The fall in revenue collection also reflects the effect of the suite of tax relief measures introduced in the 2020 Draft Disaster Management Tax Relief Bill and 2020 Draft Disaster Management Tax Relief Administration Bill. These include the four-month deferral of employees' tax liability (which would have reduced the PIT collected between April and July 2020, and increased thereafter), as well as the broadening of eligibility criteria for deferral of provisional tax liabilities, (which would have delayed some CIT collections).

The overall annual decline in main budget revenue collected over the second fiscal quarter was large (12.6%), but lower than the first quarter decline (25%). The smaller annual decline in value-added tax collected (4%), reflects a partial return to normal economic activity with the "opening up" of the economy over the quarter, following the stringent lockdown measures imposed over the previous quarter.

Over the third fiscal quarter, main budget revenue collected increased compared with the previous year. A strong rebound in VAT (12%) and CIT (14%) collected contributed to the overall increase, whilst the third consecutive contraction in PIT collections (3.3%) reduced the total revenue collected.

Figure 9: Job-losses and compensation contraction contribute to fall in PIT



On a year-to-date basis (April – December 2020) main budget revenue contracted by 10 per cent, a smaller contraction than projected for the complete 2020/21 financial year in the 2020 Medium Term Budget Policy Statement (MTBPS) of 17 per cent. Large losses in formal sector employment (665 000 over 1H 2020/21) combined with an overall decline in employee compensation suggest weakness in PIT collections is likely to continue. The effects of the modified national level 3 lockdown early in 2021 on revenue growth is still to be seen.

5.2.3. Economic outlook

The June 2020 Special Appropriations Budget, followed by the 2020 MTBPS in October, projected a large economic contraction over the current fiscal year relative to the Budget 2020 projections, with a gradual partial recovery expected over the medium term. In-line with the large economic contraction and the attendant revenue contraction, the country's fiscal outlook was projected to worsen considerably. The MTBPS presented a main budget deficit projection of over -14 per cent for 2020/21, an unprecedented increase from the 2020 Budget projection of -6.8 per cent. Accordingly, gross debt was projected to exceed 90 per cent of GDP by 2022/23.

Economic and fiscal data available suggest that the outcome for 2020/21 could be marginally better (less-worse) than projected in the Special Appropriations Budget and MTBPS. This is supported by the most recent updates to growth projections for the current years, showing an upward revision (marginally smaller contraction).

Table 2: Revised GDP growth outlook

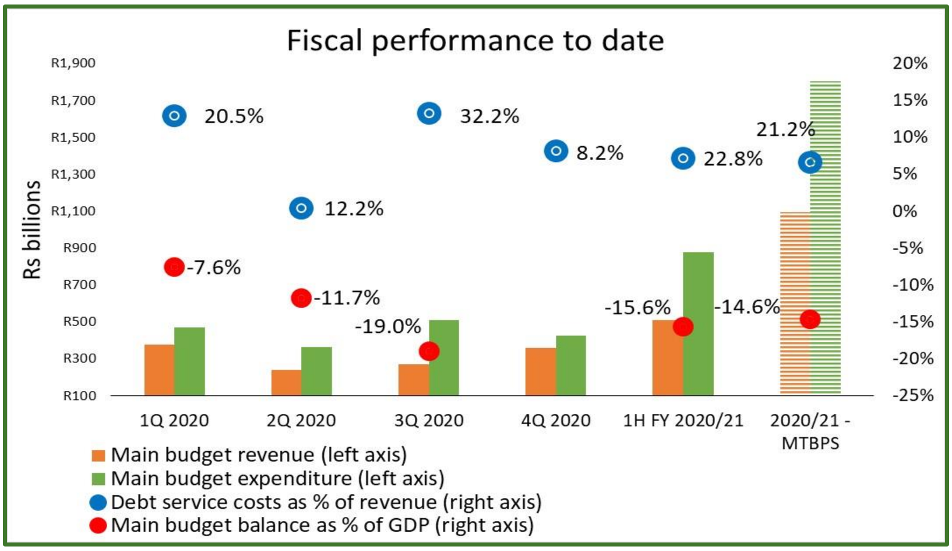
GDP growth outlook - calender year*	2020	2021	2022	2023
National Treasury - Budget 2020	0.9%	1.3%	1.6%	-
National Treasury - Supp Budget - June 2020	-7.2%	0.3%	1.5%	-
National Treasury - MTBPS 2020	-7.8%	3.3%	1.7%	1.5%
South African Reserve Bank - January 2020	1.2%	1.6%	1.9%	-
South African Reserve Bank - September 2020	-8.2%	3.9%	2.6%	-
South African Reserve Bank - January 2021	-7.1%	3.6%	2.4%	2.5%
IMF - World Economic Outlook - January 2020	0.8%	1.0%	-	-
IMF - World Economic Outlook - October 2020	-8.0%	3.0%	1.5%	-
IMF - World Economic Outlook - January 2021	-7.5%	2.8%	1.4%	

*Growth projections correspond to publication date and not forecast date

6. Revisions to the fiscal framework

The large economic contraction over the current fiscal year has significantly worsened South Africa's fiscal position, as anticipated in the June 2020 Special Appropriations Budget and the 2020 MTBPS. The significant decline in revenue collection combined with large nominal GDP contraction saw the main budget reach a deficit of 15.6 per cent over the first half of the current fiscal year, close to the MTBPS annual projection of a 14.6 per cent deficit.

Figure 10: Fiscal performance as at end December 2020



Falling revenues and the attendant increase in borrowing, have increased the share of revenue directed towards servicing debt. Over the first half of the current fiscal year, 23 cents of every rand was consumed by debt service costs.

Based on the actual outcomes for the first nine months of the current fiscal year, and historical monthly revenue profiles, the PBO's In-year revenue and expenditure model estimates main budget revenue higher than projected by government in the 2020 Special Appropriations Budget and MTBPS for the current year (2020/21). Revenue outcomes to-date combined with the marginal improvement in nominal growth projections translate into an improved (less-worse) revised estimates of the main budget deficit and net debt as a share of GDP. Whilst this suggests a low probability of further fiscal slippage over the current fiscal year and a possible improvement relative to the MTBPS, economic and fiscal projections in times of crisis and uncertainty are radically more uncertain, and sensitive to the vagaries of the global economy and the future trajectory of coronavirus. Figures 11 and 12 show the main budget deficit and the improvement in the debt outlook

Figure 11: Main budget deficit

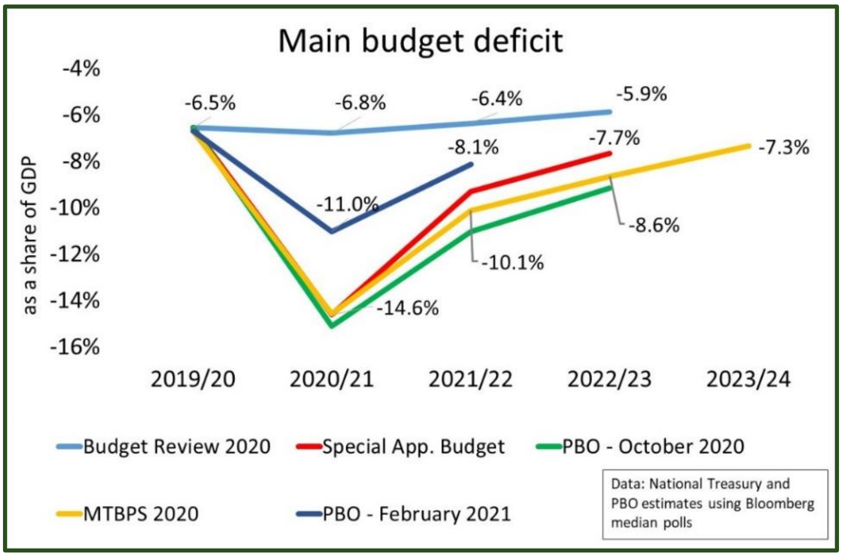
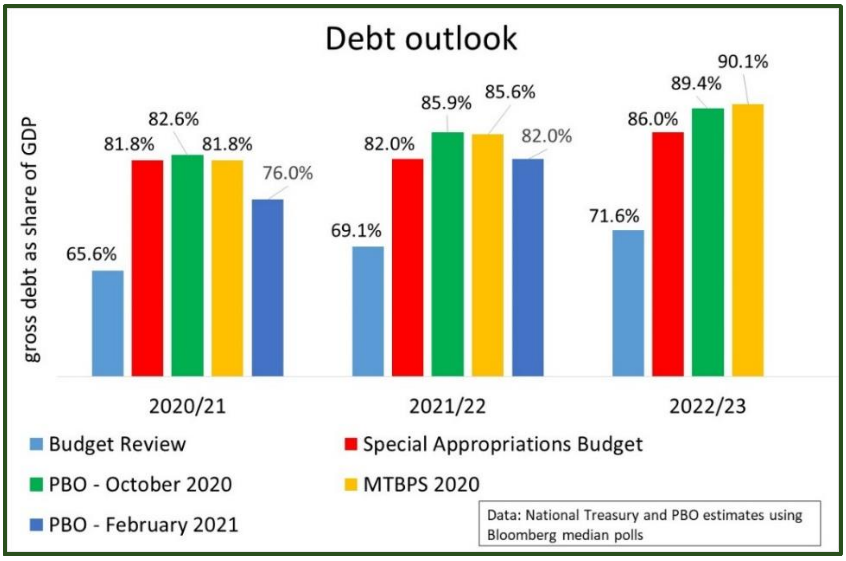


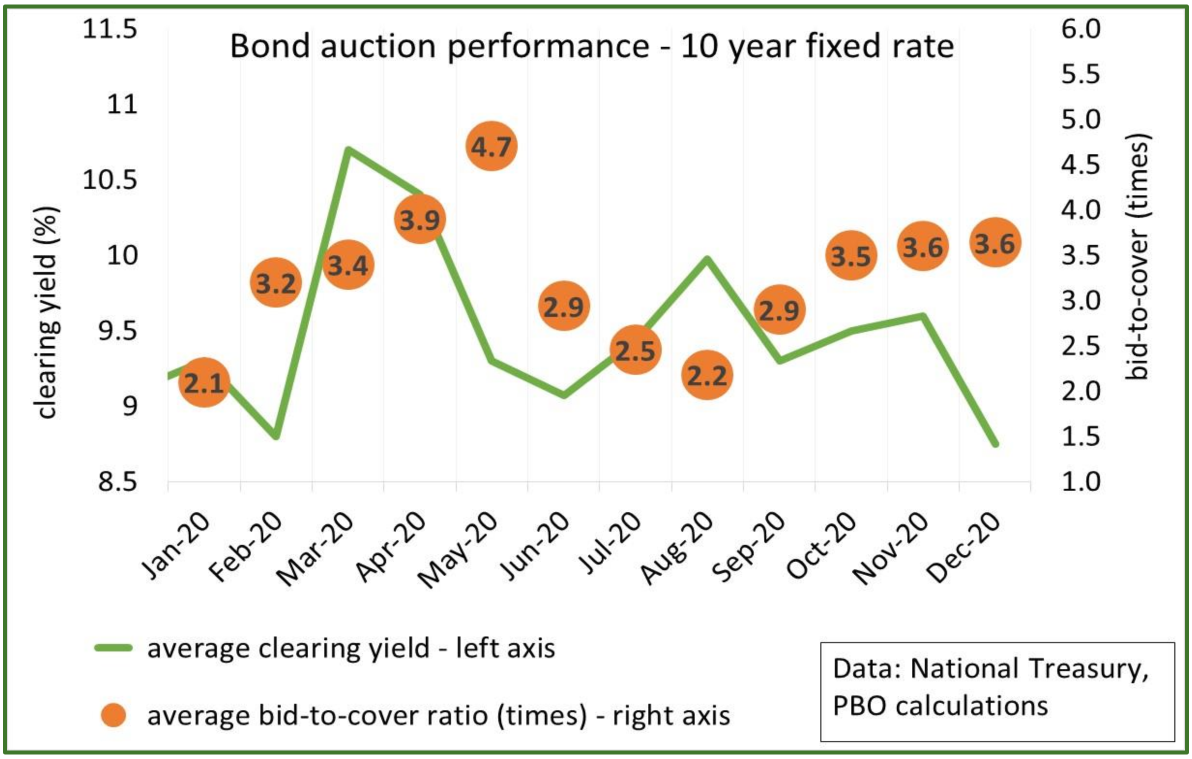
Figure 12: A marginal improvement in the debt outlook



6.1. Effect on borrowing costs

South Africa's borrowing costs, whilst moderating in the second half of 2020, are still elevated relative to previous years, and higher than most emerging market peers, reflecting investor perception of elevated risk. However, it is worth noting that there is a marked improvement in borrowing costs for bonds with maturity of 10 years or less for January 2021 compared to January 2020 and SA bond auctions remain relatively well subscribed. Figure 13 shows the bond auction performance at a 10-year fixed rate.

Figure 13: Moderation in borrowing costs since early 2020



Government borrowing costs have been on a continued upward trajectory over the last 18 months. Figure 14 shows the yield on government 10-year bonds in comparison with other emerging markets.

Figure 14: SA still considered riskier than most other EMs

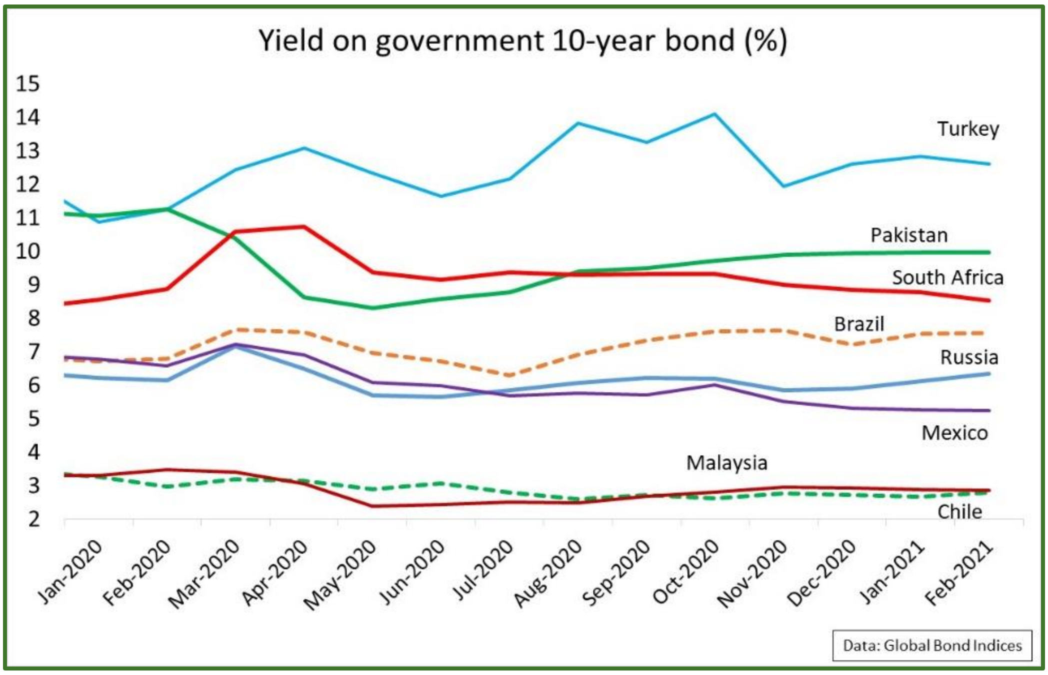
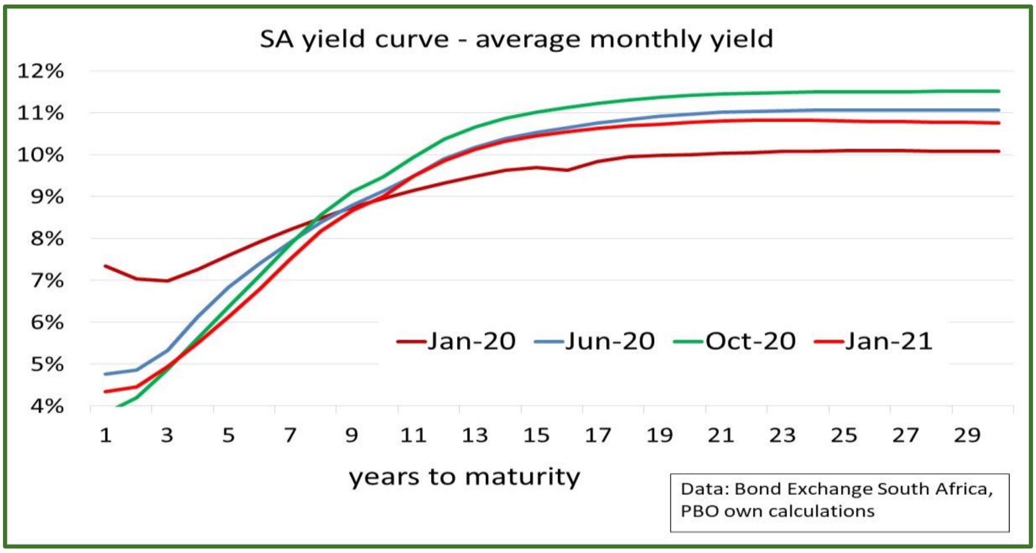


Figure 15 shows the average monthly yield between January 2020 and January 2021.

Figure 15: Yield curve shows moderation compared with mid 2020



7. National and Provincial Expenditure

7.1. National departments

Total expenditure by vote amounts to R732.2 billion or 71.4 per cent of the total budget of R1 025.3 billion for 2020/21. This performance is in line with the expenditure trend reflected in the first nine months of the 2019/20 financial year.

Table 3: National expenditure per vote as at end December 2020

R thousand	Revised estimates (2020/21)	Total Year to date (2020/21)	Percentage of total (2020/21)	Percentage of total (2019/20)
1 The Presidency	572 920	331 429	57.8%	72.5%
2 Parliament	2 015 845	1 595 421	79.1%	74.8%
17 Higher Education and Training	94 094 944	87 412 821	92.9%	91.2%
18 Health	58 052 596	42 294 941	72.9%	73.9%
19 Social Development	230 807 298	176 197 651	76.3%	68.9%
20 Women,Youth and persons with Disabil	620 976	511 907	82.4%	76.4%
25 Justice and Constitutional Developmer	18 666 284	12 230 607	65.5%	70.2%
27 Office of the Chief Justice	1 188 121	749 718	63.1%	69.2%
29 Agriculture, Land Reform and Rural Development	15 247 613	9 759 381	64.0%	77.3%
31 Employment and Labour	3 299 305	2 330 505	70.6%	73.6%
32 Environment, Forestry and Fisheries	9 937 801	5 982 537	60.2%	64.7%
33 Human Settlements	29 079 019	18 340 388	63.1%	63.1%
36 Small Business Development	2 277 803	2 066 740	90.7%	83.5%
38 Tourism	1 426 860	800 545	56.1%	78.1%
39 Trade, Industry and Competition	9 273 272	5 101 022	55.0%	62.0%
40 Transport	57 354 735	42 399 666	73.9%	75.4%
41 Water and Sanitation	16 994 291	9 805 923	57.7%	64.0%
Total appropriation by vote	**1 025 349 737**	**732 199 382**	71.4%	71.4%

Source: National Treasury

The Department of Health is responsible for providing health services to South Africans and plays a pivotal role in managing the Covid-19 pandemic. The department has spent R42.3 billion or 72.9 per cent of the adjusted budget of R58 billion in the first nine months of the financial year. Government reprioritised funds amounting to R3.4 billion specifically for Covid-19 related needs. Indications of possible underspending (approximately R124.4 million) on consultants and advisory services will be reprioritised for the procurement of Covid-19 vaccines.

The Department of Social Development ensures protection against vulnerability by creating an enabling environment for the provision of a comprehensive, integrated and sustainable social development service. The original budget of R197.7 billion was adjusted during the 2020/21 financial year by R33.1 billion, which resulted in an adjusted budget of R230.8 billion. Of this amount R220. 6 billion is allocated for social assistance. Table 4 shows the amounts per grant as well as the number of beneficiaries per month. The department has spent 76.7 per cent of the adjusted budget, which is R20 billion above the projected expenditure for the first nine months of the financial year. This higher than projected expenditure was mainly due to a higher number of eligible beneficiaries of the R350 special Covid-19 social relief of distress grant that came into effect from May 2020 (third quarter NT report).

Table 4: Social Assistance per grant for 2020/21

R thousand	Appropriation	Supplementary appropriation	Total second adjustments appropriation	Adjusted appropriation	Number of beneficiaries 2020 ENE	Achieved end September
Old Age	83 105 596	–	–	83 105 596	3 800 000	3 711 723
War Veterans	1 797	–	–	1 797	47	47
Disability	24 390 083	–	–	24 390 083	1 000 000	1 067 242
Foster Care	4 965 276	80 819	–	5 046 095	326 380	374 274
Care Dependency	3 568 568	–	–	3 568 568	157 871	158 186
Child Support	69 765 229	15 120 330	–	84 885 559	13 000 000	12 938 440
Grant-in-Aid	1 632 230	–	–	1 632 230	311 056	263 640
Social Relief of Distress	407 000	10 272 733	500 000	11 179 733		
Total	**187 835 779**	**25 473 882**	**500 000**	**213 809 661**		

Source: National Treasury

Expenditure on most of the remainder of the departments in table 3 are departments that also have a role in the implementation of the ERRP discussed in section 4.2 above.

In addition to the above Covid-19 related support expenditure in the relevant departments, a total of R57.3 million was paid out by the UIF. A total of 13 447 006 employees were linked to 1.5 million companies received TERS payments (Chief Executive Officer, Adv Andy Mothibi, Special Investigating Unit report to the Committee on Labour). These numbers could, however, not be verified with the in-year monitoring report (second quarter) and quarterly performance reports are not available on the Department of Planning, Monitoring and Evaluation's database.

7.2. Provinces

Table 5 shows provincial expenditure for the first six months of the 2020/21 financial year. Total spending on a provincial level amounts to R300.8 billion or 44.9 per cent of the main budget of R669.7 billion and 44.8 per cent of the adjusted budget of R673.2 billion. The slowest spending province was North West at 43.0 per cent and the highest spending province was the Eastern Cape at 47.2 per cent.

Table 5: Provincial expenditure per province as at end September 2020

R million	2020/21 Main budget	Adjusted budget	Actual spending April to September	Actual spending April to September	2019/20 Actual spending April to September
Eastern Cape	85 908	85 406	40 590	47.2%	**51.8%**
Free State	39 055	39 055	17 681	45.3%	**48.3%**
Gauteng	142 367	146 389	62 596	44.0%	**46.2%**
KwaZulu-Natal	138 182	140 005	62 350	45.1%	**47.2%**
Limpopo	72 796	71 609	32 473	44.6%	**48.1%**
Mpumalanga	54 019	53 579	23 954	44.3%	**48.7%**
Northern Cape	19 147	18 450	8 646	45.2%	**49.4%**
North West	46 513	45 895	19 990	43.0%	**46.4%**
Western Cape	71 664	72 791	32 543	45.4%	**47.9%**
Total	**669 652**	**673 179**	**300 822**	**44.9%**	**48.0%**

Source: National Treasury

Table 6 shows provincial expenditure for the first six months of the 2020/21 financial year per sector. The social sector has only spent 42.1 per cent of the provincial budget for social development, Education was at 44.9 per cent, while the Health sector was on par with the notional benchmark of 50 per cent for the six months of the financial year.

Table 6: Provincial expenditure per sector as at end September 2020

R million	2020/21 Main budget	Adjusted budget	Actual spending as at end September	Percentage spent as at end September	2019/20 Actual spending as at end September
Education	272 271	270 877	122 136	44.9%	48.8%
Health	225 406	242 133	113 386	50.3%	49.5%
Social development	24 094	23 701	10 136	42.1%	46.6%
Other functions	147 881	136 468	55 164	37.3%	44.3%
Total	**669 652**	**673 179**	**300 822**	**44.9%**	**48.0%**

Source: National Treasury

8. Local government revenue and expenditure

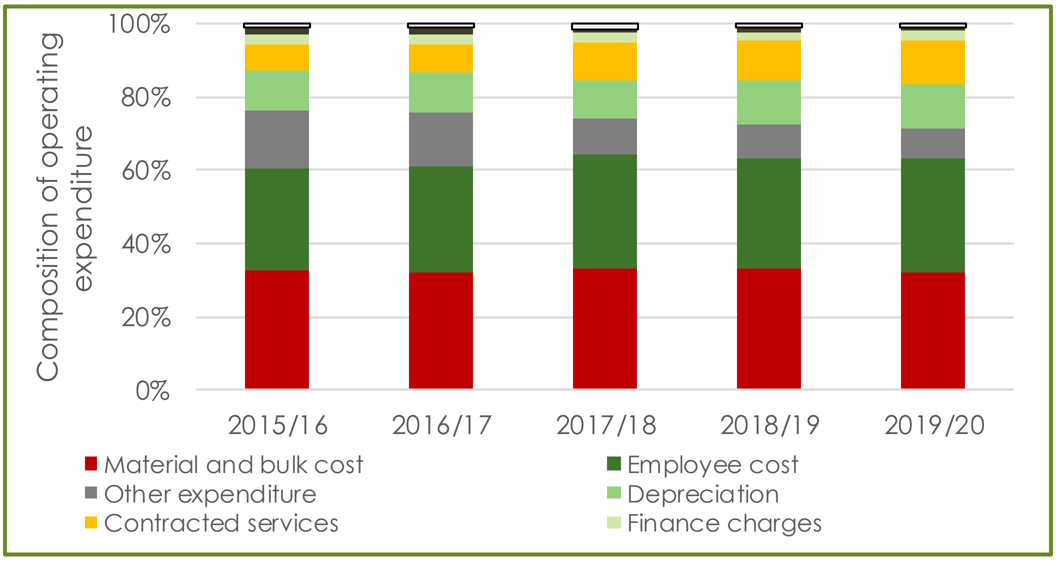
8.1. Revenue

Municipalities rely on two main sources of revenue: Own revenue and Intergovernmental fiscal transfers. Local government is generally self-financing deriving an average of 73.0 per cent of total real operating revenues from own revenue collection. Intergovernmental fiscal transfers contribute on average 27.0 per cent to total municipal revenue. The five-year period under consideration, 2015/16 to 2019/20, seems to show that local government does have the ability to collect revenue. Relative to government grants and subsidies, municipal own revenue has been steadily increasing overtime.

8.2. Expenditure

Local government expenditure drivers are remuneration of employees and material and bulk purchases. When combined these items account for more than 60 per cent of the total operating expenditure.

Figure 16: Composition of local government expenditure



Costs related to contracted services has also been increasing along with depreciation expenditure. Other expenditure, which has been the third largest expenditure item, has decreased significantly over the period under consideration.

Challenges of local government ability to collect revenue and to prioritise spending:

- All aspects of the revenue management value chain need completeness for:
  - Integrity of billing information
  - Accuracy of billing systems
  - Ability to collect
- Under-pricing of services
  - Inappropriately structured municipal taxes and tariffs
  - Overly generous rates rebates, exemptions and discounts
- Underspending on repairs and maintenance
  - Deteriorating reliability and quality of services
  - Increasing the future cost of maintenance and refurbishment
- Spending on non-priorities
  - Excessive sponsorships for music festivals, beauty pageants and sporting event
  - Excessive catering for meetings and other events
  - Excessive councillor and staff perks

9. Summary

Government has made progress in implementing the Social and Economic Relief Package introduced in April 2020. It is, however, evident that more support is still required to support households, SMMEs and the economy at large.

Although it is difficult to determine the progress made with the implementation of the ERRP, given that interventions are capital in nature and requires more time to measure, immediate outputs from government departments contributed to the impact that is required.

In an effort to improve services on a local government level the District Development Model has been piloted in three districts (Waterberg, OR Tambo and EThekwini), and DPME is still to provide an evaluation of the outcomes of the pilots. In the interim government plans to implement the DDM across the country. A challenge for the implementation of the DDM is that some of the government role players still lack total understanding or appreciation of the goals and objectives of the district development model

Due to the important role of the Health sector in managing the needs of the Covid-19 pandemic, the PBO did an analysis of the performance on health conditional grants for the 2019/20 financial year. The analysis shows underspending in some of the grants and a mixed outcome in performance.

The effect of Covid-19 on the economy and financial position of countries shows that:

- There are generally positive sentiments around the global economic outlook, however the role of the fiscus in stimulating the economies remain important over the medium term
- As countries continue to fight the pandemic and its socio and economic impact, public debt is expected to increase over the medium term, and therefore public debt should be used for productive expenditures to stimulate economic growth
- Large declines in South African real household consumption & investment were key drivers of the drop in GDP during 2020
- The outlook for the SA economy seems to have improved marginally since the tabling of the MTBPS (notwithstanding increased uncertainty)
- It will take more than 4-years for the SA economy to recover to pre- Coronavirus levels
- In-line with expectations, revenue collection fell significantly compared with the previous year over the first two quarters. However, 9 months tax revenue collections outperformed expectation
- The 2020 Supplementary Budget and MTBPS showed a substantial increase in the borrowing requirement for the 2020/21 fiscal year

Progress with the implementation of the 2020/21 budget inclusive of reprioritisation to address the requirements of the Covid-19 pandemic shows:

- Government spending for the 9 months of the financial year is, on average, in line with prior year patterns
- Slow spending in Tourism, Trade, Industry and Competition, Water and Sanitation
- Faster spending experienced in Parliament, Higher Education, Women Youth and Persons with Disabilities
- Possible underspending in Health (approximately R124.4 million) on consultants and advisory services will be reprioritised for the procurement of Covid-19 vaccines
- A higher than estimated expenditure in social development over the first nine months of the financial year was mainly due to a higher number of eligible beneficiaries of the R350 special Covid-19 social relief of distress grant
- As expected, 6 months expenditure of provinces is slightly slower than the prior year in the same period. Health has seen slightly higher spending than the prior year
- Covid-19 and related lockdown affected local government's performance, with low revenue collection and further slow spending in infrastructure and capacity building