THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA FOURTH QUARTER 2016

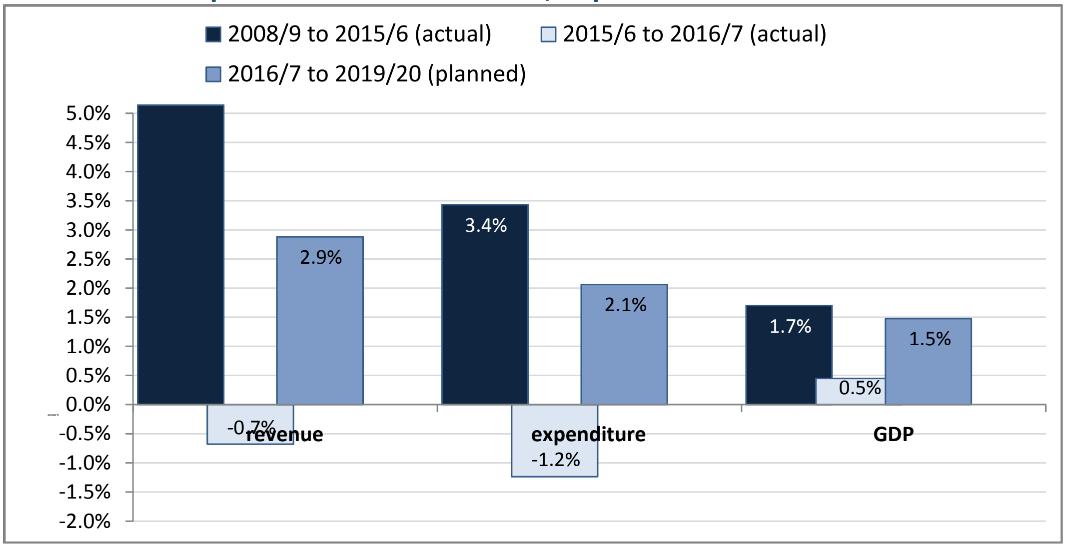
Briefing note: The 2017/8 budget and industrialisation

The 2017/8 budget, announced in March, reflects the commitment to fiscal consolidation, which in turn seems likely to slow overall growth. In this context, it imposes real cuts on the budget of the Department of Trade and Industry (the dti) in the coming three years, especially on incentive programmes.

In the past financial year, both government revenue and expenditure declined in real terms, which contributed to the slowdown in the GDP. In the coming year, expenditure is still expected to rise around a third of a percent below the population growth, although revenues should recover to 2,7%. Slow growth in spending goes hand in hand with a low forecast for growth over the fiscal year.

As usual in these situations, both the budget and growth are forecast to recover in the outer two years of the expenditure framework (see Graph 1).

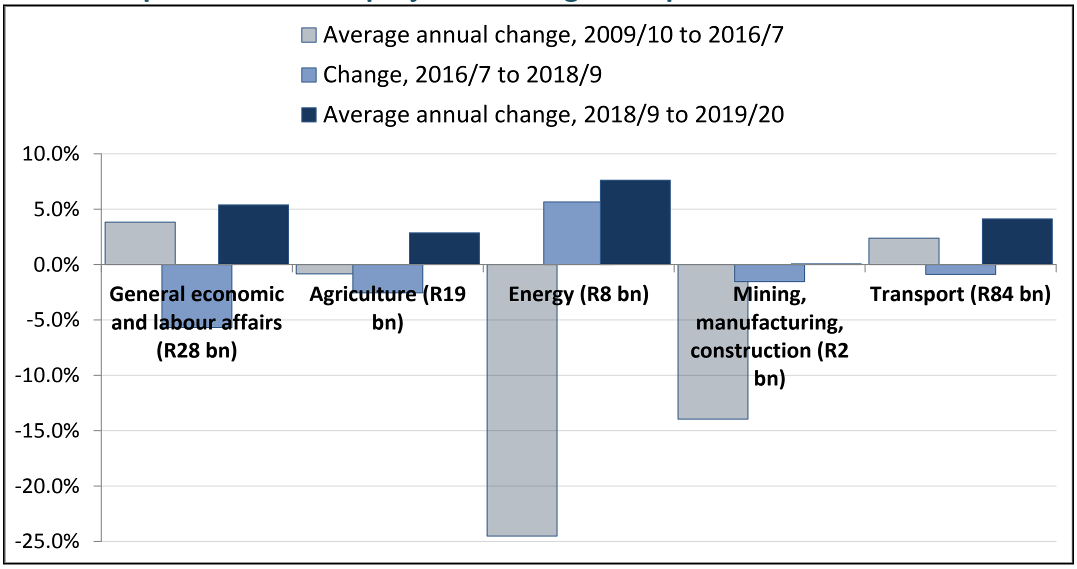
Graph 1. Growth in revenues, expenditure and the GDP



Source: National Treasury. 2017 and 2013 Budget Reviews.

The impact of slower spending is distributed differently across the functions of the state. Economic services are the hardest hit, with a decline in spending in real terms in 2017/8. This function includes the dti and other economics departments in the national government but is dominated by transport. The figures are somewhat distorted by very large fluctuations in the energy and fuel budget across the period (see Graph 2).

Graph 2. Actual and projected change in expenditure on activities

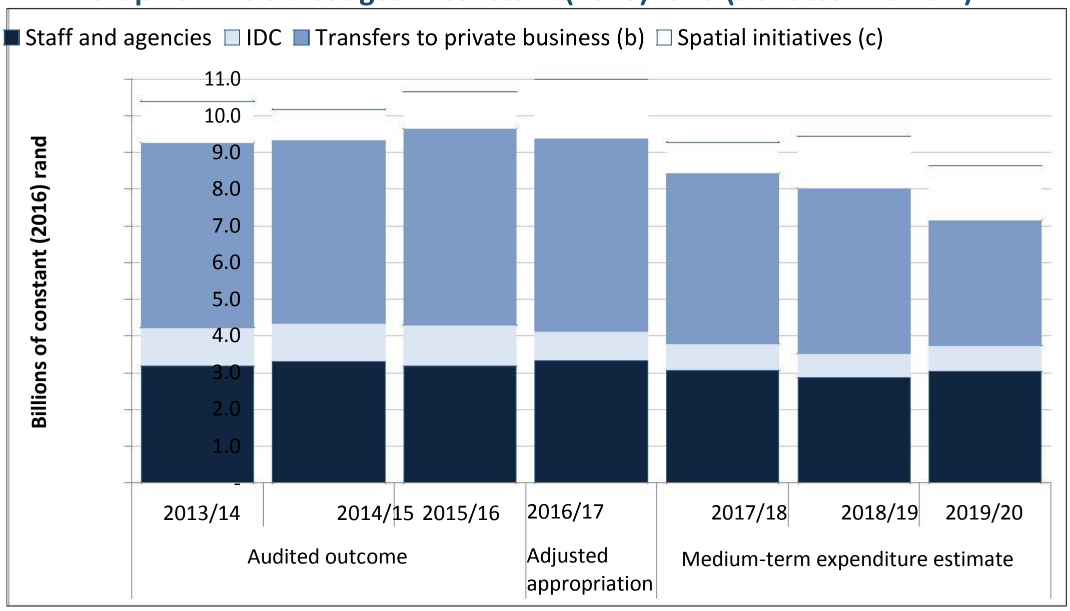


Source: National Treasury. 2017 and 2013 Budget Reviews

In this context, the dti's budget is expected to decline in real terms over the coming three years (see Graph 3).

Most of the shrinkage will occur in various incentive programmes that are designed to boost manufacturing investment. These transfers to private business will decline, in 2017/8 rand, from a peak of R5,4 billion in 2015/6 to R3,4 billion in 2019/20. These figures do not, however, include the largest support programme, which goes to the auto industry, since it takes the form of tax relief rather than on-budget spending.

Graph 3. The dti budget in constant (2016) rand (deflated with CPI)



Source: National Treasury. Estimates of National Expenditure 2017/8.