THE SOUTH AFRICAN BUDGET
An Exposition of its Structure and Conceptual Framework

by
J. VAN DER S. HEYNS

Occasional Paper No. 13

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1. INTRODUCTION

This occasional paper is devoted to an exposition of the conceptual framework of the South African budget and an interpretation of the data contained in it.

The budget is important to every citizen. It is the basic planning document of the central government, and at all times exerts a significant influence on the economy. Through the budget the executive branch of government seeks Parliamentary approval to spend and to levy taxes. The budget also presents a picture of the fiscal affairs of the government for the enlightenment of the public. Parliament, the press and other sections of the community look to the budget and justifiably expect to find in it the information needed to assess the government's impact on the economy and to judge the government's stewardship of public monies.

The central government budget[1] is presented to Parliament by the Minister of Finance, usually towards the end of March. The budget itself is a fairly comprehensive document. In addition to the traditional budget speech, it normally comprises several regular papers and occasional memoranda which are tabled in Parliament when the budget is presented. These are all described and examined in the pages to follow.

Whilst the form of the government's accounts is governed by the provisions of the Exchequer and Audit Act No. 66 of 1975 (as amended), the form in which the budget is presented to Parliament and the nation is an executive responsibility. In practice, the Treasury consults with the Parliamentary Select Committee on Public Accounts in that regard. Significant changes in the format of the estimates of expenditure and revenue are, in terms of an agreement between the Treasury and the Select Committee on Public Accounts, communicated to the latter in the

(1) The central government budget must be distinguished from the government's 'commercial' budgets which are normally presented a little earlier in the Parliamentary session by the Ministers of Transport and Posts and Telecommunications in respect of the South African Transport Services (SATS) - formerly the South African Railways and Harbours - and the Post Office.

form of an annual Treasury memorandum.

The framework around which the paper is organised is the summary budget presentation which is customarily subjoined in the printed version of the budget speech. This is introduced in Section 3. The analysis centres on the government's 1980/81 financial year (the 1980 budget[1]) which, at the time of writing, is the most recently completed fiscal year reported on by the Auditor-General. As it has been necessary to select a particular fiscal year (1980/81) as an example, the reader is warned to regard the figures given as mainly illustrative, and it is recommended that current details should be collected from more recent budgets. The few relatively minor presentational changes that were made in the 1981/82 financial year, and thereafter, are indicated in appropriate footnotes.

The study consists of several sections. Section 2 briefly describes the format of the budget papers. As already mentioned, Section 3 introduces the budget summary around which the remainder of the study is organised. Section 4 examines the relationship between the budget and the government's accounting system, while the government's extra-budgetary accounts are considered in Section 5. Following that, the main elements of the budget are examined. Section 6 covers both revenues and expenditures, while aspects of the presentation of the budget deficit are discussed in Section 7. Finally, Section 8 reviews the budget financing section including its extra-budgetary dimension.

(1) The budget is normally identified by the year in which it commences. Thus the 1980 budget covers the financial year which runs from 1 April 1980 to 31 March 1981.

2. THE BUDGET PAPERS

The budget document customarily comprises several regular papers and occasional memoranda. This section describes the format of the various parts of the budget which are presented to Parliament by the Minister of Finance.

The Budget Speech

The presentation of the budget commences with the Minister's budget speech which proposes a motion that the annual main Appropriation Bill be read a second time, thereby representing the executive branch's formal request to Parliament for authority to spend funds.

In the main, the budget speech comprises a review of the State's financial affairs for the current year, and forecasts and analyses of the expenditures and revenues for the coming year. However, the occasion is traditionally used by the Minister to review the state of the economy and its future prospects, and to announce any general economic and financial policy changes that he may wish to make. The speech is usually a fairly long one, taking about 1½-2 hours to deliver.

The budget speech is, of course, published in Hansard[1], but is also made available in the form of a White Paper (Hansard off-print)[2] containing a collection of the three budget statements presented to Parliament by the Ministers of Finance, Transport, and Posts and Telecommunications, respectively.[3] This printed version of the budget speech normally attracts most attention because it contains the facts and figures that users of the budget find most useful. Since 1965 it

(1) See, for example, House of Assembly Debates (Hansard), Fourth Session, Sixth Parliament, No. 10, par. 3458-3512.

(2) See Republic of South Africa, Budget Speeches, 1980/81.

(3) The Department of Finance also circulates mimeographed copies of the budget speech to the press and other interested persons as part of a financial series called 'Financial Perspectives'.

has included a summary of the State's accounts.[1] It also includes tables giving comparative figures of revenue for the current and coming year, broken down by source.[2]

The printed version of the 1980 budget speech listed the following additional budget documents which were tabled during the speech:

(a) Estimate of Expenditure to be defrayed from State Revenue Account during the financial year ending 31 March 1981, First Print, RP 2/1980;

(b) Estimate of Revenue for the financial year ending 31 March 1981, First Print RP 3/1980;

(c) Comparative Figures of Revenue for 1979/80 and 1980/81;

(d) Taxation Proposals (A 1/1980);

(e) Statistical/Economic Review in connection with the Budget Speech (WPB/1980); and

(f) Supplementary memoranda (various).

The format of these documents is reviewed below.

The Estimate of Expenditure

This document, which is normally referred to in the budget speech as the printed estimate, is the so-called first print of the main Estimate of Expenditure. The Estimate of Expenditure is a detailed statement of the government's proposed expenditures during the coming year, and an abstract of it is incorporated in the aforementioned Appropriation Bill as an annexure. However, the first print of the Estimate excludes any last-minute changes in government spending that may be announced in the budget speech. It also cannot anticipate new legislation. That is to say, expenditures related to projects requiring new legislation would normally be mentioned in the budget speech first. These expenditures are later recorded in the so-called Supplementary Estimate and in the second and final print of the main Estimate. The latter is normally also used to

(1) See *ibid*, pp.19-20.
(2) See *ibid*, pp.22-27.

correct any errors in the first print.

The Estimate of Expenditure is divided into departmental votes.[1] Under each vote details of proposed outlays are given. Each vote (and programme) distinguishes between: (a) the amounts to be voted; and (b) fixed statutory appropriations forming a direct charge on the State Revenue Fund. The first category refers to sums that have to be voted on by Parliament. Under the second head is included items such as the salaries of the State President, Members of Parliament (not Ministers), Judges, etc., and sums charged to the State Revenue Fund by specific Acts of Parliament such as sinking fund allocations, commitments in respect of the State Debt, certain payments to independent South African National States, etc. Fixed statutory appropriations do not require an annual voting but are included in the Estimate of Expenditure to keep Parliament informed.

Further sums which do not require annual voting are standing appropriations from revenue. These are indicated in Part II of the abstract o the Estimate of Expenditure. They represent revenues collected for specific purposes and are shown as contra items in the State Revenue Account (see also Estimate of Revenue).

From fiscal year 1976/77 most departments have converted to a system of budgetting by objectives which has been reflected in the form of the Estimate of Expenditure.[2] The Estimate of Expenditure now comprises a presentation of outlays according both to programmes and standard items, described as follows:

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(1) As a result of a programme of rationalisation of the public service, the number of votes was reduced from 41 to 31 in the 1980 budget.

(2) The decision to convert to the new system was announced in the 1974 budget speech. A beginning was made with the Department of Health and Agricultural Technical Services in 1976/77. With the exception of the Indian Affairs, Justice, Mineral and Energy Affairs and Public Works votes and part of the Health, Welfare and Pensions vote, all votes had been converted to the system of budgetting by objectives in the Estimate of Expenditure for 1980/81.

(i) "A presentation according to programmes, i.e. the programme structure, which explains the general objectives or aims for which funds are requested, and sets out the programmes established by the relevant department to achieve these objectives. On the one hand the information is descriptive, while on the other details are provided in the money columns of the estimated expenditure to be incurred on various departmental programmes, and their subdivisions, in achieving the relevant objective(s). The purpose of this presentation of the details of the moneys required on a specific vote is to inform Parliament, in summarised form, of the aims which will be pursued with the funds, and the results or 'outputs' envisaged by the use thereof.

(ii) A presentation according to standard items, i.e. the item structure, which sets out the estimated expenditure on the various goods and services required for the pursuance of a department's objectives. This presentation of the moneys required on a vote provides information regarding the anticipated 'inputs' necessary to pursue the stated objective(s)".[1]

The Estimate of Expenditure customarily incorporates an explanatory memorandum by the Minister of Finance. This usually highlights some of the more important changes in the form in which the Estimate is presented to Parliament, and the information contained therein is therefore useful in ascertaining the comparability of estimates over time (see also Section 6). The memorandum also contains a description of some of the concepts and classifications used in the budget. Until 1975 it included a classification of total expenditure in accordance with the major items (salaries, stationery, etc.), but this has now been dropped.

The Estimate of Revenue

This is the first print of the Estimate of Revenue for the coming year. The document contains details of: (a) revenue for the prospective year based on existing (pre-budget) tax rates; and (b) the original

(1) Memorandum by the Minister of Finance, Estimate of Expenditure to be defrayed from State Revenue Account during the year ending 31 March 1981, First Print, RP 2/1980, p.ix.

estimate of revenue for the, as yet, uncompleted current year, both of which are classified by source and collecting department. The government's tax proposals as spelled out in the budget speech and incorporated in the summary of the State's accounts, are therefore not included. The latter, however, are incorporated in the so-called second and final print of the Estimate of Revenue which is tabled in, and approved by, Parliament later in the year.

An abstract of the Estimate of Revenue groups prospective revenues into the following categories: direct taxation, indirect taxation, repayment of loans and other sources. The estimate of standing appropriations from revenue (see also Estimate of Expenditure) are recorded in Part II of the abstract.

Comparative Figures of Revenue

This is a rather unassuming and informal document containing: (a) the printed (original) estimate of revenue for the uncompleted current year; (b) the revised estimated of revenue for the current year; and (c) the estimate of revenue for the coming year (on the basis of existing tax rates), all classified by source and collecting department. However, the estimate of standing appropriations from revenue are not included in this document. The tables from this document are incorporated in the printed version of the budget speech.

Taxation Proposals

This document sets out the government's formal proposals to change the existing tax legislation. It is mostly couched in legal terms.

The Statistical/Economic Review

The Statistical/Economic Review (formerly called the Statistical Survey), is usually a document of 30-40 pages containing tables and graphs covering mostly historical data on the South African economy, government receipts and payments, and the State Debt. It also provides details of actual revenue collections for the last completed fiscal year (broken down into main sources). In addition, it contains a rather detailed, two-way, functional and economic classification of government expenditures.

Supplementary Memoranda

In addition to the regular budget papers discussed above, supplementary or explanatory memoranda are occasionally tabled in Parliament as part of the budget. For example, the 1980 budget listed the following additional memoranda: Supplementary Memorandum on Taxation Measures - Budget 1980/81; Proposals for Improved Social Pensions, Military Pensions and Civil Pensions; and Supplementary Memorandum on the Relaxation of Exchange Control - Budget 1980/81.

3. THE SUMMARY OF THE STATE'S ACCOUNTS(1)

The summary of the government's prospective 1980/81 accounts, as subjoined in the 1980 budget speech, is reproduced in Table 1. This summary presentation is the focal point of the budget for several reasons. First, it is the only budget summary contained in the budget papers; second, the budget speech continues to be structured on its accounting framework; and third, it is widely used, together with the speech itself, as a framework for budgetary analysis and comment by Members of Parliament, the press and the general public.

The Budget as a Financial Plan

Table 1 shows that the summary presentation focusses on the four major elements of the government's proposals for the year ahead: expenditures, revenues, the deficit/surplus, and the financing of the deficit or use of the surplus. The estimates of expenditures and revenues, i.e., the narrow definition of the budget, thus form part of a broader and more comprehensive financial plan in which: (a) the government's expenditures and revenues are related to the financing of any deficit or surplus; and (b) the overall financial implications of the budget are considered.

Expenditures The first part of Table 1 summarises the government's proposed expenditures in the coming year. These include both current and capital outlays. The summary usually distinguishes between: (a) the printed (main) Estimates of Expenditure (tabled in the House); and (b) supplementary expenditure proposals (announced in the budget speech).

(1) A summary of the State's accounts has been incorporated in the printed version of the budget speech since fiscal year 1965/66. Up to 1964/65 the body of the speech usually contained a brief summary of the Revenue Account alone. From 1967/68 to 1975/76 the accounts were presented on both the 'conventional basis' and the 'cash basis'.

Table 1

COMPARATIVE STATEMENT OF THE STATE REVENUE ACCOUNT

		Revised figure 1979-'80	Budget figure 1980-'81	Percentage change
Expenditure:	Rm	Rm	Rm	%
Printed Estimate (R.P.2—'80; First print)			12 823	
Plus: Supplementary appropriations to be financed from 1979-'80 surplus:				
Black Urban Areas	12			
plus Black hospital	4			
Consolidation of Black states	15			
Loan Fund for Economic Co-operation	10			
Project Fund for Co-operation and Development	15			
Local Authorities	12			
Small Business Enterprises	10			
Food: Contingency Provision	18		96	
Plus: Supplementary appropriations to be financed from 1980-'81 revenues:				
Social pensions	55			
Pension Bonuses	22			
Civil pensions (statutory posts)	2			
Housing	10			
Food subsidies	70			
East Rand schools	4		164	
Total expenditure		11 480	13 083	14.0

		Revised figure 1979-'80	Budget figure 1980-'81	Percentage change
Revenue: Printed for 1980-'81				
Customs and Excise and Inland Revenue at existing rates (excluding loan levies)			11 765	
Less Taxation proposals i.r.o.				
Customs and Excise:				
Surcharge on import duty	260,0			
Inland Revenue:				
Provision of Housing by Employers	2.0			
Transfer Duty	14.6			
Estate Duty	3.2			
Taxation of Black Persons	55,0			
Lump Sum Distributions	2,0			
Physically Disabled Persons	0,2			
Married Working Women	28,0			
Income Tax on Individuals (including deductions for medical costs)	544,0		909	
Total Revenue		9 797	10 856	10.8
Deficit (before borrowing):		1 683	2 227	32,3
Loan Redemptions:				
Domestic Loans		937		
Stock			1 094	
Bonds			226	
Foreign loans		168	100	
IMF credits		154		
Loan levies		141	10	
		1 400	1 430	2.1
Financing Requirement:		3 083	3 657	18.6
Financing:				
Domestic Loans:				
Public Debt Commissioners		1 405	1 650	
Re-investment of Loan Redemptions			850	
New Government Stock Issues		1 040	600	
Non-marketable Debt:			400	
National Defence Bonds	50			
Bonus Bonds	150			
Treasury Bonds	200			
Foreign Loans		277	100	
Loan Levies		510		
Surplus (carried forward from previous year)		147	96	
Total Financing:		3 379	3 696	
Balance:		296	39	
Disposal of 1979-'80 balance:				
Transfer to Special Defence Account		160		
S.W.A. Account		40		
Surplus:		96	39	

Source: Republic of South Africa, Budget Speeches, 1980/81, pp.19-20.

As already mentioned, the latter usually highlights some aspects of the government's fiscal recommendations, such as last-minute adjustments in spending on particular programmes or changes in spending which require enabling legislation. However, most of the proposed changes in expenditure plans are usually already incorporated in the printed Estimate of Expenditure, but the Minister may draw further attention to such changes in his budget speech.

Revenues The second aspect of the government's financial plan, as set out in Table 1, involves the collection of taxes and other revenues. Budget receipts are usually classified under two headings: 'Inland revenue' and 'Customs and Excise'. The most important sources of revenue are individual and company income taxes, gold-mining leases, customs duties, excise duties and the general sales tax. The estimated revenues include loan repayments. The presentation in Table 1 further highlights the forecasts of revenues arising from current budget proposals. That is, the revenue total is normally broken down into: (a) forecasts of revenue based on existing tax rates, as reflected in the printed Estimate of Revenue; and (b) the effect on revenue of tax changes which have been announced in the budget speech.

The Deficit The third element of the government's financial plan is the budget deficit or surplus. When outlays exceed budget revenues, there is a budget deficit, and when revenues exceed outlays, there is a budget surplus. The size of the deficit, or changes therein, are often used in South Africa as a basis for a 'Keynesian' analysis of the budget's income-expansionary or income-contractionary effect. However, the budget's impact on economic activity also depends on the way in which the budget deficit is financed.

Budget Financing The final element of the government's financial plan is, therefore, budget financing. This refers to the fiscal action that must be taken when outlays differ from revenues. The lower part of Table 1 sets out the manner in which the government proposed to finance the excess of expenditures over revenues in fiscal year 1980/81. Methods of financing include foreign and domestic borrowing and the running down of previously accumulated cash balances (including transfers from the Stabilisation Account). As will be explained at a later stage, the details of the financing section are tentative.

Comparative Figures

For purposes of comparison with the budget estimates, the first column of Table 1 presents the estimated outcome of the previous budget. This has been provided only since 1978.[1] The summary presentation has never included data for comparative purposes over a longer time span than the uncompleted current year and the prospective year. Some additional, but incomplete, data in respect of earlier years are, however, provided in the Statistical/Economic Review.

The Time Scale of the Budget

As indicated in Table 1, the South African budget conforms to the traditional principle of annuality; the estimates of expenditure and revenue cover only one fiscal year, beginning on 1 April and ending 31 March of the next year. Voted monies, moreover, may not be carried over from one year to the next. Section 5 of the Exchequer and Audit Act No. 66 of 1975 states explicity that: "An apprорpiation Act shall not be construed as authorising the utilisation of moneys appropriated thereby in a financial year other than the financial year to which it expressly relates". Any appropriated monies which may be unexpended at the close of the financial year must therefore be surrendered to the Exchequer Account.[2] Some of the effects of longer-run planning are, however, achieved by the practice of paying voted monies into separate funds or accounts (see Section 5).

(1) Comparative data were provided in the 1967 budget when the accounts were presented both on a 'cash basis' and the 'conventional basis' for the first time, but this innovation was not repeated in subsequent budgets.

(2) The government's accounting system is described in Section 4 below.

A further point is that apart from an occasional reference in the budget speech to the amount that a specific tax, allowance or subsidy, which will take effect during the course of the particular budget year, will yield or cost the Exchequer in a full year, the budget has never provided out-year projections of expenditures and revenues to show the longer-term effects of current budget proposals on future movements in, for example, the budget deficit.

4. THE ACCOUNTING BASIS OF THE BUDGET

The main purpose of this section is to describe the relation between the government's accounting system and the budget, with particular reference to the budgetary accounts. More details of the government's extra-budgetary accounts are given in Section 5 below.

The Budget and the State Revenue Fund

The central government budget is conceptually related to the State Revenue Fund, which lies at the centre of the government's entire financial system. In terms of the Republic of South Africa Constitution Act No. 32 of 1961, all the revenues of the central government (excluding SATS and, since 1 April 1968, the Post Office[(1)]) over which Parliament has powers of appropriation, are paid into the State Revenue Fund, and all expenditures sanctioned by Parliament are defrayed from the Fund. The preparation and presentation of the budget itself is provided for in Article 4(3) of the Exchequer and Audit Act No. 66 of 1975, which lays down that:
"The Minister shall for every financial year, in a form determined by him, submit to Parliament an estimate of expenditure to be defrayed from the State Revenue Fund, and an estimate of expected revenue during that financial year".

The State Revenue Fund was established on 1 April 1976 and was preceded by the Consolidated Revenue Fund.[(2)] The latter fund was divided into several sub-sections over its long history. The most important ones - the Revenue Account and the Loan Account - had existed ever since the formation of Union in 1910. A separate Bantu Education Account was estab-

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(1) In 1968 the Department of Posts & Telecommunications was granted autonomy more or less on the same basis as that enjoyed by SATS (formerly the South African Railways), since 1910.

(2) Created by Section 17 of the South Africa Act 1909, superseded by Section 98 of the Republic of South Africa Constitution Act No. 32 of 1961.

blished in 1955 but was abolished on 31 March 1972. Another account, the South West Africa Account, was established in the Consolidated Revenue Fund on 1 April 1969. In 1970 the Franzsen Commission(1) recommended that the distinction between the Revenue Account and the Loan Account be abolished, and legislation was accordingly passed in 1975(2) in terms of which the new State Revenue Fund was created to replace the former Consolidated Revenue Fund. The new State Revenue Fund consisted of a State Revenue Account, which replaced the separate Revenue Account and Loan Account, and the South West Africa Account, which was retained. The latter account was abolished at the close of 1979/80 fiscal year.(3) At present, the State Revenue Account is, therefore, the only remaining account in respect of the State Revenue Fund.

The conceptual relationship between the budget and the State Revenue Fund is reflected in Table 1, which focuses on the transactions of the State Revenue Account. However, it is well to be aware that the budget's formal coverage of the transactions of the State Revenue Account is not always one hundred per cent, because a small number of State Revenue Fund expenditure items are customarily excluded from the estimates and are therefore not usually brought to account in the derivation of the budget deficit. A summary of the State Revenue Fund transactions for 1980/81 is presented in Table 2 and shows the scope of the non-budgetary items in that financial year.

Chief among the items usually excluded from the Estimate are transfers to separate funds or accounts from Exchequer surpluses which are normally provided for in a separate Finance Act. As indicated in Table

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(1) <u>Fiscal and Monetary Policy in South Africa, Third Report of the Commission of Enquiry into Fiscal and Monetary Policy in South Africa</u>, November 1970, RP. 87/1970.

(2) The Exchequer and Audit Act No. 66 of 1975.

(3) The South West Africa Account was replaced on 1 April 1980 by the Central Revenue Fund which is administered by the Treasury of the South West Africa Administration.

Table 2 Summary of State Revenue Fund Transactions (excluding borrowing) - 1980/81

(Rm)

A. Budgetary Items

Receipts		Expenditure	
Revenue	13 758,3	Expenditure	14 023,2
Budget deficit	264,9		
	14 023,2		14 023,2

B. Non-budgetary Items

Receipts		Expenditure	
Special Drawing Rights Deposit Account	41,2	Budget deficit (as above)	264,9
		Transfers to:	
		Special Defence A/C	160,0[a]
		Central Revenue Fund	40,0[a]
		Payments in connection with the IMF and IBRD	65,7
State Revenue Fund Deficit	509,6	Unauthorised expenditure (1979/80)	20,2[b]
	550,8		550,8

Notes: (a) Authorised by Act No. 100 of 1980 (Finance Act).

(b) Authorised by Act No. 100 of 1980 and Act No. 53 of 1981.

Source: Republic of South Africa: Part 1 of the Report of the Auditor-General for the Financial Year 1980-81, RP 48/1981, p.7.

2 (see also the lower part of Table 1), such transfers amounted to R200 million in the 1980/81 fiscal year. Were these amounts included in the Estimate in the normal way, the 1980 budget deficit, as well as its financing from cash surpluses, would have been correspondingly higher. Also customarily excluded from the Estimate are certain contingent liabilities in respect of the State's obligations towards the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), mainly because of uncertainty concerning the amounts involved in any particular financial year. These items amounted to R65,7 million in 1980/81. As indicated in Table 2, an item related to the Special Drawing Rights Deposit Account represented an off-setting credit in 1980/81. Certain other miscellaneous State Revenue Fund items, which are also provided for in a separate Finance Act, may likewise be excluded from the budget estimates. These include, *inter alia*, the previous year's unauthorised expenditures which are brought to account in the budget year. Table 2 shows that unauthorised expenditures of R20,2 million were recorded in the State Revenue Fund in the 1980/81 financial year.

It might also be noted that, as a result of the recent constitutional developments in South West Africa, the estimates of revenue and expenditure on the South West Africa Account were no longer submitted to the South African Parliament with effect from fiscal year 1978/79.[1] Such estimates were in future to be approved by the Administrator-General of South West Africa who also promulgated the necessary appropriation and taxation proclamations. Consequently, the South West Africa Account was effectively not controlled by the South African Parliament during 1978/79 and 1979/80, and so did not form part of the budget during this period, although it was formally still a constitutent account of the State Revenue Fund. As was customary, the deficit on the South West Africa Account continued to be defrayed from the State Revenue Account during this period.

(1) Treasury memorandum on changes in the form of the Estimates 1978/79, Fourth Report of the Select Committee on Public Accounts, SC. IC/1978. p.99.

The State Revenue Fund and the Exchequer Account

The day-to-day transactions of the Treasury are recorded in an account titled "The Account of the Exchequer of the Republic of South Africa".[1] The aforementioned divisions in the State Revenue Fund were also found in the Exchequer Account which is kept by the South African Reserve Bank.

The State Revenue Fund and the Exchequer Account are often used synonymously. Indeed, discrepancies between the two accounts arise mainly from differences in the time of recording of transactions.[2] On the one hand, receipts on the Exchequer Account represent that part of the revenues of the State Revenue Fund that has actually been deposited with the Exchequer. The difference in the receipts recorded in the two accounts therefore represents revenue in transit. Differences in expenditures also represent amounts in transit. That is, funds periodically requisitioned by the government departments are, in the first instance, transferred by means of Exchequer issues from the Exchequer Account to the Paymaster-General Account, to which the amounts actually expended are debited. The amounts drawn on the Paymaster-General Account, therefore, represent the government's actual expenditure and these, rather than Exchequer issues, are recorded in the State Revenue fund.

The effect of these recording lags on the comparability of Exchequer issues and receipts and the State Revenue Fund expenditures and revenues is in practice relatively small, especially if viewed against the large volume of funds flowing through the government's accounts

(1) Article 3(1) of the Exchequer and Audit Act No. 66 of 1975.

(2) A close scrutiny of the government's audited accounts would reveal further discrepancies between the two accounts which do not affect the balance; because of revenues in transit, the Standing Appropriations from Revenue (contra items) recorded in the State Revenue Fund usually exceed the corresponding amounts recorded in the Exchequer Account; and the temporary utilisation by the Treasury of balances in the Stabilisation Account or the Paymaster-General's Account is recorded in the Exchequer Account but not in the State Revenue Fund.

during a particular financial year. This can be seen from Table 3. Moreover, discrepancies arising from recording lags are even less significant in the case of year-on-year comparisons of outlays and revenues.

Table 3 Reconciliation of Balances on the State Revenue and Exchequer Accounts on 31 March 1979 (R)

Balance in Exchequer Account on 31 March 1979		112 041 784
Plus surrenders (monies issued from the Exchequer but not yet spent by departments at year end)		
1978/79	99 345 405	
1978/79 (fixed statutory appropriations)	48 743	99 394 148
Plus revenues in transit at year end		33 442 779
		244 878 711
Less late issues (departmental outlays not yet recovered from the Exchequer at year end)		1 545 868
		243 332 843
Plus miscellaneous adjustments in connection with unauthorised expenditures in respect of financial years 1973/74-1978/79		4 298 715
Balance in State Revenue Account on 31 March 1979		247 631 558

Source: Republic of South Africa, Part 1 of the Report of the Auditor-General for Financial Year 1980/81, RP 48/1981, pp. 7 and 35.

How to Monitor the Budget

Data on the State Revenue Account are available in the Reports of the Auditor-General. However, it is only on an annual basis and the relevant reports are published between 10-12 months after the end of a particular financial year. By contrast, the Treasury publishes in the Government Gazette, as soon as practicable after the end of each month, statements showing the receipts into and transfers from, the Exchequer Account during the period from the first day of the relative financial year to the end of that month, as well as the balances in the Exchequer Account at the beginning and at the end of the period.[1] Because of their timeousness, these regular statements of Exchequer transactions are, therefore, commonly used as a means to monitor the budget's outcome despite the aforementioned discrepancies that might exist between State Revenue Fund transactions, on the one hand, and Exchequer issues and receipts, on the other.

Further monthly data on the financing of the Exchequer Account are published regularly in the Quarterly Bulletin of the South African Reserve Bank.[2] The relevant tables in the Bulletin, which are prepared by the Economic Department of the Reserve Bank, form an integral part of the latter's monetary analysis, and are therefore complementary to the data provided in the Government Gazette, which are compiled on a different basis.

A Further Note on the Budget Summary

From 1965, when the practice was started of incorporating a summary of the government's accounts in the printed version of the budget speech, until the introduction of a unitary budget in 1976, only the Revenue Account and Loan Account had been presented in the summary. After the abolition of the distinction between the Revenue and Loan Accounts, the practice of excluding the South West Africa Account from the printed version was continued. The South West Africa Account (and formerly also the Bantu Education Account) thus never formed part of the summary presentation in the printed version of the budget speech, notwithstanding the fact that: (a) estimates of expenditure from these accounts were tabled

(1) Required by Article 13(2) of the Exchequer and Audit Act No. 66 of 1975.

(2) See, for example, South African Reserve Bank Quarterly Bulletin, December 1981, S56.

in Parliament together with the main estimates, and (b) the two smaller accounts were often referred to in the budget speech. Consequently, those interested in the budget as a whole were required to make the necessary consolidation.(1) However, as the combined Revenue Account and Loan Account, and from 1976 also the State Revenue Account, comprised by far the most important part of the budget estimates, the summary provided in the printed version of the speech was always accepted by most as 'the budget'.

(1) See, for example, South African Reserve Bank Quarterly Bulletin June 1977, p.19.

5. BUDGET COVERAGE AND THE EXTRA-BUDGETARY SECTOR

In order to understand the budget it is necessary to draw a distinction between the government's budgetary and extra-budgetary accounts and to examine the relationships between the two sets of accounts. The government has, over the years, built up an incredibly complicated internal fund structure extending far beyond the narrow scope of the conventional budget and the State Revenue Fund. However, the budget does not cover all the government's accounts, and the concept of a consolidated budget statement comprising both budgetary and extra-budgetary accounts, is therefore relatively unknown in South African public finance.(1) Except in a small number of cases, to be listed in footnote (1) on p.27 below, the budget gives no details of the government's off-budget transactions. Consequently, the central government's extra-budgetary accounts and their relationship with the budget, are a relatively obscure element of fiscal policy in South Africa. The present section briefly describes this extra-budgetary dimension of the South African budget.

The Budget Sector

The budget sector in South Africa could be described as including all regular government departments whose transactions are itemised in the State Revenue Fund, as set out in Table 1. This includes all boards, commissions and other agencies whose accounting arrangements are identical with those of government departments, that is, their expenditures are charged directly to departmental votes. Examples of the latter are the Wage Board, the Competition Board, the Decentralisation Board and the Manpower Commission.

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(1) For a pioneering attempt to draw attention to the importance of extra-budgetary funds, see T. van Waasdijk, Public Expenditure in South Africa, Johannesburg: Witwatersrand University Press, 1964 (especially Table 13 and Appendix e). See also T. van Waasdijk, "The Budget and Economic Policy", South African Journal of Economics, Vol. 37(2), June 1969, pp.98-104.

The Extra-Budgetary Sector

By contrast, extra-budgetary units are separately organised, central government bodies, funds and accounts in respect of which independent accounting arrangements exist outside the scope of the State Revenue Fund and whose expenditures and revenues are, therefore, covered by their own budgets. As a group these units would make up the so-called extra-budgetary sector. However, the precise scope of the government's extra-budgetary sector depends on how wide the outer boundary line of the central government universe is drawn. Unfortunately, however, there is no clearly demarcated and officially formulated concept of the South African central government sector which can be used here. Moreover, space does not permit of the present study considering all the conceptual and practical problems relating to the classification of governmental units, needed to draw a precise line of demarcation between the central government, on the one hand, and other sectors, on the other. Consequently, the following exposition is based on a broad (and somewhat imprecise) outline of the central government sector which has been established in an earlier study.(1) The various bodies, funds and accounts are grouped as follows:(2) Special Funds; Autonomous Institutions and Grand-aided Bodies; the SATS and Post Office, together with their respective separate or internal funds; and the Public Debt Commissioners (PDC).

Special Funds: These comprise separate funds or accounts which are managed or operated by permanent government departments, either directly or through departmental boards or commissions. The units that might be included in this group include: Black Compensation Fund, Black Transport Services

(1) See J. van der Spuy Heyns, "The Extra-budgetary Sector in South Africa and its effects on the Government's Budget Policy with special reference to the period 1960/61-1972/73", unpublished Doctoral Thesis, University of Natal, Durban, 1975; and also his "The Extra-budgetary Sector in South Africa - a New Dimension in Budgetary Analysis", South African Journal of Economics, Vol.45(1), March 1977, pp.44-68.

(2) For a more comprehensive definition of the South African central government which includes the separate Black National States, the Republics of Bophuthatswana, Transkei and Venda, and the Technicons and Universities, but excludes the SATS, Post Office and Government Pension and Provident Funds, see Government Finance Statistics Yearbook, Washington, D.C.: International Monetary Fund, 1981, pp.540-546.

Fund, Coloured Transport Account, Community Development Fund, Deposit Fund for Housing, Economic Cooperation Promotion Loan Fund, Export Credit Reinsurance Fund, Forestry Industry Fund, Fuel Equalisation Fund, General Sinking Fund, Government Pension & Provident Funds (including the Civil Pensions Stabilisation Account),[1] Local Loans Fund, Mines & Works Compensation Fund, National Housing Fund, National Road Fund, National Supplies Procurement Fund, Oil Pollution Prevention Fund, Sea Fisheries Research Fund, Sorghum Beer Research Fund, South African Development Trust Fund, Special Defence Account, State Oil Fund, Strategic Mineral Resources Development Account, Unemployment Insurance Fund, Urban Transport Fund, and Workmen's Compensation Fund.

Autonomous Institutions and Grant-aided Bodies: These are not generally operated by the permanent government departments themselves, as are the special funds, but by specially constituted boards or countils, usually appointed by the government. In general, they are financially and administratively separately organised and enjoy a large measure of independence from departmental control.[2] Examples are: Acacia Park Board of Control, Atomic Energy Board, Council for Scientific & Industrial Research, Hotel Board, Human Sciences Research Council, Legal Aid Board, National Botanic Gardens, National Institute for Metallurgy, National Monuments Council, National Parks Board of Trustees, National Road Safety Council, South African Bureau of Standards, South African Medical Research Council, South African Tourist Corporation and South African War Graves Board.

The SATS & Post Office: These are non-financial government enterprises. They are part of central government because they fall under the direct control of cabinet ministers, and they are extra-budgetary in the sense that their transactions are covered by separate budgets presented to

(1) Classified here as central government because the various schemes are administered by the Department of Health, Welfare & Pensions and the various funds are required by law to place their reserves with the Public Debt Commissioners for investment in the securities of the government.

(2) In view of the nature of the essentially governmental functions that they perform as well as their financial dependence on the budget, some of the autonomous institutions are indistinguishable from the special funds and even from permanent departments, but administratively they usually enjoy a much greater degree of independence from central control.

Parliament every year.

The SATS and Post Office in turn have a number of internal or extra-budgetary funds of their own. Examples are:

SATS	Betterment Fund
	General Renewals Fund
	Level-crossing Elimination Fund
	Superannuation Funds
	Rates Equilisation Fund
Post Office	National Savings Certificates
	Post Office Savings Bank

The Public Debt Commissioners: The office of the Public Debt Commissioners (PDC) was created in 1911 in terms of Act No.18 of 1911 (superseded by Act No. 2 of 1969). The Commissioners mobilise and receive pension, trust and deposit monies in the hands of the government, the provincial administrations, the SATS, the Department of Post and Telecommunications, public corporations and other public and quasi-public bodies, and make such monies available for financing purposes to the State, local authorities and public bodies. They also grant loans for capital and other works to smaller local authorities in terms of the Local Loans Act No. 19 of 1926, and administer the government's General Sinking Fund.

The PDC occupy a unique position in the central government and the public sector as a whole. From a purely financial point of view, they perform the role of a state financial intermediary, charged with the investment of public, and in certain instances, private monies. From a budgetary point of view, however, their activities may be regarded as complementary to those of the Treasury with regard to the regulation of the government's overall liquidity and the management of the State Debt. The PDC have extra-budgetary control over an enormous pool of financial resources and are capable of exercising considerable direct and indirect influence on the flow of liquidity to the public. However, they operate in the background, outside the State Revenue Fund, and are generally given very little coverage in the presentation of the annual budget by the Minister of Finance.[1]

Trust and Deposit Accounts

It is also necessary to mention the large number of trust and deposit accounts which are operated by the permanent government departments (including the PDC), but are not considered to form part of the extra-budgetary sector as such. Unlike the special funds, which are also administered by permanent departments, the departmental trust and deposit accounts have not been created in connection with the financing of government programmes. The balances on the trust and deposit accounts are administered by departments on behalf of the true owners. Their expenditures and revenues are not governmental in character. The accounts themselves may be considered governmental only in the sense that the deposit and management facilities provided by the government departments represent a service to the public. Cash surpluses in the accounts, if any, are mostly chanelled to the PDC, and in this way there is an indirect link between the various accounts and the Exchequer. Some of the largest trust and deposit accounts are the Guardian's Fund and the Tribal Levies and Trust Accounts. Many of the deposits administered by the PDC could also be regarded as falling into this category, the most important examples being the deposits of the provincial administrations and public corporations.

Public Corporations

For the sake of completeness, it might also be mentioned that the government's public enterprises are excluded from the above definition of the central government. Examples are: Agricultural Control Boards, Corporation for Economic Development, Electricity Supply Commission, Industrial Development Corporation, KwaZulu Development Corporation, Land and Agricultural Bank, SASOL, South African Broadcasting Corporation, South African Iron & Steel Industrial Corporation, South African Reserve

(1) For a more detailed discussion of the activities of the PDC, see The Budgetary Treatment of Extra-budgetary Transactions and Section 8.

Bank and Southern Oil Exploration Corporation.

These bodies are traditionally excluded from the government's general budget, except in so far as the government contributes to the capital of the corporations, or dividends or profits are paid over to the State Revenue Fund. As we have seen, some of the public corporations also channel certain monies to the PDC and in this way a further link exists with the Exchequer.

The Budgetary Treatment of Extra-budgetary Transactions

A fundamental of the central government budget is that it records transactions between the State Revenue Fund, on the one hand, and the extra-budgetary bodies and funds (including the PDC), on the other, but the transactions between the various extra-budgetary units themselves, and the transactions that they in turn have with other sectors of the economy, are treated as non-budgetary and therefore fall outside the scope of the budget.[1]

However, although the expenditures and revenues, *per se*, of the various bodies and funds making up the extra-budgetary sector are not recorded in the central government budget, a degree of financial unity in the government's accounts and the budget is nonetheless achieved

(1) In order to provide Parliament with more complete information on the expenditure programmes of certain funds, the Estimate of Expenditure has, since fiscal year 1979/80, included particulars of the expenditure and income of those funds. Only the augmentation required by a fund is, however, submitted for appropriation. The funds dealt with on this basis are the National Housing Fund, the Community Development Fund and the South African Development Trust Fund. As regards the Defence Vote, expenditure to be defrayed from the Special Defence Account has been included in the programmes concerned since fiscal year 1979/80 in order to provide Parliament with the total programme costs. However, the total expenditure of the Defence Department is reduced by the estimated amount available in the Special Defence Account to obtain the amount to be voted. See Treasury Memorandum on Changes in the form of the Estimates 1979/80, Third Report of the Select Committee on Public Accounts, SC. 1B/1979, pp. 220-222.

through a complex system of internal transactions in which the PDC play a pivotal role as a source of budget financing. The following is a brief exposition of this aspect of the government's finances (because the State's internal fund structure is so highly complex, the description of the government's internal cash flows must necessarily be a very simplified one).

The budget is an important supplier of funds to the extra-budgetary sector. However, the degree of the latter's financial dependence on the Exchequer Account varies from account to account. Some accounts, like the Unemployment Insurance Fund and the Fuel Equalization Fund, have had important independent sources of tax revenue assigned to them which do not have to pass through the State Revenue Fund. Other funds, like the National Road Fund and the State Oil Fund, have had sources of tax revenue assigned to them which pass through the State Revenue Account as contra items in the form of standing appropriations from revenue. The SATS and Post Office also rely on the Exchequer for the financing of at least a part of their own capital expenditures. They, in turn, make annual budgetary contributions to their own internal funds. The SATS and Post Office have independent borrowing powers, as have the National Road Fund, the National Housing Fund and the Human Sciences Research Council. In the case of the National Supplies Procurement Fund extensive use is made of Reserve Bank credit or advances from the Stabilization Account. Most extra-budgetary accounts, however, have only minor or no independent sources of revenue and are financed entirely or almost entirely by means of regular or occasional allocations from the general budget.

Unlike the regular government departments, whose own expenditure is subject to the usual Parliamentary and Treasury controls and who must, therefore, surrender to the Exchequer any unspent voted monies at the close of the financial year, the extra-budgetary funds, bodies and accounts do not generally surrender unspent surpluses. Such funds are, therefore, available for future use and are carried forward from one year to another until needed. This has led to the establishment of secondary or indirect financial links with the Exchequer via the PDC. In other words, with a few exceptions, all unspent surpluses of the central government which accrue outside the State Revenue Fund and are in excess of the day-to-day requirements of the various bodies, funds and accounts in the extra-budgetary sector, are placed with the PDC for investment in government and other public sector securities.

Effectively, this means that cash flows to the PDC from internal sources form a pool which can be drawn upon by the Treasury, which has first priority on monies in it, in order to finance at least a part of any current deficit in the Exchequer. In fact, as indicated in the lower partion of Table 1, the financing of budget deficits from internal or extra-budgetary sources in the form of annual contributions from the PDC has, over the years, become an important factor in the budgetary process, and the PDC are currently the largest holder of government debt.

Lest it is thought that these flows represent a smooth process, it should be pointed out that the flows of unspent surpluses from the extra-budgetary bodies and funds to the Exchequer via the PDC may be interrupted or augmented in various ways. For example, unspent cash balances may not be passed on to the Exchequer immediately, but may be accumulated outside it, most often in the accounts of the PDC themselves. On the other hand, previously accumulated balances may be run down in order to finance current deficits in the Exchequer or the expenditures of extra-budgetary units. The PDC also use available balances to invest in other public sector securities, and they engage in substantial open-market dealings. As we have seen, changes in the amounts standing to the credit of the departmental trust and deposit accounts also affect the amounts available to the PDC for subscription to government securities. Moreover, unforseen withdrawals by large depositors such as SATS and the Special Defence Account, could mean that the Commissioners may be unable to contribute towards the financing of the Exchequer to the extent anticipated at the time of the budget.

All this means, firstly, that the PDCs' contribution to the financing of the budget would normally reflect the combined outcome of a complex mix of extra-budgetary transactions, including expenditures, the collection of revenues, investments and changes in monetary assets and deposits, which could not possibly be unravelled *ex aute*, and could only be unravelled months after year-end by skilled interpreters of the government's accounts. Consequently, to determine from budgetary data precisely how much the central government as a whole proposes to spend, collect in taxes, lend or borrow to finance deficits in the prospective year, would face unsurmountable practical and conceptual problems because of the manner in which the government's extra-budgetary transactions are brought to account in the budget. At the same time, the PDCs' contribution towards budget financing is not only highly variable from year to year, but is almost impossible to predict, given the present fragmented format of the government's budgetary and extra-budgetary accounts. This unpredictability imparts an unwelcome degree of uncertainty to the government's budgetting and cash management and reduces the value of the budget as an economic document.

6. BUDGET RECEIPTS AND OUTLAYS

The top portion of Table 1 summarises the government's expenditure and revenue proposals for the 1980/81 financial year. Budget receipts consist primarily of the tax revenues of the two revenue-collecting departments, but also include miscellaneous departmental receipts and repayments (recoveries) of loans. Outlays comprise both current expenses and capital expenditures. The latter includes purchases of land, buildings and equipment. Capital expenditures also include capital outlays in the form of loans and the purchase of investments, but exclude repayments of loans.

Basis for Budget Figures

Budget receipts, including all taxes, represent cash collections during the financial year. Outlays are stated in terms of cheques issued. Where cash is paid in lieu of cheques, such payments are counted. Interest on the State Debt is generally also recorded on a cash basis, but the accrual basis of recording is used for interest on the State Debt in those cases where securities are issued at a discount, i.e., Treasury Bills. In other words, the difference between the sale price and the redemption value of the Treasury Bill is treated as interest, and the usual accounting procedure is to draw the entire interest from voted monies (interest on the State Debt) in the year of issue and pay it directly into the Exchequer Account for the credit of the Treasury. Interest on outstanding Treasury Bills is therefore brought to account as expenditure in the year of issue, but the cash basis of the budget is preserved by recording additional loan receipts equal to the outstanding interest as a budget financing item.

Revenue Offsetting

Apart from a few exceptions to be noted below, votes of expenditures and budget receipts are gross amounts. That is, all revenues over which Parliament has powers of appropriation are reported in the Estimate of

Revenue, and in the Estimate of Expenditure no anticipated receipts are set off against expected outlays.

In the budget, revenue offsetting occurs in a small number of cases, mainly in connection with organisational entities for which trading accounts have been established in terms of Section 11A of the Exchequer and Audit Act No. 66 of 1975. In most of these cases full particulars of the application of total expenditure is still shown in the printed Estimate of Expenditure for the information of Parliament, but only the net amount required after deducting expected revenue from the total estimated expenditure is submitted for approval. Trading account surpluses, if any, are not treated as negative expenditures but are paid into Revenue, i.e., reported as budget receipts. By 31 March 1981, four such trading accounts had been established.(1) The relevant details given in the 1980 budget are presented in Table 4.

Table 4 Transactions of Trading Accounts - 1980 Budget (Rm)

Account	Expenditure	Revenue	To be voted	Paid into revenue
Government Motor Transport	48,3	40,0	8,3	
Computer Bureau Services			(a)	3,1
Government Printing Works	39,1	39,1	(b)	
Diamond Mining	20,1	33,7		13,6

Notes: (a) R100
(b) R1 000

Source: Estimate of Expenditure to be defrayed from State Revenue Account during the financial year ending 31 March 1981, First Print RP2/1980.

(1) A further trading account, the Vaccine Production Trading, was established in fiscal year 1981/82. Trading Accounts may also be established in the near future for the Department of Forestry and the State Airports. A trading account may also be established for the South African Mint. It might be noted that in fiscal year 1980/81 the estimated gross expenditure of the Mint was R2,08 million. Revenues came to R11,9 million and was included in the Estimate of Revenue (see Table 5).

Other relatively minor instances of revenue offsetting occur in connection with a small number of revolving funds, e.g., the standard stock and equipment capital accounts, and the Recoverable Advances Account. The latter account is used, *inter alia*, in connection with the subsidised motor scheme for senior government personnel. However, the amounts involved in these cases are relatively small.

Double Provision of Outlays

Some government departments provide others with services or products. In some cases the costs would appear in the government's accounts only once, since the services or products are given free of charge to official users. In other cases, however, the cost would appear twice: first as the cost to the department providing the service and again as the outlay of the department making use of the service. The department providing the service would, in addition, record a corresponding budget receipt. In order to avoid double counting, the latter should be offset against the costs incurred by the department providing the service. Although the incidence of double counting is not likely to be particularly extensive, details of the accounts involved would have been useful to determine the true outlays of government. Unfortunately the required information cannot be ascertained from the Estimates.

It might be noted, however, that a system of internal charges has been in operation since 1976/77[1] in order to avoid double provision of outlays within individual votes, in those instances where one programme uses the services or products of another programme. To ensure that only the net cash requirements of the department concerned are submitted to Parliament for appropriation, the programme providing the service or product deducts the internal charges from its own estimated outlays.

Some Recent Changes in Coverage and Accounting Practices

It is important to be aware that the comparability of budgetary

(1) See Memorandum by the Minister of Finance, Estimate of the Expenditure to be defrayed from State Revenue Account during the year ending 31 March 1977, First Print (RP 2/1976), and subsequent Estimates.

data over time is affected by changes in coverage and the government's accounting practices. Since such changes are, however, not necessarily spelled out in the relevant budget speeches themselves, it is recommended that the following sources be consulted in that regard whenever comparisons are contemplated:

(i) Memoranda by the Minister of Finance in the Estimates of Expenditure;

(ii) Statistical/Economic Reviews; and

(iii) Treasury Memoranda on Changes in the Form of the Estimates in the Reports of the Select Committee on Public Accounts.

For the sake of convenience, a checklist of some recent procedural and other changes affecting the comparability of budget totals are given below. Some of these changes are also referred to elsewhere in the paper.

Establishment of the Bantu Education Account	1955/56
Granting of autonomy to the Department of Posts and Telecommunications leading to separate provision of outlays and receipts	1969/70
Establishment of the South West Africa Account	1969/70
Introduction of a consolidated income tax scale and the system of subsidies to provincial administrations	1971/72
Abolition of the Bantu Education Account	1972/73
Change in the method of recording the SATS' portion of interest on the State Debt	1976/77
Introduction of a system of internal charges	1976/77
Abolition of the distinction between the Revenue Account and the Loan Account	1976/77
Change in the budgetary treatment of payments to neighbouring countries in terms of Customs Union Agreements	1977/78
Change in the basis on which the provincial administrations are subsidised	1977/78
Establishment of trading accounts for the Government Printer, the Government Garage and the Computer Bureau Service of the Department of Agricultural Technical Services	1979/80
Abolition of the South West Africa Account	1980/81

Establishment of a trading account for the Alluvial State Diggings 1980/81

In addition, certain interest and loan repayments have been used for new loans as from 1981/82.

Budget Receipts by Source

In the budget document, revenues are reported by source and economic type. A detailed breakdown (although not as detailed as that given in the budget itself) of budget receipts by source, is presented in Table 5 which brings together and summarises the revenue data provided in the various budget documents (to economise on space the original estimate of revenue for 1980/81 has been omitted).

Table 5 is divided into two parts. The largest part of budget receipts, i.e., 'general revenues' that may be used to finance any type of outlay, is recorded in Part I. As indicated before, some budget receipts are collected for specific purposes. These are accounted for separately and are recorded in Part II. The contra items in the State Revenue Fund - known as standing appropriations from revenue - are recorded in the Estimate of Expenditure (see Table 7). Total revenues recorded in Part II of the 1980 budget came to R422,8 million or 3,8 per cent of total receipts. Of this total, the biggest amounts went to the State Oil Fund (R270 million) and the National Road Fund (R133 million). These funds are derived from customs and excise duties and, in the case of the State Oil Fund, also additional levies on petroleum products. Other minor sources of revenue yielding relatively small sums annually are earmarked for the South African Development Trust Fund, the Black Transport Services Account and the Sorghum Beer Research Fund.

As already mentioned, the government's 'general revenues' are grouped into 'inland revenue' and 'customs and excise', in accordance with the two great revenue-producing departments. The most important sources of 'general revenue' to the government are income tax on individuals and companies, income tax on mining companies, receipts from mining leases and

Table 5 Budget Receipts[a] - Summary (Rm)

Source	Actual 1979/80	Estimates: 1979/80 Revised	Estimates: 1980/81 Provisional (b)	Estimates: 1980/81 Proposals	Estimates: 1980/81 Total
PART I					
Inland revenue					
Tax on income					
Normal tax					
Mining companies	793,4	1444,4	2090,0		2090,0
Individuals	1974,0	1971,8	2380,0	-629,2	1750,8
Companies (other than mining)	1549,5	1873,7	2090,0	-2,0	2088,0
Other	Ø	7,0	7,0		7,0
	Ø	5296,9	6567,0	-631,2	5935,8
Other taxes & receipts					
Mining leases & state ownership revenues	195,9	393,4	695,0		695,0
Non-resident share-holders tax	110,7	158,4	200,0		200,0
Estate duty	45,5	52,0	52,0	-3,2	48,8
Stamp duties & fees	94,2	120,0	150,0		150,0
Transfer duties	53,2	85,0	110,0	-14,6	95,4
Marketable securities tax	15,0	18,0	20,0		20,0
Other	Ø	58,4	58,9		58,9
	Ø	885,2	1285,9	-17,8	1268,1
Departmental & miscel-laneous receipts					
State Diamond Diggings	Ø	33,0	13,6		13,6
S.A.Reserve Bank	Ø	19,2	19,2		19,2
S.A. Mint	Ø	10,7	11,9		11,9
Recoveries of advances	Ø	2,7	2,8		2,8
Forest revenue	Ø	27,5	28,0		28,0
Water revenue	Ø	42,0	44,0		44,0
Other	Ø	171,4	188,0		188,0
	339,1	306,5	307,4		307,4
Interest & dividends					
Housing loans	Ø	117,0	132,0		132,0
SATS	Ø	463,3	450,0		450,0
Post Office	Ø	28,8	28,0		28,0
Other	Ø	61,1	60,6		60,6
	649,2	670,2	670,6		670,6

Continued/....

Table 5 (cont.)

Repayment of loans Advances: Agricultural Credit Board	Ø	13,0	14,0		14,0
Sinking Fund contribution	Ø	9,0	20,0		20,0
Other	Ø	84,8	20,4		20,4
	66,4	106,8	54,4		54,4
General Sales Tax	518,7	1230,3	1550,0		1550,0
Total inland revenue (excl. Loan levy)	Ø	8495,9	10435,2	-649,0	9786,3
Customs & excise:					
Customs duty	Ø	458,0	480,0		480,0
Surcharges	Ø	258,0	280,0	-279,0	1,0
Sales duty	Ø	1,3	0,5		0,5
Excise duty	Ø	1007,2	1111,0		1111,0
Miscellaneous	Ø	23,0	19,0		19,0
Gross total for customs & excise	Ø	1747,5	1890,5	-279,0	1611,5
Less:					
Amount to cr. of CRF[e]	Ø	44,1	45,3	4,2	41,1
Customs Union Agreement payments	Ø	402,5	515,0	14,8	500,2
Total customs & excise	1490,3	1300,9	1330,2	-260,0	1070,2
TOTAL PART I	8657,1	9797,0	11765,4	-909,0	10856,0
PART II					
S.A.Dev.Trust Fund	Ø	Ø	6,5[c]		6,5
Black Tran.Serv. Acct.	Ø	Ø	12,5[c]		12,5
Sorghum Beer Res.Fund	Ø	Ø	0,01[c]		0,01
State Oil Fund	Ø	Ø	270,0[c]		270,0
National Road Fund	Ø	Ø	133,0[c]		133,0
TOTAL PART II	Ø	Ø	422,8[c]		422,8
GRAND TOTAL (budget receipts)			12188,3	-909,0	11279,3[d]
Less PART II (see above)			422,8		422,8
Revenues as per Table 1		9797,0	11765,4	-909,0	10856,0

Notes: (a) Excluding the loan levy which is treated as a source of budget financing in Table 1.
(b) Calculated on the basis of existing (pre-budget) tax rates.
(c) Omitted from the Comparative Tables of Revenue and the summary budget presentation (Table 1).
(d) Total estimated budget receipts for fiscal year 1980/81.
(e) Central Revenue Fund

Sources: Estimate of Revenue...31 March 1981, First Print (RP3/1980); Comparative Tables of Revenue for 1979/80 and 1980/81; Printed Version of the Budget Speeches 1980/81; Statistical/Economic Review (WPB/1980).

other state property income, the general sales tax, and customs and excise duties. Note that a portion of customs and excise revenue accrues to the Central Revenue Fund of SWA and to neighbouring countries in terms of the Customs Union Agreements.(1) The amount accruing to the participating countries has grown rapidly from about R40 million in 1976/77 to over R500 million in 1980/81. However, the basis of recording this item in the budget changed in 1977/78. Up to 1976/77 the share of South Africa's partners in the Customs Union was paid from voted monies. However, the full amount accruing to the other countries has been paid as a drawback of revenue from 1977/78. In the light of the multiplier which has been built into the revenue-sharing formula, it is doubtful if this is the most appropriate method to record the government's fiscal obligations towards South Africa's partners in the Union.

Table 5 also reflects the phasing out of the surcharge on imported goods. This levy was introduced in 1977 when the difficult economic circumstances which prevailed during 1976 and 1977 compelled the Minister of Finance to look for new sources of revenue. The rate was fixed initially at 15 per cent and the estimated revenue from this source amounted to R400 million in fiscal year 1977/78. However, the rate of surcharge was reduced in several stages as circumstances improved. Part of the surcharge accrued to neighbouring countries in terms of the Customs Union Agreements. The import surcharge was re-introduced in 1982 at a rate of 10 per cent.

The government derives a considerable annual income from dividends and interest. The largest component is interest recovered from the SATS. As mentioned before in the discussion of the coverage of the budget, SATS is an important recipient of Treasury loans. Up to fiscal year 1975/76 the Treasury recovered SATS' portion of the interest on the State Debt and the balance was recovered from voted monies. With effect from 1 April 1976, however, the State Revenue Account has no longer reflected the net interest burden of the State Debt after deduction of SATS' portion

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(1) Whilst they are not formally signatories to the agreement, the 'independent national states' (Transkei, etc.) are also participating in the scheme.

thereof, but has been charged with the entire interest burden while the interest recovered from SATS has been paid to the State Revenue Fund and included in the Estimate of Revenue.[1]

The most important miscellaneous receipts of the government stem from its engagement in water, forestry and diamond-mining enterprises. Fines and forfeitures and rentals on State property are additional sources of revenue. Receipts from the South African Mint include, *inter alia*, the profits on the minting of legal tender. The cost of the metal used in the coining process is exceeded by the face value of the coins and this difference, often referred to as seigniorage, represents a profit to the Treasury. Miscellaneous receipts also include a part of the profits of the South African Reserve Bank. By law, the annual dividend paid to the stockholders of the Bank may not exceed 10 per cent. The remainder of the Bank's profits, after providing for a statutorily determined allocation to its reserve fund, must be paid into the State Revenue Fund.

Budget Receipts by Economic Type

A breakdown of budget revenues in accordance with the broad economic types is given in Table 6. In order to preserve comparability with Table 1, the 1980 budget proposals are added in the lower part of the table.

Most budget receipts are tax revenues. Table 6 shows that an amount of R9 588,1 million (or 85 per cent) of total budget receipts was derived from sources of taxation and only R1 691,2 million (or 15 per cent) from non-tax sources. Non-tax receipts include, *inter alia*, repayments of loans (R54,4 million), and interest and dividend receipts (R670,6 million). Both these items are related to the Treasury's intermediary function and can therefore be connected with budget outlays and the government's role as a supplier of loans and investments (see below - the Government as a Supplier of Credit).

(1) See *ibid*, p.ix.

Table 6 Budget Receipts[a] by Economic Type, 1980 Budget (Rm)

Source	Direct taxation	Indirect taxation	Repayment of loans	Other sources	Total
PART I					
Inland revenue:					
Tax on income	6567,0				6567,0
Other taxes & receipts	295,5	338,0		652,4	1285,9
Dept. & misc. receipts				307,4	307,4
Interest & dividends				670,6	670,6
Repayment of loans			54,4		54,4
General sales tax		1550,0			1550,0
	6862,5	1888,0	54,4	1630,4	10435,[illegible]
Customs & excise:					
Customs duty		480,0			480,0
Surcharge		280,0			280,0
Sales duty		0,5			0,5
Excise duty		1111,0			1111,0
Miscellaneous		19,0			19,0
		1890,5			1890,5
Less:Amt. to cr. of CRF[c]		45,3			45,3
Customs Union payments		515,0			515,0
Total		1330,2			1330,2
TOTAL PART I	6862,5	3218,2	54,4	1630,4	11765,4
PART II					
S.A. Dev. Trust Fund				6,5	6,5[b]
Black Trans.Services A/C		12,5			12.5[b]
Sorghum Beer Res. Fund		0,9			0,9[b]
SWA Territorial Rev. Fund		0,01			0,01[b]
State Oil Fund		270,0			270,0[b]
National Road Fund		133,0			133,0[b]
TOTAL PART II		416,4		6,5	422,8
Provisional budget receipts	6862,5	3634,6	54,4	1636,8	12188,2
Budget proposals	-634,4	-274,6			-909,0
Budget receipts	6228,1	3360,0	54,4	1636,8	11279,2
Less PART II (as above)		416,4		6,5	422,8
Revenues as per Table 1	6228,1	2943,6	54,4	1630,3	10856,4

Notes: (a) Excluding Loan Levy, which is treated as a source of budget financing in Table 1.
(b) These revenues are omitted from the Comparative Tables of Revenue and the summary budget presentation (Table 1).
(c) Central Revenue Fund.

Source: Estimate of Revenue..31 March 1981, First Print RP3/1980; 1980 Budget Speech

Table 6 also highlights the distinction between direct and indirect taxes. Direct taxation is defined as taxes which are levied directly on the income and wealth of individuals and companies. Conversely, indirect taxation is comprised of taxes which are levied on commodities and transactions. In the 1980 budget, direct and indirect taxes accounted for 65 per cent and 35 per cent respectively of total tax revenues. The distinction between direct and indirect taxation is important, particularly from the point of view of the tax system's effect on the community's incentive to work and save and of its suitability as an instrument of fiscal policy.(1) For this reason the ratio of direct to indirect taxation in South Africa has received a considerable amount of attention in recent years.

In 1968 the Franzsen Commission(2) reported on the imbalance that existed at the time in the country's tax structure and recommended the scaling down of income tax on individuals and an increase in indirect taxation. The government accepted these recommendations and in the 1969 budget, income tax rates on individuals were lowered while a differential sales duty was imposed on the sale of a wide range of commodities by manufacturers and/or wholesalers/importers. In 1978, a further step was taken to shift the emphasis from direct to indirect taxation. On 1 July 1978, the General Sales Tax on final transactions came into effect at an initial rate of 4 per cent, whilst the sales duty on most commodities was phased out during that year. The latter presently yields negligible amounts. At the same time, marginal and average rates of income taxation on individuals were reduced considerably in the 1978, 1979 and 1980 budgets.(3)

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(1) G.W.G. Browne, "Fiscal Policy in South Africa" in J.A. Lombard (ed.), Economic Policy in South Africa, Cape Town: HAUM, Ch. 1, pp. 11-18.

(2) Taxation in South Africa, First Report of the Commission of Enquiry into Fiscal and Monetary Policy in South Africa, November 1968, RP. 24/1969, Ch.1.

(3) The rate of the General Sales Tax was raised by one percentage point in February 1982. As already indicated, the surcharge on imports was at the same time re-introduced at a rate of 10 per cent.

Budget Outlays by Vote

Budget outlays are reported by departmental vote in the Estimate of Expenditure. This breakdown is presented in Table 7. In 1980/81 there were 31 votes divided into some 146 main programmes.(1)

A classification of outlays by vote is necessary for purposes of Parliamentary and Treasury control. However, the Finance Minister often uses the vote classification to emphasise or highlight some functional area of government activity, by drawing attention in his budget speech to individual votes or sub-votes or changes therein. Unfortunately, the printed version of the Budget Speech does not give a summary of all votes and it is therefore difficult to obtain an overall picture of the government's proposed spending from this perspective without also referring to the Estimate of Expenditure.

Table 7 is largely self-explanatory. The Finance vote of R4 507,4 million represented the largest single allocation of funds from the State Revenue Fund and equalled 33 per cent of total outlays in 1980/81. Out of this sum, fiscal transfers claimed an amount of R2 874,2 million in respect of subsidies and loans to, *inter alia*, the provincial administrations, the SATS, the Department of Post and Telecommunications, the Local Loans Fund and South West Africa. Also included in the Finance vote is interest on the State Debt. This formed a direct charge on the State Revenue Fund and amounted to R1 482,4 million (or 11 per cent) of total outlays in fiscal year 1980/81. The interest payable by the State has been inflated in recent years because of relatively large transfers to the Stabilisation Account for purposes of monetary stabilisation (see Section 8 - Sources of Budget Financing).

(1) Excluding the programmes of the Indian Affairs, Justice, Mineral and Energy Affairs, and Public Works votes which had not yet been converted to budgetting by objectives in fiscal year 1980/81. The number of votes was further reduced to 24 in 1981/82 but it was increased to 25 in 1982/83.

Table 7 Budget Outlays by Departmental Vote, 1980 Budget (Rm)

Vote - title	Estimate 1979/80[a]	Estimate 1980/81
PART I		
1. State President	0,4	0,5
2. Parliament	6,5	7,1
3. Prime Minister	3,6	4,8
4. Defence	1 612,4	1 890,0
5. Manpower utilisation	23,6	28,1
6. Cooperation and development	709,9	785,0
7. Agriculture and fisheries	322,2	379,3
8. Commerce and consumer affairs	127,3	146,5
9. Industries	365,3	299,7
10. Finance	4 116,6	4 507,4
11. Audit	5,0	5,3
12. Transport	171,9	234,4
13. Community development	371,9	403,3
14. Coloured relations	338,0	383,4
15. Indian affairs	124,0	144,4
16. Justice	53,7	58,1
17. Interior	14,9	19,6
18. Commission for administration	12,4	17,4
19. Government Printing Works	4,8	(b)
20. Water affairs, forestry and environmental conservation	230,2	262,7
21. Foreign affairs and information	217,2	265,7
22. Mineral and energy affairs	235,0	319,9
23. Police	245,2	309,8
24. Prisons	99,8	110,6
25. National education	356,7	407,2
26. Public works	324,5	390,5
27. Statistics	9,2	21,5
28. Tourism	7,7	8,4
29. Education and training	181,8	240,4
30. Health, welfare and pensions	670,1	738,4
31. Improvement of conditions of service	257,0	434,0
TOTAL PART I	11 219,0	12 823,5
PART II		
South African Development Trust Fund	7,7	6,5
National Road Fund	139,1	133,0
State Oil Fund	274,8	270,0
Black Transport Services Account	12,0	12,5
Sorghum Beer Research Fund	0,5	0,9
SWA Territorial Revenue Fund	(b)	(b)
TOTAL PART II	434,1	422,8

Continued/....

Table 7 (cont.)

Vote - title	1979/80[(a)]	1980/81
GRAND TOTAL (as per Estimate of Expenditure)	11 653,1	13 246,3
Supplementary proposals		260,0
TOTAL BUDGET OUTLAYS		13 506,3
Less Part II (as above)		422,8
Outlays as per Table 1		13 083,5

Notes: (a) Original estimates from the second and final print of the Estimate of Expenditure for fiscal year 1979/80. This column is therefore not comparable with the revised estimate for the current year in Table 1.

(b) Negligible amounts.

Source: Estimate of Expenditure to be defrayed from the State Revenue Account during the financial year ending 31 March 1981, First Print, RP 27/1980; 1980 Budget Speech.

Another item included in the Finance vote is "secret services". In terms of the Secret Services Account Act of 1978, the provisions for secret services on the votes of the Prime Minister, Defence, Cooperation and Development, Police and Foreign Affairs were consolidated in 1978 and appeared on the Treasury Vote for 1978/79. In terms of the programme of rationalisation of the civil service, the provision for secret services appeared in the new Finance vote in the Estimate of Expenditure for 1980/81. An amount of R33 million was provided for this purpose in that year under programme 3 of the vote.

The cost of tax administration was also provided for under the Finance vote. The Estimate of Expenditure for 1980/81 provided for R27,5 million and R9,7 million in respect of tax administration by Inland Revenue and Customs and Excise respectively. As a percentage of total revenues, tax administration therefore absorbed approximately 0,26 per cent and 0,90 per cent of inland revenue and customs and excise respectively.

To conclude this section, attention is also drawn to Vote 31 - Improvement of Conditions of Service. This vote represents the estimated cost to the Treasury of improvements in the conditions of service of employees of government and state-aid institutions, including the provincial administrations, less the estimated saying on other votes in the prospective year which came to R46,5 million in the 1980 budget. Separate budgeting of improvements in conditions of services means, of course, that all other votes are in reality understated by their respective portions of the total cost. In the most recent years the vote has contained only a portion of the cost of improvements in conditions of service, with the remainder being allocated to the individual votes at the outset.

Budget Outlays by Function and Economic Type

Budget outlays are classified by function and economic purpose in the Statistical/Economic Review. The latter has since fiscal year 1966/67 given a detailed two-way functional and economic classification of proposed government spending (excluding supplementary proposals), to highlight some major structural aspects of the government's expenditure plans. The statistical bases for these classifications are set out in accompanying notes in the Review.

A breakdown of outlays by function is presented in Table 8. It is particularly notable that about 17 per cent (or almost one-fifth) of the proposed central government outlays in fiscal year 1980/81 was for defence. The share of total spending going to defence has increased significantly during the 1970s. Economic services include outlays in respect of *inter alia*, agriculture, forestry, development of mineral resources, transport, storage, manufacturing and construction, as well as roads. Transfers to other government authorities include grants to the provincial administrations (R 265,0 million in 1980/81), while outlays not allocated to function include, *inter alia*, interest on the State Debt (R1 482,6 million in 1980/81).

By contrast, Table 9 gives a breakdown of total outlays by economic purpose. The table, which again is not as detailed as the relevant table in

Table 8 Budget Outlays by Function, 1980 Budget

Purpose	Estimates			
	1979/80[(a)]		1980/81	
	Rm	%	Rm	%
Defence	2 044	17	2 331	17
Education	765	6	947	7
Health	216	2	236	2
Social assistance and welfare services	517	4	550	4
Housing	276	2	305	2
Economic services	1 238	10	1 360	10
General public services	1 343	11	1 560	12
Transfers to other government authorities	2 870	24	3 257	24
Government enterprises and corporations	1 501	12	1 291	10
Not allocated to functions	1 467	12	1 622	12
Total Outlays (as per the Review)	12 237	100	13 459[(b)]	100

Notes: (a) Original Estimate. This column is therefore not comparable with the revised estimate of outlays in Table 1.

(b) This total does not correspond with that given in Table 1. For a reconciliation with Table 1, see Table 10.

Source: Statistical/Economic Review (WP B/1980).

Table 9 Budget Outlays by Economic Type, 1980 Budget

Type	Estimates			
	1979/80[(a)]		1980/81	
	Rm	%	Rm	%
Net expenditure on goods & services				
Current Expenditure	3 685	30	4 252	32
Capital Expenditure	462	4	531	4
Total	4 147	34	4 783	36
Transfer payments & loans/investments				
Interest	1 343	11	1 483	11
Other	6 747	55	7 193	53
Total	8 090	66	8 676	64
Total Outlays (as per Review)	12 237	100	13 459[(b)]	100

Notes: (a) Original Estimate. This column is therefore not comparable with the revised estimate of outlays in Table 1

(b) This total does not correspond with that in Table 1. For a reconciliation with Table 1, see Table 10.

Source: Statistical/Economic Review (WP B/1980) the Review itself, distinguishes between: (i) expenditures that constitute purchases of goods and services; and (ii) transfer payments and loans and investments. Most government outlays are in respect of the latter category, i.e., about 64 per cent of estimated budget outlays in fiscal year 1980/81 was for transfer payments and loans/investments, and only 36 per cent for the government's own current and capital expenditures which include defence spending.

In using the economic and functional classification, it is well to be aware that the totals of Tables 8 and 9 are not comparable with those in Table 1. For the sake of convenience, the adjustments required to work from the classification (in the Review) to the budget summary (in Table 1) are set out in Table 10 for the 1980 budget.

Table 10 Reconciliation of the Functional/Economic Classification with Table 1 (Rm)

Outlays as per functional economic classification		13 459,4
Less Standing appropriations from revenue	422,8	
Expected balance on the Special Defence Account on 31 March 1980	184,5[a]	
Savings expected on votes	46,5[a]	
Plus Statistical adjustments (net)	17,9[a]	
Supplementary estimates	260,0	13 083,5
Outlays as per Table 1		13 083,5

Note: (a) Adjustments required to work from the functional/economic classification to the Estimate of Expenditure.

Sources: Statistical/Economic Review (WP B/1980); 1980 Budget Speech; Estimate of Revenue...31 March 1981, First Print (RP 3/1980).

Additional points that might be noted in regard to the economic/functional classification in the Review are the following:

(i) Although standing appropriations from revenue are presently incorporated in the classification, they were excluded from 1966 to 1976.

(ii) The classification has included total estimated spending from the

Special Defence Account, including spending financed from the expected balance in the Account at the end of the as yet uncompleted current year, from fiscal year 1979/80; spending from available balances was not taken into account in former years.

(iii) Up to fiscal year 1977/78, the classification incorporated the expenditures from the South West Africa Account, although, as we have seen, the latter account never formed part of the summary presentation in the printed version of the budget speech. The same applied to the Bantu Education Account during the period that this account existed from 1955 to 1972.

When using the classification to examine movements in the government's spending pattern, it is well to remember also that the classifications are based on the original estimates of expenditure and that the data for the previous years are not the revised estimates but the original estimates for the uncompleted current year. Whilst the actual data for earlier years would have been more useful for purposes of comparison with the budget figures, they are not furnished in the budget documents.

Current and Capital Expenditure

Since the abolition of the distinction between the Revenue Account and the Loan Account in the government's accounts in 1976, the Estimate of Expenditure has contained a new economic classification of spending, in that provision is made in the money columns of votes for the division of the estimates into (a) current expenditure, (b) capital expenditure and (c) transfers payments (sums to be transferred to other persons or organisations for spending by them instead of by the government departments concerned).[1] It is notable, however, that although the broad distinction between current and capital expenditure under the former divided budget policy has therefore been maintained in the Estimate of Expenditure, the basis of the classification has changed significantly with the intro-

(1) The general guidelines that are followed in allocating expenditures in this classification are normally set out in the Finance Minister's memorandum in the Estimate of Expenditure.

duction of the further category to provide for transfer payments. As the transfer payments cut across the former division of outlays between the Revenue Account and the Loan Account, the two sets of groupings are conceptually quite different and should therefore not be used together for comparative purposes.

Note also that the abstract of the Estimate of Expenditure does not give the above economic classification in respect of the fixed statutory appropriations. Consequently, the division of outlays into current expenditure, capital expenditure and transfer payments cannot be related to the totals of Table 1 in a convenient manner. Moreover, as a result of differences in definitions and coverage, the broad economic classification of outlays in the Estimate of Expenditure is not reconcilable with the aforementioned more detailed economic classification in the Statistical/Economic Review.

The Government as a Supplier of Credit

The budgetary exposure of government credit is important for several reasons. First, loans are not considered to have the same impact on spending as government purchases of goods and services. Second, to the extent that government credit is provided to a borrower in another sector at a cost which is lower than that at which the government itself has borrowed, there is a subsidy element in the loan. Third, the government's participation in the credit market is an important determinant of financial conditions in the economy. Fourth, because of the traditional asymmetrical budgetary treatment of government borrowing and lending,[1] the scope of government financial intermediation becomes one of the determinants of the size of the budget deficit. That is, an extension of the government's role as a financial intermediary will have the effect of increasing the deficit (before borrowing), and *vice versa*. An awareness of the scope of government lending and changes therein, would therefore help

(1) Government lending is customarily treated as part of budget outlays, while borrowing is always a budget financing item.

to explain movements in the government's borrowing requirement and could be a significant presentational aid in a country like South Africa where there is currently no budget-balancing rule, and fiscal policy in practice regularly produces an open-ended deficit in the Exchequer.

The South African government and its various agencies are suppliers of credit to a wide spectrum of borrowers. Some of the credit is provided through independent public corporations, such as the Land Bank and the Industrial Development Corporation, which as we have seen are both traditionally regarded as extra-budgetary outside the central government. These corporations have recourse to local and overseas capital markets, but may also be allocated capital from the budget. Credit is also provided through the medium of some of the central government's own extra-budgetary lending agencies, such as the National Housing Fund, the Community Development Fund, the Local Loans Fund and the Economic Cooperation Promotion Loan Fund. These funds are largely dependent on the budget for their capital requirements, although the National Housing Fund was granted direct access to the local capital market quite recently. The Treasury and other departments further channel considerable sums of loans and investments to SATS, the Deparrment of Posts and Telecommuncations, the public corporations, etc. In addition, the Agricultural Credit Board is an important supplier of credit to the agricultural sector on the Agriculture and Fisheries vote. Finally, the PDC are important investors in the securities of municipalities, public corporations and administration boards. Of further interest is that the Treasury also provides financial guarantees to various banks and financial institutions in respect of loans and advances made by them. Such financial guarantees involved a maximum potential liability to the Exchequer of R7 523,2 million on 31 March 1981. In addition, further guarantees of a similar nature but for unspecified amounts are provided.[1]

(1) Republic of South Africa, Part I of the Report of the Auditor-General for the Financial Year 1980/81, RP 48/1981, p.16.

Relatively little of the foregoing is, however, exposed in the South African budget. This is mainly because the budget focuses on the State Revenue Account alone, and the loans and investment for which details are given in the budget, are therefore confined to those which are channelled to borrowers through the Exchequer Account. Moreover, details of prospective loans and investments financed from the Exchequer Account are buried in the Estimate of Expenditure, from which amounts, names of borrowers, etc., must be researched if needed. The economic/ functional classification of expenditures in the Statistical/Economic Review is not particularly helpful in this regard since transfers and loans are lumped together and it is therefore not possible to ascertain from this source what amount of loans and investments the government proposes to make from the budget in the coming year. As regards net lending, loan recoveries are treated as budget receipts and are presented in broad categories in both the Comparative Figures of Revenue and the Estimate of Revenue, but there is no convenient way of linking this information with the amounts and destinations of loans on the expenditure side of the budget to obtain an idea of the net figures involved.

Table 11 gives details of government credit provided for in the 1980 budget. Provision for loans and investments was made on twelve different votes and money raised by the Treasury is advanced to borrowers in the form of interest-bearing loans or subscriptions to share capital. Borrowers are located in the central government itself, as well as in other parts of the public sector and in the private sector.

Table 11 Loans and Investments - 1980 Budget (Rm)

SATS	616,0
National Housing Fund	215,2
Community Development Fund	38,0
Local Loans Fund	0,6
Local authorities	12,4
Public corporations	192,7
Farmers (Agricultural Credit Board	44,4
Other	46,5
Total	R1 165,8

Source: Estimate of Expenditure to be defrayed from State Revenue Account during the financial year ending 31 March 1981, First Print, RP 2/1980.

The importance of the Treasury as a financial intermediary is brought out clearly if Table 11 is related to the 1980 budget as a whole. Government loans and investments (R1 165,8m) equalled only 8,9 per cent of total outlays (R13 083m), but accounted for no less that 52 per cent of the estimated budget deficit of R2 227 million. This suggests a strong connection between the Treasury's intermediary function and the annual changes in the government's borrowing requirement. Despite this, the budget as currently presented gives inadequate exposure and recognition to this role of the Treasury and there is no explicit reference to the government's lending, or changes therein, as a determinant of the financial deficit. Because of the budget's lack of coverage and the complex nature of the central government's internal cash flows, there is also no way to ascertain from budgetary data precisely how much credit the central government as a whole proposed to grant to other sectors of the economy.

7. THE BUDGET DEFICIT

The third major element of the budget is the government's financial deficit or surplus. The budget deficit or surplus is simply the difference between expenditures and revenues, a deficit indicating that central government has spent more than it has collected in the form of taxes and other current receipts, and a surplus that revenues exceed expenditures. Since governments frequently use budget deficits or surpluses to stimulate or slow down the economy, the size of the annual balance in the budget is widely regarded as a key aspect of the government's financial plan.

Background to Budget Deficits

Balanced budgets or surpluses are relatively uncommon in South Africa. Jones[1] mentioned that during the 50 years from 1910-1960, ordinary budget revenues exceeded expenditures only in the 1933/34 and 1934/35 financial years. The annual deficit, averaged over the period 1961 to 1981, has been approximately 15,4 per cent of budget outlays.[2]

The main reason for these deficits is the extensive capital expenditure and loan programme undertaken by public authorities in South Africa, coupled with the fact that the Exchequer serves as a major source of finance to many of these bodies.[3] Because the government's budgetary outlays in respect of its own capital expenditure and its loans and other capital transfers are either recoverable by the Exchequer (in the case of loans), or lead to the creation of permanent or productive assets by the State, the principle was accepted at an early stage of public finance in South Africa that such expenditures be normally financed from loans rather than from taxes or other current revenues. Consequently, the State's cur-

(1) J. Jones in D.H. Steyn (ed.), Inleiding tot die Suid-Afrikaanse Staatsfinanses, Pretoria: J.L. v. Schaik Bpk., 1961, p. 179.

(2) It is interesting that in fiscal year 1980/81 the very small actual budget deficit of R265m (See Table 2) amounted to a virtual balancing of the budget.

(3) See also J.A. Lombard and J.J. Stadler, Die Ekonomiese Stelsel van Suid-Afrika, Cape Town: HAUM, 1977, p.123.

rent and capital expenditures would always exceed its current revenues.[1]

Up to 1976 this conventional approach to the budget was embodied in the so-called dual or divided budgetary system. Broadly speaking, current expenditures were financed from Revenue Account and capital expenditures (including loans) from Loan Account. As previously mentioned, the Revenue Account was traditionally financed from taxes and current revenues and the Loan Account from loans. However, especially since the end of World War II, the distinction between the Revenue Account and the Loan Account had become blurred.[2] Particularly from the mid-1950s, both planned and unplanned surpluses in the Revenue Account were increasingly utilised to finance a portion of the Loan Account. On the other hand, as it was at the time widely believed to be a sound principle of public finance that at least current expenditure should be financed from current revenue, the government had until the 1970s, followed the practice of not financing any portion of the Revenue Account from loans. However, a similar result had in fact been achieved on one or two occasions by transferring certain items of expenditure from Revenue account to Loan Account (a portion of defence spending in 1963), or by transferring certain revenue sources from the Loan Account to the Revenue Account (transfer duty in 1972). In 1972, the government also utilised funds from the Stabilisation Account (built up from loans - see Section 8) to finance a portion of the Revenue Account.

As we have seen, the Franzsen Commission recommended in 1970 that the distinction between the Revenue Account and the Loan Account be removed.[3] This recommendation was accepted by the government and the

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(1) The size of the government's annual budget deficit is also influenced by the practice of paying voted monies into separate funds or accounts (see Section 5). In those years that funds are accumulated in the separate funds, the budget deficit will appear to be larger than it really is. Conversely, when accumulated balances are run down the deficit would appear to be smaller than it really is.

(2) See Browne, *op cit*, pp.21-22.

(3) Fiscal and Monetary Policy in South Africa. Third Report of the Commission of Enquiry into Fiscal & Monetary Policy in South Africa, November 1970, RP 87/1970.

first unitary budget was presented to Parliament in March 1976. The abandonment of the dual budgetary system represented a completed, formal break with the traditional notion in South African public finance that at least current expenditures be financed from taxes and that any failure to do so would impose an unwarranted burden on future generations of taxpayers; a notion which, despite its shortcomings, provided some political discipline over spending of a current nature, judging from the relatively frequent references to this aspect in Parliamentary debates of the time. Be that as it may, it is now fairly generally accepted by government and other opinion that the choice between taxes and loans should be made on economic grounds and should not be influenced by considerations of inter-generation equity or the maintenance of the State's net worth. It is probably also true to say that, because of South Africa's long tradition of loan financing, the community has a low perception of, and interest in, the concept of a balanced budget. On the whole, the ideal of a balanced budget, or its opposite, the spectre of a growing debt burden on future generations, play virtually no role in the evaluation of fiscal policy in South Africa. In any case, an undue concern with budget deficits *per se*, as opposed to yearly changes therein, would make little sense in the light of the aforementioned unsatisfactory coverage of the budget and the lack of data on the Treasury's role as a financial intermediary.

Movements in the Deficit, and Automatic & Discretionary Fiscal Changes

As we have seen, fiscal policy in South Africa regularly produces an unbalanced budget with budget expenditures exceeding revenues by a substantial margin in most years. The summary budget presentation (see Table 1) provides the traditional framework to analyse the approximate direct income-creating or income-destroying effect of the budget, in accordance with the formula: expenditures less revenues equal the net deficit (before borrowing). It is usually difficult to judge whether a particular absolute level of budget totals *per se* is expansionary, restrictive or neutral, but at the same time it is generally possible to say that an increase in the budget deficit is expansionary or that a decrease in the deficit is restrictive. Consequently, the budget also gives the latest (revised) estimate of the expenditures and revenues for the, as yet, uncompleted current year for purposes of comparison with the prospective year. For the sake of convenience, these comparative data for 1980/81 are given in Table 12. The raising of the budget deficit to R2 227 million for 1980/81 suggests that this was the response of the government to the prevailing economic circumstances.

Table 12 1980 Budget Estimates

Item	Estimate	Change on 1979/80	
	Rm	Rm	%
Expenditures	13 083	+1 603	14,0
Revenues	10 856	+1 059	10,8
Deficit (before borrowing)	2 227	+ 544	32,3

Source: Table 1

However, the economy influences the budget as well as the other way around. For example, a revenue increase or decrease can come about either through a discretionary change in tax rates or, without any change in tax rates, simply in response to increases or decreases in taxable private incomes, expenditures, employment, prices, etc. For purposes of judging the government's fiscal initiatives, therefore, it is not only necessary to deal with changes in the budget deficit but to distinguish, for a particular budget year, between the effect on the budget of deliberate changes in tax rates or expenditure levels and the effects induced by changes in the level of income, prices, etc.

Unfortunately, there is no explicit treatment of these issues in the South African budget to highlight the government's current fiscal initiatives. As regards expenditures, the Estimate incorporates both induced changes in outlays, and discretionary or deliberate increases or decreases in spending plans, but fails to distinguish between the two categories(1) though the budget speech usually contains a reference to the projected inflation rate, from which it is normally possible to deduce the hypothetical zero real growth rate position which might in turn be compared with the projected actual growth rate of government spending in real terms (see Table 13).

Conversely, some perspectives on the lines suggested above can normally be obtained from an analysis of budget revenues. As we already know, the various budget papers provide the following details of budget receipts:

(a) the revised estimate of revenue for the uncompleted current year;

(b) the estimate of revenue for the coming year (on the basis of existing tax rates);

(c) the revenue effects of the Minister's tax proposals for the coming year; and

(d) the estimate of total revenue for the coming year.

Although it is not stated explicitly in the budget, the revenues which are calculated on the basis of existing tax rates (item (b) above) remove from the forecast the direct effect of the tax proposals but not the indirect effect of changes in the level of economic activity and prices resulting from the budget measures. It follows that (b) (c) and (d) above are all calculated on the basis of the same (post-budget) level of income and prices. A useful way of interpreting the budget's revenue data is therefore to view the difference between (a) and (b) as an approximate measure of the automatic effect on tax yields induced by changes in the level of private incomes, spending, prices, etc., and to regard (c) (the difference between (b) and (d)) as a measure of the government's discretionary policy initiatives.

The foregoing perspectives are embodied in Table 13 which presents a

(1) The distinction drawn here between induced and deliberate changes in spending should not be confused with the distinction between the printed estimates and the supplementary estimates in Table 1.

Table 13 Automatic vs. Discretionary Fiscal Changes, 1980 Budget (Rm)

	Expenditures	Revenues	Deficit
Revised estimates for 1979/80	11 480	9 797	1 683
1980 Budget proposals:			
A. Automatic changes			
Expenditures (a)	+1 603		
Revenues (b)		+1 968	
Deficit (before borrowing)			-365
Hypothetical budget (before budget iniatives)	13 083	11 765	1 318
B. Discretionary changes			
Expenditures	-		
Revenues (tax concessions)		-909	
Deficit (before borrowing)			+909
The 1980 budget estimates	13 083	10 856	2 227

Notes: (a) A planned zero increase in real expenditure and a 14 per cent inflation rate are assumed.

(b) Based on unchanged tax rates.

Sources: Table 1; the 1980 Budget Speech.

rearrangement of the data contained in Table 1 in order to focus attention on the distinction between automatic budgetary changes and the government's discretionary policy initiatives for 1980/81. The table illustrates that if tax concessions were not granted in 1980, the deficit (before borrowing) would have declined in money terms from R1 683 million in 1979/80 to R1 318 million in 1980/81, mainly as a result of a drastic rise in tax revenues, e.g., gold mines (+58,5 per cent), persons (+20,7 per cent), companies (+11,5 per cent), gold-mining leases (+90 per cent), GST (+26 per cent) and excise duties (+10,3 per cent). In accordance with the government's declared policy at the time of stimulating the private sector, this fiscal 'dividend' was distributed by means of tax concessions of over R900 million rather than by way of real expenditure. The end result was a substantial percentage increase in the deficit in money terms and an increase in real terms of about 16 per cent.

8. BUDGET FINANCING

As was indicated before in the discussion of the budget summary in Section 3, the term 'budget financing' refers to the fiscal action that must be taken when the government's outlays differ from its receipts. Budget financing is presented in the lower portion of Table 1. Because of its importance in the overall assessment of the government's fiscal initiatives, this part of the budget customarily features prominently in the budget speech although it does not, of course, form part of the formal estimates as presented to Parliament for approval.(1)

Sources of Budget Financing

Ordinarily, borrowing by the Treasury is the principal means of financing when the budget is in deficit. A surplus in the budget would make possible a reduction in the outstanding debt but, as we have seen, State Revenue Fund surpluses are relatively uncommon in South Africa, so the Treasury is a habitual net borrower.(2)

Changes in Exchequer balances are an additional source of finance. When the government's receipts (including loans) exceed its outlays in a particular year, the balance on the Exchequer would increase (Cash balances are most often kept with the South African Reserve Bank, in which

(1) In terms of Section 4(3) of the Exchequer and Audit Act No. 66 of 1975, the government must submit estimates of revenue to Parliament annually. As the term 'revenue' is defined in the Act (Section 1) to include loan receipts, it must be assumed that the data contained in the financing section of the budget are designed to comply with Section 4(3).

(2) Debt issued by the Treasury is usually called the State Debt (formerly the Public Debt). At any one time the State would owe amounts that are, however, not considered to be part of the State Debt but as outstanding expenditures. Among these are, for example, the salaries of the public servants, amounts owed in connection with goods and services provided to the State, and the accumulated interest on the State Debt. Outstanding interest on Treasury Bills is, however, included in the State Debt (see Section 6).

case no interest is earned, but may also be placed on deposit in the money market, particularly to avoid a drain of bank cash, or to minimise the interest burden on such funds). Balances which are built up form surpluses are, of course, available to defray expenditures in the years to follow before it is necessary to borrow more and thereby increase the outstanding debt. According to Table 1, the 1980 budget anticipated an additional absorption of Exchequer balances of R57 million, after net transfers out of Exchequer surpluses of R160 million and R40 million to the Special Defence Account and the South West Africa account, respectively. Because the running down of Exchequer balances represents an injection of cash into the economy, the choice between borrowing and the utilisation of cash balances would normally depend on prevailing economic conditions and the state of the money markets.

Besides the regular annual deficits (before borrowing) which have to be financed in one way or another, the scope of the Treasury's debt transactions is also affected by the fact that a substantial proportion of the outstanding State Debt matures every year. In the absence of State Revenue Fund surpluses, willing holders must be found for maturing debt as well as the new debt. In order to draw attention to this dimension of fiscal policy, the budget customarily draws a distinction between the net deficit (before borrowing) and the so-called financing requirement. In the 1980 budget, the estimated redemptions of domestic and foreign debt equally R1 430 million (or 8 per cent) of the outstanding debt on 31 March 1980. Together with the deficit of R2 227 million, this produced a financing requirement of R3 657 for 1980/81, compared with R3 083 million in the uncompleted current year. It is of interest that there are often relatively large discrepancies between the estimates of redemptions and the actual amounts as reported in the budget of the following year. The reason for this apparent unpredictability of debt redemptions is related to the fact that redemptions often take place at the discretion of bondholders. For example, when the redemption of bonds is at the discretion of the investors (in the case of non-marketable debt), increases in interest rates might induce considerable off-loading of debt at the Treasury, particularly by financial institutions on behalf of clients.

Up to 1976 when the distinction between the Revenue and Loan Accounts was removed, the borrowing activities of the government were concerned with the deficit in the Loan Account. The borrowing powers of the government were defined by Section 2 of the General Loans Act of 1961 which provided that the government could borrow money to meet expenditures authorised by Parliament after the amount standing to the credit of, or accruing to, the Loan Account had been taken into account. In order to allow the Treasury some freedom of movement in its borrowing activities, Section 3 determined that it could borrow such further amounts as it considered necessary, but with the proviso that these loans could not exceed R60 million.

Under the present unitary budgetary system the loan requirements of the government are determined by means of the difference between total revenue and total expenditure in the State Revenue Account. For this the government has virtually unlimited borrowing powers. Section 16 of the Exchequer and Audit Act No. 66 of 1975 (which repealed the General Loans Act) provides that the government may, at any time, borrow monies to finance anticipated deficits in the Exchequer Account, obtain foreign currency, or maintain such credit balances in the Exchequer Account as may be deemed necessary in the public interest.

In 1964 a new dimension was added to the government's borrowing powers to enable it to use its fiscal instruments for monetary stabilisation purposes. As a result of the South African Reserve Bank's inability to apply an effective open-market policy during the early 1960s on account of its inadequate portfolio of government stock, the government's borrowing powers were extended in 1964 with a view to promoting financial stability. An addition to Section 3[1] of the General Loans Act of 1961, authorised the government to borrow such further amounts beyond its fiscal

(1) Section 3 bis, superseded by Section 17 and Section 18 of the Exchequer and Audit Act No. 66 of 1975.

purpose of monetary stabilisation. No maximum was fixed for the further borrowing powers, but the proceeds of such loans (and such portions as the Minister may deem necessary of any surplus in the Exchequer at the close of a financial year), are to be deposited in a special Stabilisation Account with the Reserve Bank and thereby 'sterilised'. In administering this account on behalf of the Treasury, the Reserve Bank may, with the approval of the Treasury, invest the relevant funds abroad, particularly to minimise the interest burden on such funds or grant advances to the National Supplies Procurement Fund.(1)

These special borrowing powers were used for the first time during the 1967/68 financial year when the government borrowed more than its actual requirements, and an amount of R83,3 million was transferred to the Stabilisation Account. On 31 March 1981 the balance in the latter account amounted to R2 034 million. Most of this money was advanced to the National Supplies Procurement Fund in connection with the stockpiling of strategic materials imported from abroad.

If warranted by a change in monetary conditions and if the economy needs to be stimulated again, the government may transfer monies back from the Stabilisation Account to the Exchequer Account to defray expenditures in the latter. As we have seen, this happened in 1972 when the government utilised funds from the Stabilisation Account to finance a portion of the Revenue Account and also in 1976/77 when an amount of R30 million was transferred from the Stabilisation Account to the Exchequer Account to cover a portion of the shortfall in the latter account in that particular year (see Table 16). Transfers from the Stabilisation Account to cover deficits in the Exchequer represent an injection of cash into the economy and are therefore part of the usual cyclical adjustment of fiscal

(1) If advances are granted to the National Supplies Procurement Fund the monies in the Stabilisation Account have, of course, not remained 'sterilised'. However, if the monies advanced in this way are used to finance imports, its effect on the money supply is minimal.

and monetary policy.[1]

The details of the lower portion of Table 1 are reproduced here in Table 14 in a revised format. Borrowing is broken up into several categories. To cover the financing requirement the Treasury can borrow from the general public (including the South African Reserve Bank) or from the PDC. Table 14 shows that borrowing from the Commissioners represented the predominant source of budget financing in the 1980 budget. Since this represents an 'internal' source of finance, a part of the outstanding State Debt is effectively held by the central government itself (see Table 16 below).

Borrowing by the Treasury from the general public is broken up into domestic borrowing and foreign borrowing. These are further sub-divided into marketable and non-marketable debt. Foreign borrowing comprises mainly marketable public loans and non-marketable term credits from foreign banks. Domestic marketable loans raised by the Treasury consist mainly of stocks and Treasury Bills. Marketable stocks are mostly offered for subscription through public issues, but Treasury Bills are issued by tender and are made out to bearer. The tender is conducted every Friday by the Reserve Bank on behalf of the Treasury.

Domestic non-marketable debt comprises mainly Treasury Bonds, National Defence Bonds and Bonus Bonds. Treasury Bonds have been issued by the Treasury for many years, but National Defence Bonds were introduced in 1976 as an additional source of financing the country's growing defence bill, and Bonus Bonds were introduced a year later (1977) to further bolster the country's defence effort. It is, however, of interest to note that the proceeds of the sale of National Defence Bonds and Bonus Bonds are not 'earmarked' in the budget since there is no separate defence budget, but are paid into the State Revenue Fund as 'general receipts' which can be used to finance any type of outlay.

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(1) Money may also be transferred from the Stabilisation Account to the Exchequer Account to defray purely temporary deficits in the latter. Obligations issued by the Treasury to the Stabilisation Account for this purpose are cancelled when the transfers are reversed. Relatively large sums, e.g., R1 665,1m in fiscal year 1980/81, are shifted annually for this purpose.

Table 14 Budget Financing - 1980 Budget (Rm)

Borrowing or repayment of borrowing:	
From the public:	
Domestic borrowing	
Re-investment of loan redemptions[(a)]	850
New government stock issues	600
Non-marketable debt	
National Defence Bonds	50
Bonus Bonds	150
Treasury Bonds	200
Loan levies	-
	1 850
Less redemptions	
Stocks[(b)]	1 094
Bonds	226
Loan levies	10
	1 330
Net domestic borrowing	520
Foreign borrowing	
New loans	100
Less redemptions	100
Net foreign borrowing	-
Net borrowing from the public	520
From the Public Debt Commissioners:	
Subscriptions less redemptions	1 650
Total domestic and foreign borrowing	2 170
Other means of financing:	
Decreases (+) in Treasury cash balance	57
Total financing transactions applied to budget deficit	2 227

Notes: (a) Inclusive of re-investments by the PDC.
(b) Inclusive of redemptions by the PDC.

Source: Table 1.

Treasury Bonds, National Defence Bonds and Bonus Bonds are all issued for an indefinite period but may be redeemed at the Treasury at the discretion of the bondholders after 12 months from the date of investment. Bonus Bond holders participate in regular monthly prize draws. Prizes are paid from voted monies representing a portion (3 per cent) of the interest that has been set aside for the purpose.

Loan levies, which have been employed on and off since 1952/53, deserve special mention. These levies are a form of compulsory saving but as the income tax on individuals and companies serves as the basis, they are regarded as a partial substitute for taxation. Although the loan levies have a maximum currency of seven years, they have no fixed redemption date to avoid redemption at an inopportune time. To provide further fiscal flexibility between budgets, the Finance Minister was authorised in 1976 to increase or decrease the loan levy by a maximum of 10 per cent of the basic tax, subject to approval by Parliament during the following session. The loan levy was abolished on 31 March 1980, but reintroduced on 1 April 1982. According to Table 14, repayments absorbed R10 million in fiscal year 1980/81. At the end of March 1981 the Treasury's outstanding liability (excluding accumulated interest) in respect of loan levies amounted to R1 838 million (see Table 15).

Finally, it is important to be aware that the details of the budget financing section, as set out in Table 14, are tentative. In other words, the outcome of budget financing (including the net claims of the banking sector on the Exchequer) quite often differ substantially (even radically) from what can be gleaned from the budget itself. The budget financing section should, therefore, be approached with a degree of circumspection or caution, especially as far as the budget's effect on the money supply is concerned. There are several reasons for this.

First, the forecasting of the size of the deficit is no easy matter, given that it is essentially the difference between two very large flows. When there are unavoidable increases or decreases in the government's outlays and revenues, the size of the deficit itself may turn out to be quite different from that envisaged in the main budget. When this happens, and it always does, it would plainly call for a revision of the government's financing strategy. For example, in 1980/81 the deficit before borrowing, far from being maintained at the estimated R2 227 million, actually declined from R1 656 million in the fiscal year ended 31 March 1980, to a mere R265 million (see Table 2). As a result, an amount of R1 242 million was transferred to the Stabilisation Account and the banking sector's net claims against the Exchequer actually declined by more than R1 200 million.

Second, much of the detail in the financing section is provisional anyway. For one, conditions in domestic and international financial markets have a significant effect on the government's debt policies, and as these conditions could change drastically during the course of the budget year, the array of techniques employed to cover the government's total financing requirement, including the choice between domestic and foreign borrowing, could be quite different from that envisaged in the budget. Moreover, as we have seen in the discussion of the extra-budgetary sector, the amount obtainable from the PDC could also differ substantially from that envisaged in the budget, so that the Treasury may be able to finalise its own plans only after it is known how much is available from the Commissioners. It is also possible that the fiscal planners might be tempted by the tentative nature of the estimates in the financing section to engage in a bit of 'window dressing' for the sake of a better overall picture. However, in the absence of detailed knowledge of how the estimates in the financing section are arrived at, what can be said on this latter subject is bound to be largely conjecture.

Third, the financing section does not, in any case, provide sufficient information to guage the government's plans to borrow from the banking sector. Although borrowing from commercial banks and other private banking institutions, as opposed to borrowing from the private non-bank sector, is a major determinant of the budget's effect on monetary conditions, this important aspect is not dealt with in the budget presentation.

Fourth, since the budget focuses on the financing of the State Revenue

Fund alone, there are extra-budgetary factors affecting the financing of the Exchequer, and its indebtedness to the banking sector, which are not reflected in Table 1. The extra-budgetary dimension of budget financing will be examined in more detail in the last part of this section.

The State Debt

Table 15 gives details of the gross State Debt on 31 March 1981. The table shows that it is composed largely of domestic marketable debt. That is, on 31 March 1981, 96 per cent of the total State Debt was in the form of domestic debt and only 4 per cent foreign debt. Domestic and foreign marketable debt comprised some 76 per cent of the total debt.

The gross debt is often distinguished from the net debt which gives a better indication of the government's actual indebtedness. The net State Debt is calculated by deducting from the gross debt the amounts on the government's General Sinking Fund. This fund was created in 1926 (Act No. 5 of 1926) under the administration of the Public Debt Commissioners with the object of extinguishing the then unproductive debt of the Union. In each financial year, statutory sums are paid from revenue into the fund and the government stocks purchased by the Commissioners on behalf of the General Sinking Fund are currently cancelled at a rate equivalent to at least the annual contribution to the Fund. During 1980/81 an amount of R6,6 million was paid to the Fund from voted monies and the debt cancelled by the latter amounted to R6,8 million. On 31 March 1981 the relationship between the gross and net State Debt was as follows:

	Rm
Gross State debt	19 759,1
less amount in the State Debt Sinking Fund	201,1
Net State Debt	19 558,0

As we have seen, the Public Debt Commissioners are an important

Table 15 Composition of the State Debt as at 31 March 1981

Item	Rm	%
Domestic debt:		
Marketable		
Stocks and bonds	14 502	73
Bills	395	2
	14 897	75
Non-marketable		
Stocks and bonds	1 665	8
Bills	823	4
Loan levies [(a)]	1 838	9
	4 326	21
Total domestic debt	19 223	96
Foreign debt: [(b)]		
Marketable stock	195	1
Non-marketable stock	436	3
Total foreign debt	630	4
Total State debt	19 853	100

Notes: (a) Including small amounts of tax redemption certificates, personal and savings fund levies and tax bonds.

(b) Adjusted for higher commitments in respect of foreign loans as a result of foreign exchange rate adjustments.

Source: South African Reserve Bank, Quarterly Bulletin, December 1981.

source of budget financing. The PDCs' holdings of State Debt are shown in Table 16. Although the gross State Debt increased by R1 735 million, debt held by the public increased by a smaller amount (R628 million) during 1980/81. The balance (R1 107 million) was acquired by the PDC. From the point of view of debt management the part of the debt which is held outside the central government is more important. On 31 March 1981 the holdings of government debt by other sectors (including the Reserve Bank) amounted to R12 230 million (or 62 per cent) of the total outstanding debt. Most of the debt, especially the marketable portion, is held by financial institutions.

Table 16 also shows the effect of the Stabilisation Account on the growth of the State Debt. During the six financial years from 1975/76 to 1980/81, the government borrowed R1 608 million more than its normal fiscal requirements in order to sterilise the yield in the Stabilisation Account. Especially in 1980/81 the increase in the State Debt was considerably in excess of the actual Exchequer borrowing requirements, a net amount of R1 242 million having been transferred to the Stabilisation Account in that year. This brought the total amount on the latter account to R2 034 million (or 10 per cent) of the outstanding State Debt at the end of March 1981.

A final point worth noting is that the State Debt, as set out in Table 15, is conceptually only a part of the central government debt. The fact is that as well as the Treasury, various autonomous entities in the central government have been authorised to borrow funds. These include SATS, the Department of Posts and Telecommunications, the National Road Fund, the National Housing Fund and the Human Sciences Research Council. Even the deposits accepted by the Public Debt Commissioners from institutions like the provincial administrations, public corporations, etc., could be regarded as a form of borrowing by the central government and thus as a component of its total debt. It is, therefore, possible to

Table 16 The State Debt, The Public Debt Commissioners and the Stabilisation Account

(Rm)

Item	As at 31 March						
	1975	1976	1977	1978	1979	1980	1981
Gross State Debt[(a)]	8483	10142	11988	14069	16154	18024	19759
Held by PDC	3445	3485	3621	4104	5455	6422	7529
Held by Public[(b)]	5038	6657	8367	9965	10699	11602	12230
Balance on the Stabilisation Account	426	822	792	792	792	792	2034

Notes: (a) Not adjusted for higher commitments in respect of foreign loans as a result of foreign exchange rate adjustments.

(b) Including holdings by the South African Reserve Bank.

Sources: Reports of the Auditor-General (various); Report of the Public Debt Commissioners (various).

speak of the central government debt, of which the State Debt is the largest part. However, as with the broader concept of the central government as such, this broader debt concept has up to the present not received any official recognition by the government and there is consequently also no mention of it in the annual budget.

The Extra-budgetary Dimension of Budget Financing

In order to complete our exposition of the budget financing section of the South African budget, it is necessary to shift the focus of the discussion briefly from the conventional budget deficit (as set out in Table 1) to the more comprehensive central government cash deficit.

To calculate the central government's cash deficit or surplus, the other funds and accounts not included in the State Revenue Fund (refer the discussion in Section 5) have also to be taken into consideration. Theoretically, there are two methods to compute the overall deficit from past records. Method 1 is to build up the central government's total revenues and expenditures from the detailed budgetary and extra-budgetary accounts. This is obviously a laborious task. Method 2 is to look at the change in debt and the change in cash balances. Decreases in cash balances and increases in debt outstanding for the period would measure the government deficit, and *vice versa*. If this method is used, some basic adjustments have to be made to the Treasury's own debt and cash position to get to the central government's overall deficit or surplus: intra-government loans (mainly the PDCs' subscriptions to government securities) must be deleted from the Treasury's debt figure; loans made by other government agencies (including the PDCs' net sales of government securities, as well as net increases in outstanding balances on departmental trust and deposit accounts) must be added; and changes in extra-budgetary cash balances must be brought into account.

An obvious implication of the foregoing is that the overall cash deficit of the central government, as well as its financing, may differ from what is indicated in the conventional budget. Thus, even though the method adopted to finance the budget deficit in a particular fiscal year may, for example, appear to be non-inflationary, the actual financing of the government's overall borrowing requirement in that year could in fact be highly inflationary. For this reason the budget financing section of the conventional budget cannot be considered in isolation, but must be viewed in the light of actual or expected developments in the extra-budgetary sector.

Various earlier sections have referred to the position occupied by the PDC in the government's financial system. It now remains to bring together these various aspects to focus on the Commissioners' role as an instrument of fiscal policy and debt management. An evaluation of budget financing must include a consideration of the fact that the PDC play an important role in the financing of both the conventional budget deficit and the central government's overall borrowing requirement, and that these aspects are therefore connected. The balance of this last section is devoted to an exposition of this extra-budgetary dimension of budget financing in South Africa.

Two aspects of the PDCs' activities are of central importance here. In the first place, it may be recalled that the accounts of the Commissioners effectively serve as a reservoir into which all available extra-budgetary surplus monies flow. As the Treasury has first priority on the funds of the PDC, the latter is a major source of finance in the Exchequer. However, the size of the PDCs' annual contribution towards the financing of the Exchequer is highly variable and unpredictable and therefore a potentially destabilising factor as far as budget financing is concerned. More particularly, because of the institutional separation that exists between the budget and the extra-budgetary sector, the government's extra-budgetary transactions are, to some extent at least, a passive part of the total fiscal/debt instrument, so that the Treasury may be able to finalise its own overall borrowing strategy only after it becomes known what part the PDC will play. Both Browne(1) and De Swardt and Steenkamp(2) have referred to the destabilising influence that unexpectedly low contributions from the PDC towards the financing of the Exchequer have on budget financing.

At the same time, the PDCs'n net investments in government stocks sometimes obscure substantial gross transactions, with subscriptions often being offset partly by considerable amounts of net sales to the public. Since such sales often involve short-term securities which are in demand by banking institutions, it can be inferred that the PDC could have an important effect of their own on monetary conditions, through their influence on the maturity structure and the ownership distribution of that part of the outstanding debt which is held outside the government sector. For example, while the PDCs subscriptions to government securities in a particular year might be kept at the expected level, so that the financing of the Exchequer itself would proceed according to plan,

(1) Browne, *op cit.*

(2) C.J. de Swardt and G. Steenkamp, "The Public Debt Commissioners - Their Operations and Role in the Financial Structure of South Africa", South African Reserve Bank - Quarterly Bulletin, June 1969.

unexpected destabilising influences arising from, for example, unforeseen movements in the central government's overall spending pattern, could instead be transmitted to the economy directly through the Commissioners' own debt purchases or sales (which are essentially extra-budgetary).

Equally significant, therefore, are the PDCs' very extensive debt transactions, with the Treasury in the first place, but also with the private sector. These transactions form an integral part of the government's overall debt policy.

The PDC operate in a dual capacity: as an investor of monies placed with them, and as an arm of the Treasury. However, the two roles are related. As an investor of monies, the Commissioners are concerned with the routine investment activities associated with this role, involving subscriptions to new government and semi-government securities and the trading of existing securities in the secondary market. Consequently, they will also have an interest in the promotion of an active market for securities in which to deal. Thus they may keep the market supplied with stock in the absence of public issues, or may allow the market to effect adjustments in private investment portfolios by facilitating switching between the different types of securities according to the needs of the various classes of investors.

However, intertwined with the PDCs' role as an investor of monies, is their role as an arm of the Treasury. In this regard the Commissioners are much more directly involved with the financing of the Exchequer as such. They do so firstly through their subscriptions to government securities. They also sell from their portfolio securities at first taken up from the Treasury, and promote an active market in gilts in South Africa, as described above. From this point of view, the PDCs' own activities are to a large extent complementary to those undertaken by the Treasury itself.

Of particular significance in the light of the foregoing is, therefore, the PDCs' role in the broader context of the central government's overall borrowing requirement. While the Commissioners' actions in the broad sphere of the State Debt are in the first place related to their role as a 'financial intermediary', their actions have from another viewpoint an underlying fiscal/budgetary basis. That is to say, they are also related to, and inextricably bound up with, the financing of the fluctuating demand for money experienced by the numerous extra-budgetary bodies, funds and accounts in particular, and by the central government in general. From this viewpoint, the Treasury and the PDC, whether acting separately or in concert, could be seen as jointly pursuing the objective of financing the cash surpluses or deficits of the central government as a whole, and of managing the government's debt. It follows that the conventional budget deficit, and its financing, reflect only a part of the government's total fiscal picture, and cannot therefore be considered without reference to extra-budgetary influences. Unfortunately, the South African budget as described in this paper offers little to draw attention to this dimension of the government's finances.