THE 2000 MEDIUM TERM BUDGET POLICY STATEMENT

TREVOR A MANUEL,MP

MINISTER OF FINANCE

NATIONAL ASSEMBLY
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Introduction

Madam Speaker

Today we lay before this House the Medium Term Budget Policy statement.

The MTBPS is in many respects a symbol of our maturing democracy and we are deeply appreciative of the time that Parliament will devote to debating it intensively this year.

The MTBPS serves three functions. It advises Parliament on what has changed in the economic outlook since the Budget was tabled in February this year. Second, it shares with the House the developments in public policy that will shape the Budget to be tabled on 21 February next year. Third, and most important, it invites Parliament and the nation to reflect on our priorities, performance and plans and to share with us in addressing the challenges we face and in shaping the future of our country.

What has changed?

International developments

The last three years have been difficult for the global economy and although the volatility that characterised the 1998 financial crisis has abated there are still a number of challenges. Global growth, which may reach 4 per cent this year, has contributed to our healthy export performance. However, rising oil prices, declining commodity prices – with the exception of platinum – perceptions of instability in the region and a general decline in capital flows to emerging markets, have continued to constrain growth in South Africa.

Amongst the most important risks to the global economy in the coming months are the large economic and financial imbalances between the three major currency areas – the US$, Euro and Yen. Global growth has largely been sustained by the continued expansion of the US economy. However, the current account deficit of the US balance of payments is now uncomfortably large. Moreover, further corrections in asset prices and uncertainty about the future of US interest rates remain a source of volatility in the mature economies with important knock-on effects for emerging and developing economies. It is also worth noting that several fast-growing economies have large current account deficits and many of the countries affected by the 1998 financial crises are now facing large fiscal deficits.

The recent increases in oil prices, if sustained, will hamper global growth with oil-importing countries, particularly the poorest, being most affected.

Let me turn briefly to the impact of global trends on monetary and balance of payments trends in our own economy.

Monetary policy and inflation

Monetary policy has entered a new era. The Monetary Policy Committee and broader consultation forums have brought greater transparency to the policy process and we have agreed on an inflation target.

Although the recent increases in oil prices and the impact of floods on food prices have increased the trend in prices this year, underlying demand and cost pressures in the economy remain muted. We are confident that the target for consumer price inflation, excluding mortgage costs, of between 3 and 6 per cent in 2002, will be met.

Interest rates this year have remained relatively stable, and prospects for a further easing of interest rates as inflation declines remain good.

Balance of payments

The balance of payments performance this year reflects the underlying strength of the economy. Exports have responded positively to international opportunities and the depreciation of the rand. Exports increased by nearly 9 per cent this year in volume, and we expect a further 7 per cent growth a year between 2001 and 2003. The gold price has been a disappointment, but we have benefited from the extraordinary surge in the price of platinum group metals. Imports have grown moderately, and despite the rise in the price of oil, we expect that the current account deficit will be a modest 0,4 per cent of GDP for the year.

As growth gathers momentum we anticipate the current account deficit to rise, averaging about 1,3 per cent a year for the next three years.

In 1999 South Africa received a total of $4.1 billion in capital inflows. This was $1 billion more than in 1998. However, this trend has been reversed in the first half of this year with the capital account recording a net outflow of $1 billion – mainly a consequence of sales of bonds by non-residents. We should remember that most developing countries are subject to the unpredictability of these portfolio flows, which happen these days at the speed of an electronic impulse.

South African growth and development

The overarching objective is to ensure sustainable development, to create employment opportunities for our people, and to fiercely combat the poverty that still stamps its mark of shame on our nation.

Creating the conditions for human and economic development is not an easy process. It requires time, patience, often it requires difficult decisions, and it requires consolidation.

Over the past five years we have decisively addressed several structural barriers to growth – protectionist trade policies, exchange controls, an unsustainable fiscal position, the inequitable distribution of public services. We have strengthened revenue performance, restrained government consumption expenditure and reduced the budget deficit. We can now build on these achievements.

Today we announce a bold programme of targeted public expenditure, focused on developing our people and building infrastructure.

The economy has been subject to a number of shocks in the first part of the year – including floods, high oil prices, a depressed gold price and perceptions of regional instability. These have adversely affected economic growth. Our revised estimate of growth for this fiscal year is 2,6%.

Our sound foundations, improvements in our already strong export performance, and accelerating investment spending will underpin an annual growth rate of around 3,5 per cent over the period of the MTEF.

The restructuring of Transnet, Telkom, Eskom and Denel among others, will benefit all South Africans over the next three years, bringing in foreign investment and contributing to lower prices and better infrastructure services. It will also lead to an injection of private sector capital, technology and expertise into the economy.

Similar cost and efficiency gains should derive from the public private partnerships that aim to bring the disciplines of private sector risk management and long-term contractual commitments to various areas of public service delivery.

The restructuring of state owned assets is but one of a number of deep structural changes that have taken place in the economy. Much of our future success will depend on regulatory changes and support structures that will facilitate and free up economic activity.

Fiscal policy and the MTEF

Madam Speaker, I have talked about the platform for growth that this Government has established.

Because we have not spent beyond our means, because we have improved the way we collect and spend revenue - and aided by our privatisation receipts, we have brought the budget deficit under control. This year it is projected at 2,6 per cent. It will fall to 2,1 per cent in 2003/04.

By reducing the deficit, we have reduced the share of revenue we spend on servicing debt, thus freeing up resources for public expenditure. For the first time in over twenty years, debt service costs as a percentage of GDP are declining. Debt service costs are projected to fall from 5,5 percent of GDP in 1999/00 to 4,5 per cent in 2003/04, a downward revision of the 2000 Budget estimates.

Government dissaving has fallen from 5,9 per cent of GDP in 1994 to 2,6 per cent in 1999. As Government increasingly shifts spending towards capital expenditure, government dissaving is projected to decline to zero by 2002.

Lower debt and real interest rates are now helping to insulate the economy from external shocks.

And by reducing interest rates and containing inflation, we make it easier for businesses and firms to invest in the economy and create jobs.

This strong fiscal position, our enhanced capacity to collect revenue and the revised projections for economic growth contribute to upward adjustments to our revenue estimates for the MTEF period.

The preliminary outcome for revenue collected last year is R198,2 billion. This year we anticipate R212,2 billion, projected to grow to R271 billion by 2003/04.

By broadening the revenue base and improving tax collection, we have been able to lower tax rates, which will lower the costs of investment and job creation, and release household spending power. The 2001 Budget will again include substantial income tax relief.

And this brings us to our bottom line: the amount we are able to spend on goods and services, on developing the infrastructure, in creating jobs, in protecting our citizens, and most important, in alleviating poverty has increased.

We can now project an increase in expenditure of R7,8 billion in 2001/02 and R13,2 billion in 2002/03 over the baseline estimates published in the 2000 Budget, and an additional R18,3 billion in 2003/04 over and above the baselines budgeted for by departments.

Including provision for contingencies, expenditure on public services will grow by 3,7 per cent a year in real terms over the next three years.

The Medium Term Expenditure Framework

Madam Speaker, in embarking on this bold extension of public expenditure, we will target investment in our people and development of our physical infrastructure.

Capital and infrastructure expenditure

Capital spending and related infrastructure rehabilitation and maintenance is projected to increase from R24,1 billion in 2000/01 to R32,0 billion by 2003/04 – R8 billion more and a growth rate of nearly 18 per cent a year. Allocations for rehabilitation of flood-damaged infrastructure stand at nearly R1 billion in 2000/01. We remember how badly some of our provinces were hit by the floods last summer. There will be further amounts for flood-damaged provinces over the next two years, contributing not only to repairs and maintenance, but also to job creation and stimulation of economic activity in some of our poorest areas.

Spending on physical infrastructure will also be targeted at our transport and communications networks, railways rolling stock, our hospitals, schools and clinics and other public buildings. It will address the problem of underspending and slower than anticipated delivery in a number of areas in which Government has previously allocated funds.

We also hope that some of this expenditure can be targeted towards building our capacity in the knowledge economy, by ensuring that computers and the web are more accessible, particularly to our school children.

At the same time, measures will be taken to ensure improvements in the quality of infrastructural investment – much of which takes place at the provincial and local government level – and to address institutional inefficiencies.

Social expenditure

Social services continue to account for over half of national and provincial non-interest expenditure, or over R106 billion on education, health and welfare services this year. In addition, our social security funds account for about R8 billion a year in transfers to the unemployed and victims of road accidents or workplace injuries.

South Africa's social service expenditure has increased strongly in recent years and has been redirected towards poor provinces and towards meeting the needs of the poor first. Spending on the social services will increase by R21 billion over the next three years, or by 6,3 per cent a year in education, 6,7 per cent in health, and 7,8 per cent in welfare services. In addition to these increases, schools and health services will benefit from the planned increases in infrastructure spending.

Now the challenge becomes one of improving efficiency and quality.

Bearing in mind that our youth are our future, we have provided for continued investment into early childhood development initiatives. We realize that, especially for children from poorer households, early pre-school education can make the difference between success and failure in the more senior grades. We need an efficient education system – a system that delivers returns. Our best returns are in educated, self-confident young people who graduate from our schools. We believe that the earlier we start with the process of education, the better.

We also have to square up to the tragedy that we are all facing: the effects on our economy, on our lives, and on our social fabric of the HIV/AIDS epidemic. We realize that HIV/Aids will present an immense challenge to the social service sectors in coming years, and we have to gear ourselves to face that challenge. The sharp increase in the provincial equitable share should better enable provinces to ensure that their health and welfare budgets have the resources to deal with the increasing pressures of HIV/AIDS.

Government is also introducing a special allocation to support more integrated AIDS prevention strategies in 2000/01. This will rise from R75 million this year to R300 million in 2003/04.

Justice and protection services

In the next three years we also intend to allocate significant additional resources to the departments entrusted with ensuring the security of our citizens, and with arresting and prosecuting those who threaten our safety. Allocations to the integrated justice system, will grow by R5,2 billion, or an average 6,6% a year between now and 2003/04.

Our focus will be on increasing efficiency, through, for instance, upgrading the police vehicle fleet and physical infrastructure, through improving the efficiency of courts and providing more resources to prosecution services. We have also strengthened allocations to the Directorate of Special Prosecutions, better known as the 'Scorpions'.

Let me also ensure Members of the House that allocations for Defence in our budget projections make full provision for the costs of the arms procurement programme. We are of course aware that exchange rate movements have to be taken into account in making these calculations.

The Intergovernmental fiscal system and social expenditure

Madam Speaker, co-operative governance is an essential part of our constitutional democracy. Provinces and local government are at the front-line of the delivery of social services, such as health and welfare, education, poverty alleviation programmes and in providing the basics of decent living such as street lights, refuse collection, water and electricity.

Over the period of the MTEF we will be increasing transfers to the provinces by over 7 percent a year, and to local government by over 15 percent per year. This should allow provinces to budget adequately and deal with the pressures they will face – particularly in the health and education sectors. They will now be able to budget better for textbooks, teacher training, school buildings, and medical services. Education will also benefit from the R250 million allocation over the next three years for early childhood development.

Last year we introduced a provincial infrastructure grant. In 2001/2002 we will increase it by R500 million, and by an estimated R1,2 billion and R2,3 billion over the following two years. This is in addition to new allocations for flood reconstruction and the Pretoria Academic hospital.

These represent substantial investments in developing provincial and local services. The real challenge, however, will be in how provinces and municipalities spend these funds. By making public our medium term plans now, we are able to ensure that programmes can be designed, developed and implemented as the funds become available. The implementation challenge begins with Cabinet and the national Government and extends to provincial treasuries, departments and spending agencies and the new municipalities who have primary responsibility for basic household services.

The increased allocation to local government is intended to ensure that all households have access to a basic level of services. It will assist municipalities in securing provision of basic services to households earning less than R800 per month.

In 2001/02, the local government equitable share will stand at R2,2 billion. It will rise to R2,5 billion and R3,1 billion over the following two years.

We are now seeing the rationalisation of our 843 old municipalities into 284 new municipalities, which should further stabilise municipal finances over the longer term. So, too, the local government grant system is to be rationalised and allocated on a three-year basis to promote better planning in the municipal budgeting process.

Conclusion

Madam Speaker, we have introduced a wide number of reforms across the budget process, the intergovernmental financial system and tax system, enhancing our ability to meet the needs of our people.

The success of these reforms is reflected clearly in the reduced share of revenue that now goes to service debt. It is reflected in the turnaround of the financial position of the provinces from a deficit of R5,5 billion in 1997/98 to a R3 billion surplus in 1999/00. It is reflected in the increase of 3,7 per cent a year in real spending on public services that we are able to plan for the next three years.

The challenges facing us are still immense. We laid claim to our democracy and our country at exactly the time that winds of globalisation buffeted developing countries most harshly.

But the global climate cannot distract us from the historic responsibility that rests on our shoulders. We need, rather to grasp the opportunities that globalisation opens to us. We will continue to pursue an economic strategy and fiscal policies aimed at overcoming poverty and inequality through sustainable growth and effective engagement with the global economy.

Our responsibility is to invest in our people, by spending on infrastructure and on education, by facilitating the development of skills so that we can take part in the increasingly knowledge-oriented economy of the world, by investing in justice and security and by responding effectively to the social challenges before us.

I would like to thank my colleagues in Cabinet, and particularly the Ministers' Committee on the Budget, for their support. May I conclude, Madam Speaker, by inviting Parliament and fellow South Africans to join us in debating the priorities and programmes proposed in the 2000 Medium Term Budget Policy Statement.

I thank you