

MINISTRY OF FINANCE

MEDIA RELEASE

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THREE YEAR BUDGET POLICY STATEMENT PUBLISHED

Introduction

Today we publish South Africa's first Medium Term Budget Policy Statement.

This is a hugely significant step in increasing transparency, openness and co-operative government. For too long, budgets have been made behind closed doors. These are important decisions which affect all our futures.

We are publishing today the same information that is before Government as we finalise the Budget. Every citizen, every stakeholder will be able to read this Statement and see what we are trying to achieve, and the resources we have available.

We cannot achieve all our reconstruction and development goals in a single year. We have neither the capacity nor the resources. So we have to choose what to put first. Those priorities must be the nation's priorities. They are for us all to decide together.

The Freedom Charter promised that 'The People Shall Govern!' That remains a radical call to arms. To govern is not to elect a Government every five years. It is to have a real voice in the direction we take. In order to govern, the people must choose.

The nation's Budget will define our ambitions and our priorities. The Government must share with the nation an understanding of our collective goals, and the constraints we face. For the people to govern, they must first be informed and empowered to make real choices. Today's Medium Term Budget Policy Statement is a significant step in ensuring that it is the people who govern the new South Africa.

Purpose

The objectives of publishing a Medium Term Budget Policy Statement are:

- ✓ **Openness and transparency**
All stakeholders should have an opportunity to participate in the budget-making process, on an informed basis.
- ✓ **Realistic policy debate**
Proposals and debate should be based on a realistic understanding of what can be afforded and delivered, and not wish lists.
- ✓ **Certainty**
The Policy Statement sets the boundaries of the budget debate, and so enhance the certainty of the public service and of the markets.

Contents

The Medium Term Budget Policy Statement sets out the information that Government uses to draw up its budget. It contains:

- ✓ A summary of Government's goals and objectives.
- ✓ New macroeconomic projections for the next three years;
- ✓ Projections for tax revenues, deficit and the total affordable level of spending;
- ✓ An explanation of the way revenue is shared between national, provincial and local government;
- ✓ A summary of the policy framework and the choices underpinning the Medium Term Expenditure framework.

This is not the Budget. That will be published in March. It does not contain detailed spending plans or tax proposals. The projections may be revised between now and the time of the Budget. It is also not a new policy statement. It does not replace the RDP or GEAR. In fact it sets out the operational plan to give effect to existing policies. There is no point in publishing a Policy Statement if it simply means publishing the Budget three months early. The purpose is to open up the debate before the Budget is finalised.

Key points

The key points in the policy statement are:

- ◆ Government reaffirms its commitment to reconstruction and development objectives set out in the RDP, and the macroeconomic strategy set out in the Growth, Employment and Redistribution strategy.
- ◆ Government reaffirms its commitment to its deficit reduction programme - bringing the deficit to 3 per cent of GDP by the end of the decade;
- ◆ The macroeconomic targets for growth remain in place, but the Budget is to be based on cautious economic projections, for reasons of prudent planning to ensure sound public finances.
- ◆ The new proposals for sharing funds between national, provincial and local government will result in more equitable distribution of funds.
- ◆ Total public spending is to grow over the next three years by 9 per cent a year, allowing real increases in spending on public services.
- ◆ Pressures on priority programmes, particularly education, health, welfare, and safety and security will require reprioritisation within budgets, and cuts in low priority programmes.
- ◆ The Government will aim to increase the share of infrastructure spending within the budget, which will require tight control of current spending.

Medium Term Expenditure Framework

Government will publish detailed three-year spending plans for the first time in March 1998. These plans will give substance to Government's reconstruction and development commitments.

As in previous years, Parliament will vote on the budget allocations for the coming year. The publication of the three-year spending plans will enable Parliament to consider the allocations for the year immediately ahead in the context of the Government's medium term expenditure priorities. Parliament will be invited to debate the medium term expenditure plans, and to solicit inputs from NEDLAC and from all of civil society.

The plans for the later two years will be considered again in the course of 1998, and revised in the light of reaction from stakeholders, new information and emerging policy priorities.

KEY FIGURES

Projections for spending, revenue and the deficit are set out in the table below.

Table 1: Economic assumptions for medium term expenditure planning

	1997/98	1998/99	1999/00	2000/01
<i>Rand billion</i>				
Revenue	162,0	178,1	195,7	216,2
Expenditure	186,8	202,1	218,5	241,5
Deficit	24,8	24,0	22,8	25,3
<i>per cent of GDP</i>				
Revenue	26,2%	26,0%	25,8%	25,6%
Expenditure	30,2%	29,5%	28,8%	28,6%
Deficit	4,0%	3,5%	3,0%	3,0%

After allowing for the payment of debt interest, this permits growth in public expenditure of around 9½ % a year over the next three years – a increase of 2¾ % a year after taking account of inflation.

Table 2: Growth of non interest spending

	1998/99	1999/00	2000/01	Average over MTEF
Non-interest spending (Rm)	159,4	173,1	192,7	
Nominal growth	8,6%	8,6%	11,3%	9,5%
Real growth	1,0%	2,0%	5,0%	2,7%

In keeping with established principles of sound public finance, these budget reproductions are based on more cautious economic assumptions than the integrated scenario set out in the 1996 *Growth, Employment and Redistribution* framework. The table below sets out the macroeconomic projections on which the budget is based.

Table 3: Economic assumptions for medium term expenditure planning

	1997/98	1998/99	1999/00	2000/01
GDP growth (%)	2,0%	3,0%	4,0%	5,0%
GDP inflation (%)	9,0%	7,5%	6,5%	6,0%
GDP (R billion)	618,6	684,9	758,6	844,3

There is a correlation between the amount available for spending on public services and the performance of the economy. If economic growth exceeds these assumptions, than more money will be available for public services. Similarly, slower growth in the future years would require spending projections to be reduced.

The Constitution provides that each sphere of government is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The principles on which the division between national, provincial and local government, and the division between the nine provinces, is based, are set out in chapter 5.

Table 4: The vertical division between spheres of Government

% of non interest spending	1997/98	1998/99	1999/00	2000/01
National	45,7%	45,8%	45,0%	44,9%
Provincial	53,5%	53,4%	53,6%	53,7%
Local Government	0,8%	0,8%	1,4%	1,4%
Total	100,0%	100,0%	100,0%	100,0%

To summarise:

The publishing of the medium term budget policy statement represents:

- √ **Change** - a major step in the budget reform process
- √ **Collective input** - enabling broad participation in the decision-making process
- √ **Confidence** - certainty and credibility enhanced by opening the budget making process
- √ **Constitutionality** - fulfilling our Constitutional requirements of dividing revenue equitably
- √ **Co-operative governance** - enabling all three spheres of government to agree on policy priorities.