

**Medium Term  
Budget Policy Statement  
1999**



# **Medium Term Budget Policy Statement 1999**

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## **FOREWORD**

The Medium Term Budget Policy Statement outlines emerging spending plans in advance of the Budget in February. Although Government retains responsibility and accountability for budget decisions, all stakeholders have a right to be heard in the budget process. I hope this statement will encourage public discussion and debate in advance of the Budget.

We presented last year's Statement against the background of a world economy in crisis. South Africa has weathered the storm remarkably well because of, amongst other things, our open and transparent public finances and our sound, coherent and sustainable macroeconomic and fiscal policies. This Statement confirms that positive outlook, while announcing steps for a continued strengthening of public finances.

The economy's ability to cope with adverse external shocks will be further enhanced by the new fiscal framework this Statement sets out. It incorporates the finances – particularly, the borrowing – of the wider public sector into the budget-planning process. This framework projects that the public sector borrowing requirement will decline to 3,0 per cent of GDP over the next three years, with the national budget deficit falling to 2,4 per cent of GDP.

More widely, the economy is benefiting from declining interest rates and a renewal of capital inflows. The recent improvement in the gold price is also encouraging. But structural difficulties in the economy still remain. A number of the programmes described in this Statement will contribute to job creation. And, to increase certainty in support of lowered inflation, the Government has decided to introduce an explicit inflation target during 2000.

The spending plans which the Statement outlines reflect falling debt interest costs and rising revenue, allowing substantial increases in national, provincial and local allocations for services. The spending proposals outlined in this Statement pursue objectives the President set out in his opening address to Parliament on 25 June.

Security and peace-keeping in Africa require a carefully planned and managed strategic defence procurement and this is reflected in a sustainable increase in the defence budget. But, reflecting the government's reprioritisation towards social and civil protection services, the proportion of government spending on defence remains lower than in 1995/96.

The integrated justice sector – justice, police and prisons – is a priority, with new money for the Scorpions investigative directorate and other important measures. The social services receive continued priority, with spending now projected to grow faster than at the time of the 1999 Budget.

The division of revenue between provinces increases the pace of redistribution from richer to poorer provinces. There is also a greater emphasis on social services in the distributive formula, taking into account the spending trend reflected in our recent *Intergovernmental Fiscal Review 1999*. These changes have been agreed in the Budget Council, which is one of a number of bodies that promote co-operative budgeting between national and provincial spheres.

Budget reform began with the Medium Term Expenditure Framework, which is the three-year basis for all the national budget plans set out in this Statement. We are taking reform further. The new fiscal framework heralds increased scrutiny of the wider public sector, to ensure sound public finances, to protect the corporate assets owned by government, and to ensure that public sector activities provide optimal support for reconstruction and development. In order to support a renewed emphasis on better service delivery, the budget will increasingly focus on this key Government goal. This will see selected national and provincial departments piloting service delivery objectives, indicators and targets that will help assess service outputs when budgeting.

The policies we outline here promote a sounder economy and stronger public finances, together with increased, and more effective, expenditure on services.

**Trevor Manuel**  
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