

Introduction and overview

Introduction

The Medium Term Expenditure Framework (MTEF), and the annual budgets which proceed from it, are among the most important statements of government policy every year. *Role of the MTBPS*

The *2000 Medium Term Budget Policy Statement (MTBPS)* sets out Government's thinking on the appropriate macroeconomic and fiscal responses to current trends in the economy. It also sets out current thinking on the manner in which public resources will be deployed to tackle the country's social and economic challenges.

The annual MTBPS is the culmination of a rigorous and consultative process in which the resource needs of various spheres and functions of government are assessed and prioritised. The process is informed by an assessment of the overall state of the economy, as well as Government's macroeconomic policy imperatives.

The MTBPS is presented well in advance of the 2001 Budget in order to enhance transparency, facilitate public discussion, and create a common framework for assessing the choices made by government. It also serves to signal the manner in which government proposes to realise the vision set out by the President in his State of the Nation address to Parliament earlier this year. *Outline of policy options*

The highlights of the *2000 MTBPS* are set out in this introduction, with more detail contained in the chapters which follow.

Overview of the MTBPS

Challenges of government

Government's overwhelming priority is to meet the socio-economic needs of all South Africans, and, in particular, to alleviate poverty. These needs arise from the challenges that we face as a developing country, and from the massive economic inequalities and social problems that result from the injustices of the past.

Affordable and sustainable development

In seeking to address these challenges, Government has to balance short- and long-term goals, and pursue its objectives in a sustainable manner. In this respect, economic policy and the use of resources must be affordable. Government cannot impose undue risks or burdens on future budgets and future generations.

Investing in human capital and infrastructure

The imperatives of policy sustainability are embodied in two of the key policy themes of the MTBPS:

- The focus of public spending on programmes that promote human development and broaden economic opportunities
- The targeting of additional expenditure on capital formation and maintenance of infrastructural assets.

If fiscal policies are to be sustainable they must be consistent with the state of the economy, and the associated constraints. Chapter 2 of the MTBPS sets out Government's assessment of the major issues and trends.

State of the economy

The South African economy has been buffeted by a number of external shocks over the past twelve months. These include a depressed gold price, soaring oil prices and the floods at the start of the year. In the face of these shocks the economy has shown resilience, has adjusted to these challenges, and is expected to resume more rapid growth next year.

Stronger economic growth projected

The prevailing lower interest rates, and the decline in debt service costs, together with the sound outlook for South Africa's export performance, are expected to result in increased investment growth, further strengthening the medium-term outlook. Although there remain some uncertainties about the trajectory of the global economy and the ultimate resolution of current imbalances in international trade and the flow of capital, economic growth is expected to average 3,5 per cent over the MTEF period.

Continued commitment to fiscal discipline

South Africa's fiscal policy has consistently sought to achieve stable, sustainable growth, while improving the efficiency of public spending and targeting the provision of services to the poor. Government's success in achieving fiscal sustainability underpins the policies set out in the 2001 MTEF. Government's fiscal framework is set out in Chapter 3.

Fiscal policy over the past five years has resulted in lower debt levels and, hence, lower debt service costs. This has in turn reduced the public sector borrowing requirement, further reducing pressure on interest rates, and released significant funds for non-interest expenditure.

Lower debt service costs

In addition, higher growth projections allow Government both to continue to lower the tax burden, and to increase expenditure. Real non-interest expenditure on public services will rise at an annual rate of over 3,7 per cent over the MTEF period.

Disciplined expenditure growth will be accompanied by a reduction of both the proportion of national income devoted to tax, and the proportion of GDP spent by Government. In addition, the national budget deficit before borrowing will fall from a projected 2,6 per cent of GDP in 2000/1 to 2,1 per cent in 2003/4.

Budget deficit to fall to 2,1 per cent of GDP

The increased resources available to the state will be spent on raising the quality and quantity of services provided. In this respect, Government is prioritising expenditure on capital formation in the public sector. This will raise the levels of sustainable long-term growth and enhance the state's capacity to deliver services.

The success of Government in transforming the South African Revenue Service is reflected in the continued widening of the tax-base, improved tax compliance and strong growth in the collection of revenues. Chapter 4 sets out these achievements, and highlights the future course of South Africa's tax policies.

Budget revenue trends

Revenue growth has helped Government to reduce the deficit on the national budget, while at the same time allowing for a reduction of the rate of tax on companies and individuals. In the medium-term, Government will continue to seek to reduce the income tax burden further.

Government's tax reform programme is informed by the need to enhance the efficiency and equity of South Africa's tax system, and takes into account the country's increasing integration in the global economy.

The 1999/00 fiscal year has also seen steps to enhance tax co-ordination in the region, with the formation of two SADC-based committees. The issue of tax co-ordination, and the role that it has to play in protecting the regional tax base and in contributing to the creation of an attractive regional investment environment, will continue to receive attention in the coming years.

The 2001 MTEF sets out a bold programme of public expenditure for the delivery of services and the improvement

Expenditure plans

of public infrastructure. Overall expenditure is projected to grow at an average annual rate of 7,9 per cent over the course of the MTEF.

The allocation of the available resources between various elements of public expenditure reflects Government's commitment to:

- Stabilise personnel budgets across all spheres of government
- Maintain and rehabilitate public infrastructure and increase expenditure on capital goods
- Invest resources in human capital development
- Improve the efficiency and effectiveness of the criminal justice system
- Promote equality by targeting service delivery for the poor
- Provide resources for improving the capacity of Government to deal with the impact of HIV/Aids
- Accelerate employment creation.

These priorities are discussed further in Chapter 5.

The division of revenue The allocation of public resources to the different spheres of government is regulated by legislation that seeks to ensure the most appropriate and equitable distribution, given the fiscal and functional competencies of each sphere.

Increasing allocation to provincial and local government In general, the division of revenue over the MTEF sees a shift in the composition of expenditure towards provincial and local government. This is in recognition of the increasingly important role that these spheres of government play in delivering services and – in the case of local government – the costs imposed on municipalities by the process of restructuring.

The increase in the provincial share over the MTEF will assist provinces in accommodating the pressures imposed by the accelerating take-up the Child Support Grant, the pressures on health services resulting from HIV/Aids, and the costs associated with increased spending on infrastructure and poverty-alleviation.

Increased allocations to the local sphere seek to ensure that municipalities have the necessary resources to support the delivery of a basic package of services, including water, sanitation and municipal services, to the poorest communities.

The improved state of provincial finances raises the possibility of selected provincially imposed taxes, as is provided for by section 228 of the Constitution. Guidelines are currently under development to ensure that such taxes do not negatively affect

the overall fiscal position of government or create unnecessary distortions in economic decision-making.

Chapter 6 discusses these issues at greater length.

Budget reform and the MTBPS

The release of the MTBPS is intended to facilitate debate on the economic policies and spending priorities of Government prior to the tabling of more detailed proposals on Budget Day. Such debate will enhance understanding of Government's spending decisions, the rationale underpinning them and the constraints in terms of which they are made.

MTBPS and public debate

This is a reflection of Government's general commitment to budget reform, the aims of which are to improve the quality of policy discussion, aid the management of scarce public resources, improve public accountability and, as a consequence, create the conditions for optimal decision-making and improved service delivery.

Enhancing the budget process

The implementation of a three-year budget cycle provides for both better debate on future budgets and improved planning in departments in all spheres of government. This strengthens the link between government policy-making and implementation, and enhances the responsiveness of Government to the needs of the people.

In line with this commitment, the release of the annual budget is now accompanied by detailed, performance-oriented assessments of the impact of government programmes on the lives of ordinary people. This information was captured last year in the *National Expenditure Review* (NES) and, for provincial spending, in the *Intergovernmental Fiscal Review*.

The 2001 Budget will see the consolidation of the NES and the *Estimate of Expenditure* ("White Book") into the *National Medium Term Expenditure Estimates* (NMTEE). The NMTEE will bring expenditure and performance data together to show the impact of the services for which Parliament appropriates public funds.

The National Medium Term Expenditure Estimates

Conclusion

The *2000 MTBPS* sets out Government's thinking on its priorities over the next three years. The information contained in this statement is part of Government's contribution to the national debate on appropriate social and economic policies. We invite as many people as possible – from policy- and decision-makers in the public and private sectors, to ordinary citizens and organs of civil society – to engage with it.

Public comment on the proposals and spending plans set out in the *2000 MTBPS* should reach the National Treasury before December 31 2000. They may be e-mailed to mtbps@finance.pwv.gov.za or posted to:

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