

**Medium Term
Budget Policy Statement
1998**

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*Trevor A Manuel, MP
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FOREWORD

*by Trevor A. Manuel, MP
Minister of Finance*

We present South Africa's second Medium Term Budget Policy Statement against the background of a world economy which has been rocked by a financial crisis, a slowdown in world trade, and financial disinvestment from emerging market economies. It is an uncertain environment in which to frame medium term policies.

South Africa has weathered the storm remarkably well, compared to many of our middle-income and developing country peers. We benefit from a sound balance of payments, moderate external liabilities, a well-regulated and well-developed financial system, open and transparent public finances and, above all, sound, coherent and sustainable macroeconomic and fiscal policies. These strengths have protected us from the worst effects of the crisis.

But however strong our economic position, the slowdown in the world economy and in world trade must inevitably have an adverse impact on our economy. As a result we have had to lower our forecasts of growth over the coming three years.

The change to economic conditions has meant that we have had to re-examine our projections of spending, tax revenue and borrowing. We will continue to focus on our reconstruction and development objectives, protecting spending on social services and grants to the poor, despite the traumatic events that have shaken the world economy since the last Budget. At the same time, we will continue on our path of deficit reduction, delayed a year in order to maintain stability in the real level of government spending. The deficit will continue to be reduced, year by year, and will reach 3 per cent of GDP in 2000/01.

We are therefore maintaining our economic policies, but making a measured adjustment to the profile of our economic and fiscal projections. We remain committed to creating jobs and growth, and increasing spending on new priorities, within a sound and sustainable economic framework.

Within this revised budget framework, we are continuing to improve the efficiency with which we use money to deliver services. We are redirecting resources to our reconstruction and development objectives. Spending on the social services and on infrastructure is expected to rise as a share of total spending over the coming three years. The formula which allocates funds to provinces will continue to redistribute funds to the previously disadvantaged provinces – and we have added a new component to address backlogs in infrastructure and services.

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This Medium Term Budget Policy Statement sets out the total levels of spending, borrowing and tax, and the division of revenue between the spheres of government, that we expect to publish in the Budget in February. This provides provincial and municipal governments with the information they need to frame their budgets; and it enables Parliament and the public to engage in the dialogue about budget priorities with a shared understanding of the resources available.

The Medium Term Budget Policy Statement is a further step forward in the openness of the budget process, part of our reforms aimed at enhancing the amount of information available and improving the predictability and transparency of the public finances.

This policy statement encapsulates our approach to financing reconstruction and development. It demonstrates clearly the benefits of the sound foundations our economic policies have laid. It sets out our budgetary goals and priorities, and shows how they can be delivered.

We can, and we will, go on working to deliver a better life for all.

Trevor Manuel
Minister of Finance

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