JOBS AND SOCIAL SERVICES PROTECTED
DESPITE ECONOMIC SLOWDOWN

Trevor Manuel MP, the Minister of Finance, today tabled South Africa's second Medium Term Budget Policy Statement (MTBPS) and announced the Adjustments Estimate for 1998/99.

What's new?

- New economic projections show slower growth over the next three years than was anticipated at the time of the Budget;
- The deficit will fall to 3% of GDP in 2000/01, a year later than was projected in the Budget;
- Spending on job creation, social services and infrastructure is protected, despite overall reductions in resources available.
- Provincial allocations are announced for the coming three years, incorporating the effects of the new census results and the introduction of a component to address service and infrastructure backlogs.
- The 1998/99 Adjustments Estimate provides for an increase in the projected deficit of R2,2 billion to R25,9 billion, or 3,9 per cent of GDP.

New economic projections

The world economy has been rocked by a financial crisis, a slowdown in world trade, and financial disinvestment from emerging market economies.

South Africa has performed better than many middle-income economies. 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, coherent and sustainable macroeconomic and fiscal policies.

Nevertheless, the slowdown in the world economy and in world trade will inevitably have an adverse impact on the South African economy. As a result, forecasts of growth over the coming three years have been reduced compared to the Budget. In addition, the economic projections are now extended a year to 2001/02.

The new projections, and a comparison with the 1998 Budget, are set out below:

Table 1: Revised economic projections

	1998/99		1999/00		2000/01		2001/02
Fiscal year:	**Budget**	**MTBPS**	**Budget**	**MTBPS**	**Budget**	**MTBPS**	**MTBPS**
GDP (R billion)	**669,0**	**656,9**	**734,0**	**710,2**	**810,0**	**768,1**	**830,8**
Real GDP growth	3,0%	0,2%	4,0%	2,0%	5,0%	3,0%	4,0%
GDP inflation	6,0%	8,0%	5,5%	6,0%	5,0%	5,0%	4,0%
CPI inflation	5,5%	7,5%	5,5%	6,0%	5,0%	5,0%	4,0%

Source: Table 2.1 of MTBPS; 1998 Budget Review

Projections of spending, tax and borrowing

In the light of the economic background, Government has revised projections of spending, tax revenue and borrowing. Government will continue to focus on its reconstruction and development objectives, protecting spending on social services and grants to the poor, despite the deterioration in the economic outlook.

Government remains committed to reducing the budget deficit to 3% of GDP. This target will now be reached in 2000/01, a year later than planned in the Budget, in order to maintain stability in the real level of government spending.

The new projections, and a comparison with the Budget projections, are set out below:

Table 2: Projections of spending, tax and borrowing

R billion	1998/99 Budget	1998/99 MTBPS	1999/00 Budget	1999/00 MTBPS	2000/01 Budget	2000/01 MTBPS	2001/02 MTBPS
Revenue	**177,6**	**178,0**	**193,4**	**191,3**	**210,5**	**206,2**	**220,1**
as per cent of GDP	*26,5%*	*27,1%*	*26,3%*	*26,9%*	*26,0%*	*26,8%*	*26,5%*
Expenditure	**201,3**	**203,9**	**215,7**	**216,5**	**235,0**	**229,6**	**245,0**
Interest on debt	42,5	43,7	45,0	48,0	48,0	51,0	54,0
Non-interest spending	158,8	160,2	170,7	168,5	187,0	178,6	191,0
Deficit	**23,7**	**25,9**	**22,3**	**25,2**	**24,5**	**23,4**	**24,9**
as per cent of GDP	*3,5%*	*3,9%*	*3,0%*	*3,5%*	*3,0%*	*3,0%*	*3,0%*

Source: Table 3.1 of MTBPS

Within the spending total, debt interest costs have increased because of higher-than-expected interest rates and because of the slightly increased deficit.

Over the next three years, total spending is expected to grow by 20 per cent, and non-interest spending is expected to grow by 19 per cent, compared to an average increase in prices of 16 per cent. This extra spending is accommodated within the Government's goal of a declining deficit and lower tax burden.

Focusing on jobs, reconstruction & development

Government's spending plans include substantial measures to create jobs and invest in reconstruction and development.

Government will create jobs through sustainable and stable macroeconomic and fiscal policies; industry policies, programmes to strengthen further the small, medium and micro enterprises sectors; tourism promotion, new housing; support for education and training; and labour market policies dealing with job security, productivity and employment of youth, woman and the disabled.

Government's medium term spending projections include substantial real increases in infrastructure spending, such as public works and capital grants to municipalities.

Expanding social services and fighting crime

Social services continue to grow faster than other public spending programmes, reflecting the priority Government attaches to basic services.

In addition to job creation, infrastructure and social services, Government's spending plans also reflect the priority given to the fight against crime. Spending on the integrated justice sector is projected to grow by 18 per cent over the next three years.

The Division of Revenue

The Medium Term Budget Policy Statement sets out the proposed vertical division of revenue between the spheres of government, and of the horizontal division of revenue between the nine provinces.

The proposed equitable shares between provinces takes account of the latest census results and revisions to the revenue-sharing formula, including the introduction of a new component to take account of backlogs in infrastructure and services.

The advance publication of the proposed division of revenue provides national and provincial government with more certainty within which to plan. It enables Parliament and the public to engage in an informed debate about priorities, informed by the likely constraints on the overall level of spending.

The proposed division of revenue between the spheres of government is:

Table 3: The proposed division of revenue

R million	1998/99	1999/00	2000/01	2001/02
National share	**77 176**	**79 608**	**81 338**	**84 898**
Conditional grants to provinces	*7 891*	*7 671*	*7 529*	*7 324*
Grants for local government	*1 132*	*950*	*0*	*0*
Provincial share	**82 862**	**86 946**	**92 743**	**97 522**
Local government share	**1 024**	**1 366**	**2 480**	**2 580**
Total expenditure to be shared	**161 062**	**167 920**	**176 560**	**185 000**
National share (excluding conditional grants)	*42, 3%*	*42, 3%*	*41, 8%*	*41, 9%*
Provincial share (including conditional grants)	*56, 3%*	*56, 3%*	*56, 8%*	*56, 7%*
Local share (including conditional grants)	*1, 3%*	*1, 4%*	*1, 4%*	*1, 4%*

Source: MTBPS Table 5.1

Within the provincial share, a formula is used to allocate funds to provinces based on their demographic and economic profiles, since these are related to the level of demand for basic services.

Table 4: Provincial Equitable Shares

		1999/00	
	Shares	**Rand amount**	**Rand per head**
Eastern Cape	17,6%	15 292	2 426
Free State	6,8%	5 942	2 256
Gauteng	15,0%	13 008	1 770
KwaZulu-Natal	19,8%	17 238	2 048
Mpumalanga	6,7%	5 820	2 078
Northern Cape	2,5%	2 136	2 542
Northern Province	13,3%	11 538	2 341
North-West	8,5%	7 433	2 216
Western Cape	9,8%	8 539	2 158
Total	**100,0%**	**86 946**	**2 142**

Source: MTBPS Table 5.4; 1996 Census; Department of Finance calculations

This is the third year in which an equitable shares formula has been used, and the shares increasingly reflect the demographic profiles of provinces.

The Adjustments Estimate

The Adjustments Estimate provides for:

- R1,19 billion to meet higher debt interest payments;
- R1,0 billion for national government departments; this includes commitments by the Special Defence Account (R398m), foreign currency losses incurred by SATOUR (R5m), the impact of currency movements on Foreign Affairs (R50m), the Electoral Commission (R100m), winding down the SA Housing Trust (R20m), the new offices of the Director of Public Prosecutions (R4,5m), new equipment for the Government Communication and Information Service (R8,7m), the extension of the Truth and Reconciliation Commission (R30m), additional allocation to the Rail Commuter Corporation (R100m), SARS bonuses (R195m) and construction contracts of Water Affairs (R100m).
- R200 million for provinces to buy new textbooks; this should ensure that every pupil has textbooks on the first day of school next year;
- R1,0 billion for provinces, to enable them to pay off debt and pay their bills on time;
- R300 million for improvement of conditions of service of national and provincial government employees, including R200m to assist transformation.

The grant to provinces for textbooks is allocated according to the education component of the provincial equitable shares formula. The additional grant is allocated proportionately to the total equitable shares for 1998/99. The allocations are set out in the table below.

Table 5: Allocation of Provincial Adjustment

Rmillion	Textbook Grant	Additional Grant
Eastern Cape	37,1	177,4
Free State	12,7	69,0
Gauteng	27,6	148,6
KwaZulu-Natal	42,6	195,6
Mpumalanga	15,0	65,8
Northern Cape	3,6	24,7
Northern Province	28,5	131,7
North-West	15,9	86,1
Western Cape	17,0	101,1
Total	**200,0**	**1000,0**

After taking into account the contingency reserve of R1,0 billion set aside in the 1998/99 Budget, the overall impact of the Adjustments Estimate is an increase of R2,2 billion in the projected deficit to R25,9 billion, or 3,9 per cent of GDP.

The following table summarises the Adjustments Estimate.

Table 6: Summary of Adjustments Estimate

R million	Budget 98	Adjustments Estimate	Change
National departments	**66 104**	**67 672**	**1 568**
Of which:			
Additional allocations			*1 017*
Rollovers from 1998/99			*1 987*
Savings & rollovers to 1999/00			*-2 120*
Donor financed spending			*651*
Self financed expenditure			*34*
Provincial allocation including conditional grants	**87 008**	**88208**	**1 200**
Of which			
Textbooks			*200*
Additional allocations			*1 000*
Local government	2 156	2 156	0
Improvement of conditions of service	3 375	3 675	300
Debt interest	42 525	43 713	1 188
Reserve	1 000	0	-1 000
Recovery from pension funds	-870	-870	0
National Budget Expenditure	**201 299**	**204 554**	**3 255**
Memo: excluding donor financed	*201 299*	*203 903*	*2 604*
Repayments	**969**	**1 319**	**350**
Revenue	**176 631**	**177 316**	**685**
Memo: excluding donor funds	176 631	176 665	34
Deficit Rm	**23 698**	**25 920**	**2 222**
Deficit % GDP	*3,5%*	*3,9%*	*0.4%*
Memo: GDP	*669 000*	*656 900*	