THE ADJUSTMENTS APPROPRIATION BILL AND THE MEDIUM TERM BUDGET POLICY STATEMENT

TREVOR A MANUEL,MP
MINISTER OF FINANCE

NATIONAL ASSEMBLY
29 OCTOBER 1999

Madam Speaker
Honourable Members

Today, we place before Parliament adjustments to the appropriations for the 1999/00 financial year, and ask Parliament to consider our preliminary proposals for the 2000 Budget.

The Medium Term Budget Policy Statement

This is our third Medium Term Budget Policy Statement. It is an invitation to the people of South Africa, to reflect on the policies we have adopted and the choices informing our budget framework and spending plans. We hope that it will provoke energetic discussion in this House, and amongst all of us who pay taxes, enjoy the benefits of government services, work, invest, save or are otherwise protected by the economy which we are entrusted to nurture.

The Medium Term Statement outlines preliminary budget proposals for the next three years. It reviews the difficult adjustment we have been through in the context of some international financial distress. Because we managed this adjustment well, we are able to project improved prospects for the economy for the next three years. And we are able to announce an increase in the expenditure available for allocation between national departments, provinces and local government in next year's Budget.

The Medium Term Statement sets out broad projections of national and provincial spending over the next three years. It shows how the reduction in the budget deficit that has been achieved over the past three years – through both stronger revenue flows and a disciplined approach to public expenditure management – has led to lower borrowing and reduced interest on state debt.

The reduction in interest costs alone releases some R2,2 billion for spending on public services next year, by comparison with the projections we published in the February 1999 Budget.

But the gains we have made since 1994 are much greater than this. If we had continued to borrow 6 per cent of GDP each year, say, the national debt would be some R40 billion more than it now is. We would pay R6 billion more in interest. We would have R6 billion less to spend on public services. And higher debt, and higher interest rates, would mean that we would be projecting less growth and less spending for the next three years than we can project today.

Instead, I can report to you that the budget deficit will be below 2,8 per cent of GDP this year, and will decline to 2,4 per cent in 2002/03. The budget framework also provides for a steady decline in the tax burden as a share of GDP. But expenditure on public services is projected to grow from R172 billion this year to R207 billion in 2002/03, benefiting from strong economic growth and a declining share of interest costs in total spending.

The Medium Term Statement sets out details of the proposed budget framework, expenditure trends over the next three years and the division of resources between national government, provinces and local government. I want to urge that it be read, digested, examined and criticised. We have provided postal and e-mail addresses for you to forward your comments.

Further steps in budget reform

You will see that the Statement outlines several further steps in budget reform and managing public expenditure. As the President made clear in his opening address to Parliament in June, this is a responsibility we take very seriously.

In the last few years, we have reformed the way government plans its spending. The Medium Term Expenditure Framework has brought about three-year planning. This has allowed us to use the Budget to prioritise and to direct money towards the areas in which it is most needed. It has made the Budget a powerful tool for this country's reconstruction and development.

We are now taking budget reform further in regard to improving services. Our initiatives on service delivery link to *Batho Pele*'s focus on accountability to our customers and planning for better services. They also link to the Public Finance Management Act's emphasis on greater accountability.

With the 1999 Budget in February, we introduced a new publication: the *National Expenditure Survey*. This reports on the spending plans for each national government department, setting them in the context of the services being delivered. The recently published *Intergovernmental Fiscal Review 1999* provided similar information for the provinces' spending and services.

Our aim is to increase the depth and breadth of this information with every annual budgeting round. Information on services helps public understanding of what government spends money for, enhancing the transparency of budgeting, and informing democratic debate. It also helps within government to improve budgeting decisions.

Central to this, will be the development of service delivery indicators. We want all South Africans to know what value they get for every rand that government spends. We want to show the quantity of goods and services it buys; the standards of service received by the public; the unit cost of providing the service; the extent to which the service benefits those most in need – the poor and the historically-disadvantaged. We want to show the relationship between spending and its impact on the lives of people.

Economic context

I turn now to the economic context within which the 2000 Budget is being prepared.

When we tabled last year's *Medium Term Budget Policy Statement*, it was against the background of a world financial crisis that hurt many emerging economies and dented confidence in the international economic order. South Africa suffered. But we responded appropriately, and so we suffered less than others. We are now seeing recovery, and we are able to project economic growth of over 3 per cent a year for the next three years.

Prospects for the world economy have improved. Buoyant American consumer spending has helped world recovery. But it is the revival of growth in Japan and Europe and the improved prospects of emerging economies that are the crucial foundations of sustained global progress.

International co-operation is an important ingredient in sustainable recovery. This includes financial regulation and oversight, debt relief for poor countries, a fairer international trade environment, initiatives to protect the global environmental heritage, co-operation in combating disease and health hazards, joint efforts to resolve conflicts and promote democratic governance, and a co-ordinated attack on international crime. The voice of the developing world is increasingly being heard in these campaigns.

South Africa is playing its part in promoting a world in which the gaps between rich and poor, powerful and weak are narrowed, and large and small nations share the burden of ordering international affairs. We insist that Africa should re-discover its indigenous strength, and that it should take its rightful place in the institutions through which international co-operation is secured.

Although the economy slowed for a while, the exchange rate weakened and we have all felt the effects of higher interest rates, our economic policies have protected us from the worst ravages of the storm. In the first half of 1999, we received a net capital inflow of R22 billion. Interest rates have come down, and we will see investment and economic output strengthen in the second half of this year, and beyond.

Uncertainty about inflation is bad for the economy. It hurts investment. It places strain on wage negotiations. And it creates a difficult environment for decision-making by households and business. Those most severely affected are the poor and vulnerable who find that they can afford less and less on their meagre income. To reduce this uncertainty, we will announce, in 2000, an explicit target for inflation. This will contribute both to lower inflation and less uncertainty about price trends, leading also to lower long term interest rates.

The fiscal framework we table I this House today will also help to reduce interest rates, through continued moderation in the overall public sector borrowing requirement.

Lower interest rates will be good for the economy: for investment and for jobs.

I have mentioned that we forecast growth of over 3 per cent for the next three years. We expect the economy to grow by 3,5 per cent in 2000 and to maintain growth of between 3 and 4 per cent over subsequent years.

The headline consumer price index increased by just 1,9 per cent in the year to September – the lowest annual rate of consumer price inflation for some 30 years.

We expect consumer price inflation to average 5,5 per cent for the 1999 year, and to fall to 4,8 per cent in 2002. Despite risks from oil prices and wage settlements, the inflation outlook is the best this economy has seen since the 1960s. Inflation targeting will build on this sound foundation, further increasing certainty and confidence.

We know that several structural challenges remain. Saving continues to be too low. The rate of job creation must be accelerated. Economic opportunities and income must be distributed more equally. We will point to some of the ways in which Government will play its part in meeting these challenges shortly.

But our economic foundations are strong. Since 1994, the South African economy has undergone a transformation. It is now more open. Exchange controls have been substantively removed. We are lowering barriers to trade, both within the Southern African Development Community and through the recently signed trade agreement with the European Union. Fiscal policy has significantly reduced borrowing. These policies contribute to falling inflation, higher investment of improved quality and stronger growth.

Fiscal policy and the budget framework

Against this background, the revised budget framework set out in the Medium Term Statement provides for a considerable strengthening of our reconstruction and development spending programmes while continuing to lower the budget deficit and the overall tax burden.

A tribute must again be paid to the South African Revenue Service for its success in improving revenue collection, even in the economically depressed circumstances of the past year. As you will recall, we have provided significant tax relief through adjustments to the individual tax scales in recent years and a lower company tax rate this year. Revenue performance has nonetheless continued to exceed expectations.

In 1998/99, revenue of R184,5 billion was received, which is R4,5 billion more than the revised estimate published in February this year. Taking into account projected economic growth, we propose to raise R210,7 billion in revenue next year, increasing to R243,0 billion in 2002/03. This builds on the steady improvements in tax administration that the Revenue Service is achieving. The projections also provide scope for further reductions in the burden of tax on individuals and other taxpayers, which is a matter to which we will return in February next year.

Total revenue includes the receipt last year and this year of the charge on the proceeds of the demutualisation of Sanlam and the Old Mutual. Members will recall that in the 1998 Budget it was announced that Government would impose a once-off charge on the windfall gain to policyholders associated with the distribution of free reserves of the former mutual assurers. R855 million has been received and will be transferred to the Umsobomvu Trust, which has now been established, to support employment, youth development and training initiatives.

Interest on debt is projected to increase from R42,6 billion last year to R44,7 billion this year and R53,0 billion in three years time, falling from 5,7 per cent of GDP to 5,1 per cent. This is, as we have already noted, an outcome of the phased reduction in the budget deficit.

It also reflects the debt reduction that we have achieved through state asset restructuring. This year, we will reduce debt by about R7,1 billion as a consequence of the restructuring of the SA Special Risks Insurance Association.

It is our practice to include a contingency reserve in the overall budget framework, to allow for the imperfections of economic science and the possibility of unforeseen and unavoidable spending pressures. Because three years ahead is more uncertain than one year, the contingency reserve increases from R2 billion in 2000/01 to R8 billion in 2002/03.

After providing for these items, the available non-interest spending level increases from R161 billion last year to R171 billion this year and R204 billion in 2002/03. This is the aggregate that is available for division between the national, provincial and local government shares.

The budget framework provides for R1,9 billion more in total expenditure this year than in the February budget estimates, rising to R3,5 billion next year. Taking into account savings in debt service costs and the reduced contingency reserve, the available non-interest spending level increases by R4,0 billion this year and over R7,5 billion next year and beyond.

Madam Speaker, these are substantial increases in government expenditure commitments. They are made possible by improved economic performance and sound fiscal policies. It is our duty to ensure that these proposed increases in expenditure are appropriated wisely, for the reconstruction and development purposes to which we are bound.

The 1999/00 Adjustments Estimate

Let me turn first to the proposed adjustments to the 1999/00 appropriations, before outlining the spending proposals for the next three years set out in the Medium Term Statement.

In the Budget presented to Parliament on 17 February 1999 we tabled proposals for expenditure of R216,8 billion, including a contingency reserve of R1,1 billion, R750 million of donor funded spending and an unallocated R450 million for poverty relief and employment projects.

The Adjustments Estimate placed before Parliament today anticipates total expenditure of R218,6 billion. The adjustments are as follows:

Expenditure already announced – R450 million

In addition to the R550 million allocated in the Supplementary Estimate, allocations are now proposed for a further R450 million for poverty relief, infrastructure investment and Jobs Summit projects, bringing total allocations for this purpose to R1,0 billion in the current year.

Adjusted allocations to Provinces and local government – R1 691,5 million

Additional allocations to provinces amounting to R1 419,7 million are proposed, which will be distributed according to the equitable share formula. These amounts will be used primarily for reducing outstanding debts and backlogs in rank and leg promotions. A further amount of R69 million is set aside for special provincial projects and an amount of R202,8 million is allocated for addressing Y2K-related needs of local authorities.

Lower state debt costs and other savings – R1 595 million

Interest on state debt this year is now expected to be R1 568 million less than the February estimate. Departments have also identified R27,2 million in savings.

Unforeseen and unavoidable expenditure – R1 738,4 million

Ministers will be unhappily aware that the relevant section of the Exchequer Act permits additional appropriations, other than expenditure already announced only for unforeseen and unavoidable purposes. The Treasury Committee again this year reviewed a large number of requests from national departments. Additional expenditure of R1 735,1 million is recommended to be voted. This includes, amongst others, provision for the introduction of the National Prosecution Authority; unforeseen SANDF activities in support of SAPS; transfers to the Rail Commuter Corporation; and R 250 million for salary increases over the budgeted R 3 billion.

The details of the unforeseen and unavoidable expenditure are set out in the Explanatory Memorandum to the Adjustment Estimate 1999/00 tabled here today.

I would like to take this opportunity to thank fellow Ministers for the disciplined approach that Cabinet has taken to these additional spending proposals. We anticipate that national budget revenue will be R1,9 billion more than the February Budget estimate, resulting in a revised budget deficit of R22,6 billion, or 2,8 per cent of the revised level of GDP for the 1999/00 year.

The 2000 Budget: medium term expenditure estimates

Madam Speaker, we are committed in our policy and spending priorities to building a people-centred society that is sustained by a growing economy.

Over the past five years we have concentrated on developing sound, progressive social and economic policies and legislation. Now we need to focus on accelerating service delivery and implementing programmes that will build a 'better life' for all people in our country.

In his opening address to Parliament, the President highlighted a number of key policy and development priorities that we intend addressing:

- Creating a safer South African by strengthening and modernising the integrated justice system;
- Accelerating investment and further public sector restructuring;
- Implementing poverty relief and Jobs Summit programmes that focus on the rural poor;
- Action against the spread of HIV/AIDS;
- Improving the quality of education and training; and
- Contributing to resolving conflict on our continent and promoting the African Renaissance.

Our medium term spending plans at the national and provincial level reflect these social and development priorities. Detailed Estimates of Expenditure will again be tabled in this House and in provincial legislatures in February next year. The Medium Term Budget Policy Statement sets out broad trends, based on preliminary proposals for national and provincial spending.

Recognising the importance of improving people's access to basic social services, we propose to continue to invest strongly in social services, particularly at the provincial level.

Spending on education amounts to R47,2 billion this year, rising to R56,8 billion in 2002/03 - an increase of 6,4% a year. Our key priority is raising the quality of education in the classroom and improving financial management in the education system.

Spending on health care grows 6,2 per cent a year, and will amount to R30,3 billion in 2002/03.

Spending on welfare services and social grants rises from R19,7 billion in 1999/00 to R23,3 billion in 2002/03, increasing at a rate of 5,8 per cent a year.

The House will note that these increases in spending are well above our projections for inflation.

We are committed to stopping the spread of HIV/AIDS in our country and plan to spend more on developing an aggressive integrated strategy and approach to combat the spread of the disease.

Spending on economic services, including trade and industrial and agricultural services increases by 7,1 per cent a year between 1999/00 and 2002/03. We are moving ahead with the restructuring of state assets, specifically forestry operations and the South African Post Office. Progress on this front has released resources to be spent on other key priorities.

We will spend R21,0 billion on infrastructure development this year, rising to R22,6 billion in 2002/03. This includes spending on housing, municipal infrastructure development, and investment in water infrastructure and services.

These budgetary commitments are supplemented by the substantial infrastructure expansion programmes of Telkom, Eskom, our Airports Company and South African Airways, amongst others. We are also exploring the scope for making greater use of public-private partnerships in building infrastructure and delivering services.

Getting people back to work was a key element of our commitment at the Presidential Job Summit last year. We have set aside R1,2 billion in 2000/01 and R1,5 billion in 2001/02 for special poverty relief and job creation projects that focus on the needs of the rural poor and have potential for creating jobs in these areas. These include the land care programme, the local tourism infrastructure programme, the community based public works programme, and the Working for Water programme.

Training and skills development are key elements of a globally competitive South Africa. Government shares the responsibility of developing the skills of our people together with our social partners. Next year the skills development levy-grant programme will come into effect, to strengthen industrial training and create learning opportunities for many unskilled workers.

Our goal of creating a safer South Africa calls for significant improvements in the work of the departments of safety and security, justice and correctional services in their fight against crime. Over the medium term, we will spend more on direct law enforcement initiatives, such as the newly formed ‘Scorpions unit’ and the lower court system, as well as implementing specific modernisation programmes designed to improve the performance of the justice system. Our proposals include growth in spending on the integrated justice system of 6,6 per cent a year between 1999/00 and 2002/03.

Under our President’s leadership, we also have a wider role to play in resolving conflict and promoting democracy. The Budget provides for our role in international affairs, and for investment over the long term in a strategic defence capability consistent with a responsibility for conflict-resolution on our continent. The strategic arms procurement programme allows the National Defence Force to upgrade equipment, while providing a substantial boost to South African industry, foreign investment and exports.

Compared to the forward estimates published in the February 1999 Budget, the arms procurement programme will add R2,8 billion to Defence spending in 2000/01 and R3,8 billion in 2001/02. Defence and intelligence spending will increase to about 8,5 per cent of non-interest spending in 2002/03 and beyond – somewhat below the share of defence in 1995/96 expenditure.

The Medium Term Statement also includes projections of total personnel spending, transfers, other purchases of goods and services and capital spending. Remuneration of personnel accounts for half of non-interest expenditure. The preliminary projections provide for personnel expenditure growth of about 5,4 per cent a year, recognising that a new remuneration policy will be discussed in due course in the Public Sector Co-ordinating Bargaining Chamber.

The Medium Term Budget Policy Statement provides greater transparency and certainty about Government spending priorities and plans over the next three years. Budget reform and reprioritisation have created a sound fiscal platform for the economy. In the next three years we are able to direct additional resources to improve the quality of government spending, strengthening service delivery and investing in people-centred development.

Members, these are some of the policies and programmes underlying the projections set out in the Medium Term Statement. They take us several steps forward in our reconstruction and development programme. But there are other challenges, that call for further structural measures to promote growth and social development. I have referred to the need to promote savings, to accelerate investment and to broaden employment creation. The proposals tabled here are part of our wider approach to the economic and developmental challenges we face. I know that Members of this House will join me in encouraging all South Africans to engage with us in meeting these challenges.

Madam Speaker, Honourable Members, we submit for your consideration the 1999 Medium Term Budget Policy Statement, and table the proposed adjustments to the Estimate of Expenditure to be defrayed from the National Revenue Fund during the financial year ending 31 March 2000.
ends