

Medium Term Budget Policy Statement

2009

National Treasury

Republic of South Africa

27 October 2009



What is the Medium Term Budget Policy Statement?

The *Medium Term Budget Policy Statement* (MTBPS) is a Cabinet policy statement tabled in Parliament about three months before the annual budget. It sets out the economic context and assumptions that inform the following year's budget, as well as the framework in which the budget is prepared.

The budget framework consists of the fiscal framework, government spending priorities, the division of resources between national, provincial and local government, and a tabulation of the major conditional grants. The budget framework enables national departments, provinces and municipalities to prepare their detailed budgets for the following year. South Africa has a multi-year budgeting process, so the framework covers the present year and the three subsequent years.

The fiscal framework sets out government's revenue projections, spending estimates, borrowing requirements and assumptions concerning debt interest costs over the period. The medium-term expenditure framework is government's broad three-year spending plan. The MTBPS also provides a report on spending for the first six months of the fiscal year in which it is tabled.

Parliament plays a critical role in the budget process and is responsible for approving all appropriations, following any amendments. Government departments can only spend money that is appropriated by Parliament for a specific purpose.

Parliament conducts public hearings on the MTBPS. These hearings cover the economic forecasts, the fiscal framework, revenue assumptions, spending priorities and the division of revenue. Section 6 of the Money Bill Amendment Procedure and Related Matters Bill regulates the process by which the MTBPS is processed in the legislature. Parliament can recommend changes to the division of revenue.

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The *Medium Term Budget Policy Statement* is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

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Foreword

Nobel Laureate Chief Albert Luthuli, who contributed so much to our freedom, envisioned a united, democratic South Africa “where human relations shall rest on the firm foundation of equality, friendship and respect for human dignity”. His vision finds expression in our Constitution, which enjoins us to “improve the quality of life of all citizens and free the potential of each person” as we build a nation based on democratic values, social justice and human rights.

The values of our Constitution must be applied to how we run our economy. As recent experience has shown, economic paradigms that do not place human beings and their well-being at the centre can be destructive, particularly to the poor. Inefficiency and corruption in the public sector mean that fewer people will have access to clean water, decent education or quality health care.

We have made much progress since the advent of democracy, yet much more remains to be done. The new administration recognises that despite the challenges we face, it is still within our grasp to realise the vision of our Constitution. This government is taking firm steps to implement our five key priorities: jobs, health, education, rural development, and fighting crime and corruption. In today’s difficult economic environment, we must do things differently. Government must make smart spending choices, realise savings, contain costs and reprioritise expenditure for maximum effect.

We *have* to do things differently, because over the past 14 months, the world has faced the most intense economic crisis since the Great Depression. The crisis is not of our making, yet its impact has been very serious. It began in the financial sector of the developed world, where poor regulation, excessive risk-taking and greed led to an inevitable collapse. The knock-on effects rapidly spread around the world. This crisis has necessitated a coordinated global response that focuses on new approaches to governance, regulation and greater recognition of all players, including developing countries.

Conditions in the global economy have hurt many people in South Africa. When factories close and small farms fail, when people lose jobs, when families struggle to get by on reduced incomes, and when hunger knocks at the door, human dignity and survival are at risk. To give effect to Chief Luthuli’s vision of a society based on equality and dignity, we have to address these issues with urgency and determination.

We must face our challenges honestly. That means recognising the long-term impact of the crisis from which we are only now emerging, the need for a more labour-absorbing growth path, the importance of improving public services and the need to do more with less in public finances. It means taking tough decisions. It means building partnerships between government, business, labour and civil society.

The *Medium Term Budget Policy Statement* presents the country’s economic forecasts and fiscal framework, and proposes to Parliament the medium-term spending priorities and the division of revenue between national, provincial and local government.

We will not waste this crisis. We will use it to build on the foundation we have laid and change that which must change. In partnership, we will develop an innovative growth path that mobilises our positive energies to create a better country – one dedicated to human dignity and improving the quality of life of all our citizens.



Pravin J Gordhan
Minister of Finance

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