

Medium Term Budget Policy Statement 2014

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Republic of South Africa**

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Foreword

Since the dawn of democracy just over 20 years ago, government has financed a massive expansion of services to all South Africans, with a focus on the poor. We have done so in a sustainable way, ensuring that our public finances remained healthy so that we could continue building the society envisioned in our Constitution.

Today, we are at a turning point. The world economic recovery remains shallow and structural challenges in our economy have contributed to weak economic growth. This has serious consequences for tax revenue, and our ability to continue funding social and economic programmes.

This year we anticipate GDP growth of 1.4 per cent. While growth is expected to reach 3 per cent in 2017, this is well below the country's potential and has placed the public finances under increasing pressure. Rising debt levels, if left unchecked, would absorb more and more of our spending. The end result would be less money to spend on improving the lives of our people.

The 2014 *Medium Term Budget Policy Statement* provides a roadmap to safeguard the public finances. In response to a worsening debt outlook, government proposes a fiscal package that reduces the expenditure ceiling and raises tax revenue over the next two years. This will reduce the budget deficit and stabilise debt, which is now set to reach R2.4 trillion in 2017/18.

Two years of fiscal consolidation will put the public finances on a sustainable footing. We will also approach budgeting with a greater focus on long-term expenditure planning and alignment with government's policy objectives.

In considering these proposals, we must emphasise that restraining expenditure growth will not compromise front-line services. National, provincial and local government will need to continue identifying savings and improving the way they spend money. Key social programmes will be protected. Government will continue to roll out its capital investment programme. We will encourage private-sector participation in infrastructure delivery.

While expenditure ceilings are being reduced, the budget will continue to grow in real terms. Government will spend R4.4 trillion over the next three years. Allocation of these funds will be in line with the medium-term strategic framework, which gives expression to the National Development Plan.

I would like to thank the President and all of my Cabinet colleagues for their contributions to shaping the proposals before us, as well as the Ministers' Committee on the Budget, which has brought tremendous insight into the process. I would also like to acknowledge the officials of the National Treasury, who are working with their colleagues across government to ensure that our public finances remain sound.

The choice we face in considering these proposals is a difficult one. But we believe that this course can no longer be postponed.



Nhlanhla Musa Nene
Minister of Finance

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What is the Medium Term Budget Policy Statement?

The *Medium Term Budget Policy Statement* (MTBPS) is a government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the three-year expenditure period.

The policy statement is an important part of South Africa's open and accountable budget process. It empowers Parliament to discuss and shape government's approach to the budget.

The Money Bills Amendment Procedure and Related Matters Act (2009) requires government to table the MTBPS in Parliament at least three months before the national budget is presented. The statement must include:

- A revised fiscal framework for the current financial year and the proposed fiscal framework for the next three years.
- An explanation of the macroeconomic and fiscal policy position, and macroeconomic projections and assumptions underpinning the fiscal framework.
- The spending priorities of government for the next three years.
- The proposed division of revenue between national, provincial and local government for the next three years.
- Any substantial proposed adjustments to conditional grant allocations to provinces and local governments.
- A review of spending by each national department and each provincial government between 1 April and 30 September of the current financial year.

The revised fiscal framework for the current year, the proposed medium-term fiscal framework, the explanation of the macroeconomic and fiscal policy position, and the projections and assumptions are referred to Parliament's finance committees. National spending priorities for the next three years, the proposed division of revenue between spheres of government and adjustments to conditional grant allocations are referred to the appropriation committees.

These committees report to their respective houses of Parliament on the proposed fiscal framework and division of revenue. A report may include amendments to the proposed fiscal framework and division of revenue. The adopted reports serve as a mandate for government to prepare the forthcoming budget in accordance with the policy approach of the MTBPS.