

Medium Term Budget Policy Statement 2015

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Republic of South Africa**

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Foreword

Sluggish growth and volatility look set to remain features of the world economy for some time to come. This has led to downward revisions of economic growth forecasts, particularly for developing countries, with knock-on effects on tax revenue projections. In South Africa's case, these difficulties are compounded by structural factors: electricity constraints, weak business confidence and low household demand have limited growth.

Government has moved to adapt to this turbulent environment. We have begun making structural reforms to boost growth. We have adopted a package of fiscal policy measures to maintain the health of the public finances. And we have protected spending on the social and economic programmes that help to transform South African society.

This *Medium Term Budget Policy Statement* builds on these commitments, setting out concrete steps to stabilise debt and improve the efficacy of spending. It proposes a new fiscal guideline that entrenches government's commitment to sound and progressive fiscal management.

In these unsettled times, growing public debt makes South Africa vulnerable to shocks that could set back our prospects for faster growth over the long term. It also diverts spending from social and economic priorities to service rising interest payments. Managing these risks in the current environment requires closing the gap between revenue and expenditure, and making the most of the resources at hand – which amount to more than R4 trillion over the next three years.

The expenditure ceiling remains in place, supplemented by reforms to improve the quality of public spending, particularly on infrastructure projects. Spending on education, health and social protection remains a priority. However, the higher-than-expected 2015 public-sector wage settlement has made it necessary to shift funds and absorb the increased cost within budget baselines. Opportunities to mobilise additional revenue remain limited and will be explored cautiously. Over the medium term, debt continues to stabilise and the budget deficit falls to 3 per cent of gross domestic product (GDP).

Moving the country closer to realising its social and economic priorities requires more rapid implementation of the National Development Plan, which is an opportunity to unite South Africans behind the common objective of faster, inclusive and sustainable economic growth. Government is committed to working with the private sector and labour to achieve a more stable industrial relations environment, improve confidence, and speed up growth and job creation.

We will focus our efforts to raise economic growth in line with national development priorities. Resolving the electricity-supply constraint remains of critical importance, as do refining the support government provides to high-growth, job-creating sectors, and building on efforts to strengthen policy coordination and certainty.

The proposals that follow were made possible through the leadership and contributions of the President and my Cabinet colleagues, as well as the hard work and dedication of officials at National Treasury and those across government. I would like to thank them all for taking on the challenges we face and doing their part to build a more prosperous and equal South Africa.

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.

Parliament's finance committees consider 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. The appropriation committees examine national spending priorities for the next three years, the proposed division of revenue and adjustments to conditional grant allocations.

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.