

Medium Term Budget Policy Statement 2017

**National Treasury
Republic of South Africa**

25 October 2017



ISBN: 978-0-621-45853-4
RP: RP312/2017

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.

To obtain additional copies of this document, please contact:

Communications Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa

Tel: +27 12 315 5944
Fax: +27 12 407 9055

The document is also available on the internet at: www.treasury.gov.za.

Foreword

The most urgent task before our nation is to ignite inclusive, job-creating economic growth.

The National Development Plan (NDP) targets sustained economic growth of 5.4 per cent per year to dramatically reduce unemployment, poverty and inequality. This year, we expect the economy to grow by only 0.7 per cent. This is clearly insufficient to achieve our development aspirations, and places pressure on our fiscal framework.

Government remains committed to a path of fiscal consolidation. We will take steps to narrow the primary budget deficit and stabilise gross public debt, while protecting social spending and investments supporting economic expansion. Yet there are limits to what these measures can achieve.

The only sustainable solution for our development and the health of our public finances is to grow the economy inclusively.

The strengthening world economy offers an opportunity to implement reforms that will enable inclusive growth. Business and consumer confidence are exceptionally weak, and have been undermined by political uncertainty, policy uncertainty and poor governance in several state-owned companies. Government recognises the need for decisive action in these areas, and in July announced 14 measures to boost confidence and investment. The *Medium Term Budget Policy Statement* reports on the progress of those measures.

To ensure growth benefits all, radical economic transformation is required to change the structures and patterns of ownership, management and control of the economy, so that they include all South Africans. Government policy should support higher levels of value addition in our exports, the use of public procurement to promote localisation and broad-based black economic empowerment, reindustrialisation and address market concentration, which undermines competition and raises barriers to entry for small businesses and the historically disadvantaged.

The budget remains progressive and redistributive, and makes large contributions to transformation and inclusive growth. Core social expenditure is protected.

Spending priorities for the medium-term expenditure framework period ahead are guided by the NDP and the Mandate Paper. Yet pressures on the public finances are mounting. Debt is expanding and debt-service costs are the fastest-growing category of government expenditure. In this context, a series of risks must be managed. This will require difficult trade-offs and compromises.

Government will maintain the expenditure ceiling over the medium term. A presidential task team is examining possible asset disposals to ensure that there is no breach of the ceiling in the current year. Given the shortfall in revenue, new spending initiatives can only be accommodated through reprioritisation or parallel tax increases.

I would like to thank President Jacob Zuma, the Cabinet, my colleagues across government and Deputy Minister Sfiso Buthelezi for their inputs. I appreciate the hard and diligent work of the National Treasury staff in putting together this *Medium Term Budget Policy Statement*.

Tough times require tough decisions. We are committed to making them. Working together, we can grow the economy for the benefit of all.



Malusi Gigaba
Minister of Finance

Contents

Chapter 1	Overview	1
	The budget, transformation and inclusive growth.....	1
	Economic outlook.....	2
	Fiscal outlook.....	4
	Spending priorities.....	6
	Conclusion	8
Chapter 2	Economic outlook	9
	Transformation, inclusive growth and competitiveness.....	9
	Global outlook.....	11
	Review of domestic economic performance.....	13
	Macroeconomic outlook.....	15
Chapter 3	Fiscal policy	19
	Erosion of the fiscal position	19
	Revenue performance and outlook.....	21
	Expenditure performance and outlook.....	25
	Fiscal framework	27
	Financing and debt management strategy	29
Chapter 4	Expenditure priorities	31
	Introduction	31
	Expenditure priorities and pressures.....	32
	In-year adjustments to spending.....	36
	Medium-term spending priorities	36
	Division of revenue.....	41
Annexure A	Fiscal risk statement	49
Annexure B	Compensation data	59
Annexure C	Technical annexure	67
Annexure D	Glossary	75

Tables

1.1	Macroeconomic projections.....	2
1.2	Consolidated government fiscal framework.....	5
1.3	Consolidated government expenditure.....	7
2.1	Economic growth in selected countries.....	12
2.2	Sector growth trends.....	15
2.3	Macroeconomic performance and projections.....	15
2.4	Assumptions used in the economic forecast.....	18
3.1	Gross tax revenue	21
3.2	Medium-term revenue framework...	23
3.3	Main budget expenditure ceiling.....	25
3.4	Revisions to the 2017/18 expenditure ceiling.....	25
3.5	Main budget framework.....	28
3.6	Consolidated fiscal framework.....	29
3.7	Total national government debt.....	29
3.8	Gross borrowing requirement	30
4.1	Summary of expenditure on cost containment related items: national and provinces.....	35
4.2	Consolidated expenditure by function.....	37
4.3	Consolidated expenditure by economic classification.....	39
4.4	Division of revenue framework.....	41
4.5	Changes to division of revenue.....	42
4.6	Provincial equitable share.....	43

Figures

1.1	South Africa's per capita income.....	2
1.2	Main budget revenue and non-interest spending.....	4
1.3	Growth in gross tax revenue and nominal GDP.....	5
2.1	Business confidence and private investment.....	10
2.2	Comparative pricing of 1GB of data across Africa.....	14
2.3	Growth in fixed investment in key sectors.....	16
3.1	Gross debt-to-GDP outlook without additional fiscal measures.....	20
3.2	Medical tax credit per income group	24
3.3	Medical tax credit as percentage of taxable income of taxpayers.....	24
3.4	Interest payments as a share of main budget revenue.....	27
4.1	Average nominal growth in spending, 2017/18 – 2020/21.....	32
4.2	Growth in main budget expenditure and consumer inflation.....	34

