

Medium Term Budget Policy Statement

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Foreword

The past four years have been good for the South African economy. GDP growth has averaged 5 per cent a year. National income per person has grown 22 per cent in real terms since 1999. Housing, water, sanitation, electrification and access to education have been extended to millions of South Africans. Since 2003, 1.3 million jobs have been created, boosting employment by about 2.7 per cent a year.

Yet as the economy has grown more rapidly, it has also begun to show signs of strain, reflected in rising inflation and a high current account deficit. To progress towards sustainable growth above 6 per cent, a series of microeconomic reforms are required to raise productivity, lower the costs of doing business, cut red tape, invest more in skills and increase the labour-absorptive capacity of the economy. We also have to increase spending on social and economic infrastructure to remove constraints to growth and share the gains of this expansion more widely.

Since 2004, government has been guided by two core objectives: halving the rate of unemployment and the proportion of people living in poverty by 2014. This *Medium Term Budget Policy Statement* sets out an economic and fiscal framework aimed at accelerating progress to meet these targets.

The budget framework makes a contribution to higher growth and poverty reduction through investment in infrastructure, human development and community services. To ensure that both the public finances and economic growth are sustainable for present and future generations, the framework also signals more moderate growth in government expenditure over the medium term.

The budget priorities continue to be characterised by a pro-poor spending pattern, with strong growth in transfers to municipalities and provinces to broaden access to basic services, and to improve the quality of education, health and welfare services.

The purpose of the *Medium Term Budget Policy Statement* is to present a framework and a set of spending priorities to shape the budgets of national, provincial and local government. It is intended to encourage parliamentary and public debate on how South Africa will meet the social and economic challenges ahead.



Trevor A Manuel, MP
Minister of Finance

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