Medium Term

Budget Policy Statement

2018

National Treasury

Republic of South Africa

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Foreword

The South African economy is at a crossroads.

Since the presentation of the 2018 Budget, we have experienced a technical recession. Although the outlook for global growth is positive, there are storm clouds on the horizon, with growing risks for developing countries as trade tensions mount and financial conditions tighten.

We have been able to avoid the most damaging circumstances that have affected other developing countries owing to our strong macroeconomic framework and prudent debt management. Yet we too have experienced some devaluation of our currency and rising bond yields.

The central challenges we confront as a nation are to raise economic growth and reduce unemployment. GDP growth is now expected to average 0.7 per cent in 2018, rising gradually to 2.3 per cent by 2021. At 27 per cent, the unemployment rate remains alarmingly high.

Government needs to take some difficult decisions to get the economy on a higher growth path and to encourage job creation. Over the medium term, the President's plan to support economic recovery provides essential elements needed to bolster confidence. A crucial component of this package is our intention to partner with the private sector to increase investment in public infrastructure. We are establishing an infrastructure fund that provides a clear signal to investors, draws on technical expertise, and supports improved project assessment, planning and implementation.

Over the longer term, we require reforms to change the structure of our economy, raise productivity, increase competition and reduce the cost of doing business. We also need to find a way to sustainably manage government's wage bill, which consumes about 35 per cent of public resources.

Despite tax increases announced in February, revenue growth projections have been revised down. As a result, government's borrowing requirement increases over the next few years. The expenditure ceiling, however, is unchanged from the 2018 Budget. Government remains committed to ensuring fiscal sustainability. The gross debt-to-GDP ratio is expected to stabilise at 59.6 per cent by 2023/24.

Nonetheless, public expenditure continues to grow in real terms. Over the next three years, government will spend R5.9 trillion, including R1.9 trillion on health and education, and R911 billion on social development.

We must be frank about the challenges we confront. The quality of public expenditure is often poor and governance problems are often severe, particularly in provincial and local government, and state-owned companies. Government is tackling these problems. As reforms take hold, economic activity, revenue collection and public spending efficiency should improve. In the interim, however, distressed institutions at all levels of the public sector are risks to the public finances.

I would like to thank my predecessor, former Minister Nhlanhla Nene, as well as Deputy Minister Mondli Gungubele, the Director-General and the staff of the National Treasury for their commitment to the Constitution, and their diligence in protecting the public finances on behalf of all South Africans. I can promise my new colleagues in the National Treasury that much more hard work lies ahead for all of us in the interests of our country.

TT Mboweni
Minister of Finance

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