

Medium Term Budget Policy Statement

2008

National Treasury

Republic of South Africa

21 October 2008



ISBN: 978-0-621-38285-3
RP: 267/2008

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 5526
Fax: +27 12 315 5126

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

Foreword

From the first State of the Nation address by President Nelson Mandela, and the first Budget speech delivered in a democratic South Africa, we have made it abundantly clear that budgets are not about markets, bonds or statistics.

Budgets are about people.

This is a timely reminder, because we have just lived through one of the most turbulent months in modern economic history. When a trader presses a button in New York it has an effect on the lives of millions of our people. It is government's responsibility to ensure that what happens in the world economy, and how it happens, is communicated clearly to South Africans. And we must ensure that in periods of global volatility, we have the tools to protect our people – in particular the poor.

The 2008 *Medium Term Budget Policy Statement* is about how we respond in the face of an international storm. The policy statement provides the framework on which the 2009 Budget will be constructed. It is not a budget, nor is it a mini-budget. The statement provides government's assessment of the state of the economy, the fiscal framework, the budget priorities and the division of revenue between national, provincial and local government. And it balances competing claims on the public finances – the need to address immediate priorities with the longer-term requirements of our economy.

Over the past 14 years government has taken some tough decisions on the budget, on spending, on taxation, on exchange controls, on banking regulation and on inflation targeting. So today, as the world faces its sternest economic test in decades, we are prepared. The benefits of taking such difficult decisions early on are reflected in a positive growth forecast, in our low levels of debt and in many other economic indicators.

Liduduma lidhule! The thunder will pass! Storms come and go. Some are more ferocious than others. We must look beyond the storm.

Our challenges are to eliminate poverty, to raise employment, to broaden opportunity and to improve the lives of all, particularly the most disadvantaged among us. We will remain focused on meeting these challenges during the present storm and beyond.

The budget framework presented here gives meaning to these commitments – to strive for faster economic growth, higher levels of investment, rising employment and reduced levels of poverty. Over the next three years we are prioritising education, health care, fighting crime, rural development and extending access to housing, water, sanitation, electricity and public transport.

We reaffirm the commitment of this government to put people first. We will continue to adopt policies that support growth and development, and that ensure more inclusive growth. And most importantly, we will continue to invest in a better life for all.

The thunder will pass!



Trevor A Manuel, MP
Minister of Finance

Contents

Chapter 1	Liduduma lidlule! The thunder will pass!	1
	Introduction	1
	Higher and more labour-intensive growth	3
	Budget reform	6
	Overview of the policy statement	7
Chapter 2	Economic policy: beyond the storm	11
	Overview	11
	The global economic environment	17
	Policy challenges: driving higher growth	22
Chapter 3	Fiscal policy: stability and growth	27
	Overview	27
	Fiscal trends in the broader public sector	28
	The budget framework	31
	Public sector borrowing requirement	35
Chapter 4	Tax policy	37
	Introduction	37
	National budget revenue, 2007/08	38
	National budget revenue estimates, 2008/09	39
	Revenue trends and tax reforms	40
	Implementation of the 2008 tax proposals	42
Chapter 5	Public spending priorities and budget policy	45
	The budget policy framework	45
	Revised expenditure estimates, 2008/09	49
	2007/08 outcomes and 2008/09 mid-year estimates	49
	Medium-term spending priorities	50
	Consolidated government expenditure	55
Chapter 6	Division of revenue and medium-term expenditure estimates	57
	Division of revenue overview	57
	Revisions to transfers to provincial and local government in 2008/09	58
	Funding provincial government	59
	Funding local government	63
Annexure A	2007/08 outcome and half-year spending estimates for 2008/09	67
Glossary		71

TABLES

1.1	Macroeconomic projections, 2007 – 2011	8
1.2	Consolidated national government, 2007/08 – 2011/12	9
2.1	Macroeconomic projections	13
2.2	Key labour market indicators, 2003 – 2008	15
2.3	Composition of manufacturing sector growth	17
2.4	Annual percentage change in GDP and consumer price inflation, selected regions/countries, 2007 – 2009	18
2.5	Summary of South Africa's current account, 2004 – 2008	21
2.6	Emerging markets export indicators, 2000 – 2007 average	25
3.1	Fiscal trends and projections	29
3.2	Infrastructure expenditure estimates, 2007/08 – 2011/12	30
3.3	Consolidated national government, 2007/08 – 2011/12	32
3.4	Total government debt, 2005/06 – 2011/12	34
3.5	Public sector borrowing requirement, 2007/08 – 2011/12	35
4.1	National budget revenue, 2007/08 estimates and audited outcome	38
4.2	National budget revenue, 2008/09 – 2011/12	39
4.3	Corporate income tax revenue by sector, 2000/01 – 2007/08	42
4.4	Proposed rate structure of pre-retirement withdrawals from retirement savings	43
4.5	Proposed turnover tax for micro businesses	43
5.1	Consolidated government expenditure by type of service, 2007/08 – 2011/12	56
5.2	Consolidated government expenditure by economic classification, 2007/08 – 2011/12	56
6.1	Medium-term expenditure framework and division of revenue, 2008/09 – 2011/12	58
6.2	Provincial equitable share allocations, 2008/09 – 2011/12	60
6.3	Revision to provincial conditional grant allocations, 2009/10 – 2011/12	61
6.4	Conditional grants to provinces, 2008/09 – 2011/12	62
6.5	Revision to local government allocations, 2008/09 – 2011/12	65

FIGURES

1.1	Soundness of banks	4
2.1	Sectoral drivers of GDP growth, 2000 - 2008	15
2.2	Gross fixed capital formation, 2000 – 2008	16
2.3	Mining production by commodity, 1995 – 2008	16
2.4	Commodity prices and the dollar, 2004 – 2008	19
2.5	Net reserves and external vulnerability, 2000 – 2008	24
2.6	Country comparison of foreign debt levels, 2007	24
3.1	The current account and general government savings, 1980/81 – 2007/08	30
3.2	Main budget and structural budget balances, 2000/01 – 2011/12	34
4.1	Tax-to-GDP ratio, 1985/86 – 2007/08	40
4.2	Corporate income tax and GDP, 1983/84 – 2007/08	41
5.1	Real expenditure trends, 1995/96 – 2011/12	48