

Medium Term Budget Policy Statement 2016

**National Treasury
Republic of South Africa**

26 October 2016



ISBN: 978-0-621-44971-6
RP: 342/2016

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Foreword

World economics and politics are in a state of flux, marked by high levels of uncertainty. Anaemic growth and investment, in tandem with a widening trust deficit between ordinary people and elites, have brought global inequality into sharper focus.

The National Development Plan (NDP), our roadmap to rid South Africa of poverty and fight inequality, targets growth of 5.4 per cent. The 2012 *Medium Term Budget Policy Statement* (MTBPS) forecast that we would be growing at 3.5 per cent by 2016. But real GDP growth has slowed markedly, and the economy is now expected to record growth of just 0.5 per cent this year.

This is much too slow for us to radically remake South Africa into a society based on social justice and dignity for all.

In response to the new global reality and the need to scale up the pace of social transformation, we have been adjusting fiscal policy to achieve stability and sustainability. A stable and sustainable fiscus, alongside economic reforms and transparent monetary policy, will support a return to the growth rates needed to achieve the NDP's goals. Our efforts have narrowed the budget deficit, even as gross debt and debt-service costs have grown. However, low levels of economic growth will require additional revenue measures and further spending cuts over the medium term. These actions should see net national debt stabilise at 47.9 per cent of GDP in 2019/20.

Economic growth is forecast to increase moderately over the next three years, but there are significant domestic risks to the outlook. New spending pressures also continue to materialise, and liquidity risks at some state-owned companies persist. What we need most right now is faster, inclusive, job-creating growth. All of us need to act with greater urgency and singularity of purpose to remove obstacles to growth in the economy and inefficiencies in public spending.

Government continues to strengthen its active collaboration with business and labour to revive investment growth, and is working to provide greater policy certainty and improve labour relations. Our efforts will continue to be multifaceted: promoting inclusive growth, cultivating business and consumer confidence, and spurring investment.

In the meantime, as these reforms make themselves felt, we face difficult choices about how best to use the limited resources we have, and how those resources will be shared in a time of great need.

Our constitutional mandate is unequivocal: public funds must be spent for the common good.

To that end, government proposes to enhance the investment in our future and protect the progress we have made towards realising the fundamental rights of all who live in South Africa. The proposals include sustaining spending on social services and economic infrastructure, and reallocating funds to reduce hardships faced by higher education students in financial need.

These and the other proposals that follow reflect the outcomes of extensive deliberations and suggestions from across government, as well as inputs from the President and my colleagues in Cabinet. I am immensely grateful to Deputy Minister Mcebisi Jonas, Director-General Lungisa Fuzile and the staff at the National Treasury for their hard work and diligence in the preparation of this policy statement.



Pravin J Gordhan
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.