The Medium Term Budget Speech 2016

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Amidst protests at Parliament, the Minister of Finance, Mr Pravin Gordhan, delivered his Medium Term Budget Policy Statement (MTBPS) on 26 October 2016 at 14:00. The MTBPS again reported to Parliament and the general public on the planned use of taxpayer funds; fiscal and financial measures; and public finance management.

SA's **economic growth** was forecasted at 0.9% in the February 2016 Budget, but the MTBPS has revised this downward to just 0.5% for 2016. Forecasts have it that economic growth will increase to 1.7% in 2017, which seems to be a very optimistic forecast, but if believed to be found credible could boost investor confidence. This is on the back of a slowdown in global growth in 2016 which affects investment and trade in most economies, especially those of developing countries.

Gordhan believes that growth could be accelerated if South Africa actively supports investment and investor confidence. Two of the root causes of low economic growth in the South African context is structural constraints and low investor confidence. The South African economy also finds itself in the midst of protracted global trade, lower commodity prices and a high risk of external volatility. All of these factors contribute to rising unemployment and investor confidence is severely impacted by perceived elevated political risk and concerns about the ability of public institutions to perform optimally. However, National Treasury and the Minister are optimistic that the South African economy shows signs of future recovery. Their reasons include an expected moderate recovery of commodity prices, lower inflation, real wage growth, an easing of drought conditions and the creation of new electricity capacity building, and investment in energy, transport, housing, water and sanitation.

The National Budget includes **commitments of public resources** of approximately R1trillion per annum, which places the spotlight yet again on inefficient and wasteful public spending. And, very unfortunately, the spending is increasingly being funded by borrowings. Government borrowings amount to R2trillion which is double the amount of government's commitments. Adding this to the increasing cost of borrowings leave less and less to cover expenditure. The Minister emphasised that **fiscal consolidation** will continue in the future and the **budget deficit** of 3.4% in 2016 is estimated to decline to 2.5% in 2019/20 which is good news.

Fiscal and monetary policy aims to support economic recovery. The Minister estimates **debt** to stabilise at just below 48% of GDP. South Africa has limited capacity to increase taxation to levels that will meet all of its objectives. As a result, this would require trade-offs. It follows that long-term capacity creation cannot be realised with the available financial resources. The declining GDP growth and lower tax buoyancy are estimated to reduce the initial tax collections estimate to February 2017 by R23billion, by R36billion in 2017/18, and R52billion in 2018/19. **Tax measures** and reduced expenditures are estimated to raise an additional R43billion over the next two years. **Government expenditure** is estimated to increase by 7.6% over the Medium Term Economic Framework (MTEF: the annual, rolling three year-expenditure planning), which include additional allocations to post-school education, health, and social protection. Infrastructural investment, mainly in energy, transportation, and telecommunication will exceed R900billion over the next three years. Considering the MTBPS CPI (inflation) estimates of 6.4% in 2016, 6.1% in 2017, and 5.8% in 2019, the increase in government expenditures represents a real increase which is concerning. National Treasury warns that the **expenditure ceiling could be breached** due to execution risks associated with wage bill pressures, infrastructure underspending, and further exchange rate pressures. Enhancement of supply chain management and public service delivery continue to receive priority. The increased allocation to fund tertiary education follows the "fees must fall" campaign that has created turmoil at higher institutions over the last few months. This has created a desperate need to address higher education fees through dialogue and increase allocation of funds. National Treasury lists two main reasons which lead to the fee debate, namely a growth in numbers of deserving students from poor communities with funding not keeping up; and the lack of a clear national funding framework within which these funding issues can be addressed.

Government and private sector have actively been driving **economic transformation** for the last two decades or so. South Africans have unfortunately continuously seen wasteful expenditure and "insider" awarding of these benefits, especially as they relate to government awards. The South African Constitution supports social and economic progress through a sound institutional framework. The Constitution embeds the values and principles of public administration which includes a high standard of professional ethics, efficient economic and effective use of resources, an orientation towards development, the impartial, fair, equitable and bias-free provision of services, and transparency. National Treasury is the constitutional instrument through which this ought to be achieved. The Ministry has again expressed its commitment to promote inclusive economic transformation through **fair and transparent**

processes and pledged support this through the introduction of procurement regulations which will be tabled in Parliament in 2017. Government also plans to advance economic transformation through improving the policy environment, investing in network infrastructure, encouraging private-sector investment, reviewing incentive programmes, building a platform for collective action, and fostering better labour relations. The inequitable management of transformation has been endemic in the South African economy for many years and has not been addressed sufficiently by government, which in many respects increases the income gap between the “have(s)” and the “have not(s)”. This renewed commitment to address this is welcomed as long as it is evinced through real implementation.

The **MTBPS sets out to support** inclusive growth; a macroeconomic and fiscal policy framework which limits government debt and expenditure and supports increased public and private sector investment; a concerted implementation of government’s nine-point plan for the real economy; broadening economic development participation through policy initiatives; inclusive development and structural development; and intensified national dialogue to enhance growth and reduce poverty. Overall the MTBPS would likely rather increase investor confidence than not, if it is found to be realistic (which is of course the big question). But for the realism of the projections of the Minister (which may be under the spotlight due to National Treasury constantly over-estimating the variables such as GDP growth), the MTBPS has managed to convey a not-so-negative message with very limited means at its disposal.

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