



RESPONSE

October 28th, 2015

The Medium Term Budget Policy Statement

The Finance Minister's Medium Term Budget Policy Statement (MTBPS) last Wednesday was overshadowed by the student activism outside Parliament as the #FeesMustFall campaign gained momentum. We have withheld this *Response* pending further details of how President Zuma's assurance that there would be zero increase in fees next year would be financed, as this would impact on the MTBPS. To date however, no details have been revealed.

In general Minister Nhlanhla Nene confirmed the gloomy outlook. He indicated that South Africa's economy would grow by only about 1.5% this year, compared with the more optimistic 2% that undergirded the February 2015 Budget. The growth forecast for next year was 1.7%. He also indicated that tax revenues are down and are likely to continue to decrease over the next three year period, effectively withdrawing R35 billion from the fiscus. He confirmed that load shedding and uncertain electricity supplies continue to be the biggest drag on economic growth, costing the country roughly one percentage point of annual gross domestic product growth. Minister Nene said: 'Electricity constraints continue to limit output and business investment has fallen.'

All of this has caused many commentators to raise questions about whether the Treasury will be able to meet its goal of stabilising gross debt/GDP ratio to about 50%. The challenge will be compounded by the commitment to establish the National Health Insurance scheme and the costs of promoting nuclear power generation. The spectre of increased VAT also raised alarm bells amongst many. Economists reacting to the Minister's statement warned that expenditure cuts, containing the size of the civil service, and achieving a job creating economy, are key aspects of redressing South Africa's economic woes. With regard to the civil service, the Minister indicated that its expansion, as well as the replacement of certain posts, had been frozen. Opposition parties were particularly critical of the failure to give hope to the unemployed. In the first half of 2015, 76 000 jobs were lost in the formal sector. There were an estimated 659 000 new entrants into the job market at the beginning of 2015. The outlook for future entrants is very bleak: the Minister spoke of 2.43 million discouraged work seekers.

Mr Nene confirmed that the government's priorities remained education, health, and social protection which together accounted for 43% of the budget allocation. In this regard it is worth noting that Basic Education gets an 8.2% increase, with early learning development and text book delivery being particularly targeted. The increase is meant to ensure that an additional 127 000 children have access to early learning programs.

Social development receives an 8.3% increase, amounting to R13b, aimed at covering the estimated increase in the numbers of grant recipients. The indication is that there will be about 18.1 million

such recipients by 2018. The health budget is also increased by 8.3%, and will reach R178b by 2018, with special emphasis on the continued support of anti-retroviral programmes (from which an estimated three million people are benefiting) and the national health insurance scheme.

Public employment programs like the Expanded Public Works Programme will receive R37b over the next three years to create a hoped-for six million short term jobs, and to create a community work program by 2017. It is also worth noting that, given the many areas of contestation in the local government arena, municipalities will receive an additional R6b to cover free services to low income households, as well as to help settle their electricity bills with ESKOM.

Overall, national departments are allocated 47% of the budget, provinces 43% and municipalities 9%. In the light of these many challenges, the Minister looks to have a difficult task before him in the years ahead, continuing his balancing act between spending and revenue generation, to ensure both the social cohesion which rests on the programmes which the government has highlighted, but also the financial sustainability which is the very bedrock of progress and the guarantor of a better life for all.

Peter-John Pearson
Director