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National Treasury signals shift in SA's fiscal policy

Finance Minister Nhlanhla Nene has tabled the 2014 Medium Term Budget Policy Statement (MTBPS), which signals a shift in the country's fiscal policy through measures aimed at reducing the country's budget deficit and stabilising public debt.

Finance Minister Nhlanhla Nene says expenditure cuts are necessary for all government departments along with increased taxes that will be aimed at high income earners and disclosed in the 2015 budget. Image: GCIS

"We proposes a package of fiscal measures on both the expenditure and revenue side to re-establish the sustainable foundation for public finance and build a platform for investment-led growth in the future," Nene told journalists ahead of the tabling of the MTBPS in Parliament.

"These measures are in line with the Constitution which requires government to act within its available resources to progressively realise fundamental social and economic rights," he said.

Nene said these steps are necessary to ensure the sustainability of the country's public spending programmes in a weaker economic environment. The proposals complement reforms underway to moderate consumption, boost savings and expand productive investment.

However, challenges over the next several years include encouraging greater private-sector investment in the economy as private sector investments have remained subdued since the onset of the global financial recession of 2008.

Private sector investments needed

According to the MTBPS the challenges highlighted in the mini-budget include the improvement of the state's capacity to plan, manage and maintain its existing infrastructure and its planned development programmes. The country is already enduring electricity shortages, a decline in water quality and provision as well as the collapse of the postal services, amid protracted strike action. These factors all damage the economy and erode investment and public confidence.

Government has said that it will support power utility Eskom to ensure energy supply remains constant. This support will take several reforms, including a direct allocation of at least R20bn raised through the sale of non-strategic state assets and this will have no impact on the budget deficit.

The Medupi construction costs are forcing government to sell some of its performing assets to provide the funding Eskom needs to complete the job. Image: Tracks4Africa

National government will also work with municipalities to ensure that an equitable share is targeted to help poor households cope with higher electricity tariffs.Greater state capacity and efficiency are prerequisites for more rapid development.

For the period of between now and 2019 government's Medium Term Strategic Framework (MTSF) provides a roadmap to address challenges in line with the state's National Development Plan (NDP). The MTSF was unveiled in August this year by Minister in the Presidency, Jeff Radebe.

The aim of the MTSF is to ensure policy coherence, alignment and coordination across government plans as well as alignment with budgeting processes.

On Wednesday, government announced that it will spend R4.4trn over the next three years.

Nene said the had to be sustainability for the fiscus, while core social and economic programmes needed to be protected through a combination of spending and revenue adjustments over the next two years.

Proposed expenditure cuts

Strong controls on government expenditure, including lower advertising expenditure, moderate wage increases and strict control on airline tickets, venues, banquets and external consultants are all proposed in the MTBPS by National Treasury. Image: US News

Moderating expenditure growth combined with tax measures to increase income will improve the fiscal position by R22bn in 2015/16 and R30bn in 2016/17.

According to the MTBPS, proposed reductions to planned expenditure will be targeted so as to avoid cuts in front-line service delivery and budgets for non-essential goods and services will be frozen, resulting in substantial savings over the next two years.

For example, the National Treasury said that across national departments, planned expenditure on travel and subsistence has been reduced by R555m, while advertising and communications budgets have been reduced by R240m.

National Treasury said that lower spending on consultants will generate savings of R370m, while spending on venues and catering will be R150m lower than previously planned.

"Building on the cost containment guidelines, government at all levels will need to identify opportunities to increase efficiency and reduce waste."

On the issue of government's wage bill, it said financial restraint was an important aspect of this rebalancing.

"If increases in public sector wages outpace inflation, government will be forced to curtail service delivery either by reducing social spending or capital budgets or by trimming staff number," the MTBPS said.