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Manuel's balancing act keeps growth prospects high

BUDGET POLICY
By CAROL PATON

FINANCE Minister Trevor Manuel has achieved a remarkable feat by increasing public services spending over the next three years by R22-billion more than already budgeted for and simultaneously revising the budget deficit targets downwards.

Manuel, delivering government's budget policy statement for the next three years in Parliament on Friday, also forecast stronger growth projections of more than 3%, lower and stable inflation, a stable exchange rate, a lower tax regime, a recovery of exports and strong capital inflows.

But, he said, job growth remained elusive and there was a need to accelerate job creation and investment, and to promote savings.

The new budget deficit will be below 2.8% of GDP this year as opposed to the 3.5% estimated in February.

The deficit was expected to decline to 2.4% by the end of the three-year period, Manuel said, singling out the success of government's policy to reduce the budget deficit — a contentious issue with its political allies in the trade union movement — and pointing out that the fruits of fiscal discipline were now being seen.

"The reduction in interest costs alone releases some R2.2-billion for spending on public services next year. If we had continued to borrow 6% of GDP each year, the national debt would be some R40-billion more that it is now. We would pay R6-billion more in interest. We would have R6-billion less to spend on public services," he said.

South Africa's growth prospects had also significantly improved since the tabling of the Budget in February and it was now predicted growth would increase from 0.9% this year to 3.5% next year and 3.4% the year after. Growth of 3.2% was forecast for 2002.

CPI inflation was expected to average 5.5% this year and to decline gradually in subsequent years.

Stable inflation would be assisted by the introduction of a specific target next year, Manuel said.

Stronger growth would be fuelled by the recovery of the world economy, lower interest rates, stable inflation and reduced government borrowing.

Lower debt service costs — partly as a result of reduced debt through state restructuring receipts, mainly Sasria — and improved revenue collection, were in large part responsible for the increase in available resources.

National revenue exceeded the revised budget estimate by R4.5-billion in 1998/99.

Manuel described the increase as a "substantial increase in government expenditure commitments ... made possible by improved economic performance and sound fiscal policies".

Of the additional R22-billion made available for spending, R4-billion was provided for this year, R7.5-billion for 2000/1 and R10.5-billion in 2001/2.

The single biggest new item of expenditure was allocated to defence for new equipment aimed at enabling the SANDF to play a greater peacekeeping role in Africa. This includes R2.8-billion in 2000/1 and R3.8 billion in 2001/2.

Other spending priorities outlined included:

- R0.5-billion for the criminal justice system. This includes a budget allocation for the newly established Scorpions unit and more money for magistrates courts.
- More spending on social services like education, health and welfare which will probably allow them to grow at a rate greater than inflation.
- An additional R2.6-billion on infrastructure in the next budget year.
- More money to beef up the collection of revenue; and
- More money to combat HIV/AIDS, and for poverty relief.