

HELENSUZMAN FOUNDATION

5 November 2019

The Chairman
Finance Standing Committee
National Assembly

The Chairperson
Select Committee on Finance
National Council of Provinces

By email to:

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Chairs

REQUEST TO CLARIFY STATUS OF THE MEDIUM TERM BUDGET POLICY STATEMENT AND THE FISCAL FRAMEWORK

The Helen Suzman Foundation is a non-governmental organization whose central aim is the promotion of constitutional democracy in South Africa. Implicit in this aim is the objective of improving the rationality of public policy, and it is in this connection that we write this letter to you. The request here is for a clarification of the relation between the Medium Term Budget Policy Statement and the Budget in the following year.

Section 28 of the Public Finance Management Act (“**PFMA**”) and Section 8 of the Money Bills and Related Matters Act (“**MBRM**”) regulate the Medium Term Budget Policy Statement (“**MTBPS**”), but they do not spell out explicitly how the MTBPS projections relate to the following Budget. Two views have been taken:

1. The MTBPS is merely indicative and creates no commitments for the following Budget. This appears to be the current Minister of Finance’s view.
2. The MTBPS creates commitments for the following Budget, at least when it comes to aggregate revenue, aggregate expenditure, the budget balance, and the primary balance in the main budget and gross loan debt. This is our view. It is implicitly supported by the process specified in Section 8 of the MBRM, which requires the adoption of a fiscal framework by Parliament. If the MTBPS is merely indicative of the government’s view at the time when the Statement is tabled, it is unclear any process is necessary beyond the

tabling of the Minister's statement in the National Assembly and the National Council of Provinces. The adoption of the fiscal framework by Parliament would have no force or effect.

The problem has been compounded this year by the fact that, although the government's objective in the 2019 Statement has been specified as a zero primary balance in the 2022/23 fiscal year, the projections in the Statement do not reflect that goal. There is also no specification of the path to that goal in the form of projections of the primary balance in the fiscal years 2020/21 and 2021/22. Accordingly, it can now be foreseen that there will be large discrepancies between the projections in the 2019 Statement and the next three Budgets. This is a major problem even for view (1), and certainly for view (2). The Medium Term Expenditure Framework is meant to stabilize planning and expectations, but it is currently failing to do so.

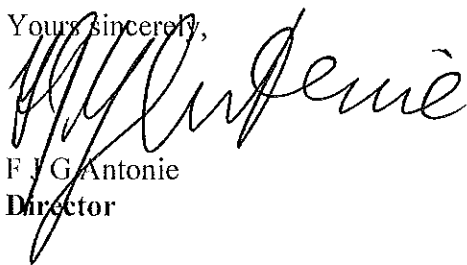
Of course, adjustments to the fiscal framework can be made at the time of the Budget, but these should be minor and they need to be justified.

We therefore request your Committees to either associate themselves with view (2), or explain to Parliament, and to us, what their views are and the reasons for them. An appropriate vehicle for clarification would be the reports of the Committees to their respective houses.

A clear statement would indicate to the Minister and the National Treasury what Parliament expects of them in future. It would also provide a guide to the public about the interpretation of future MTBPSs.

We would be happy to engage further with Parliament on this matter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'F. G. Antonie', written over the typed name and title.

F. G. Antonie
Director