Brief review of 2014 Medium Term Budget Policy Statement from an HIV and AIDS perspective

Budget Policy Brief 9

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1. Introduction

The period following the first democratic elections of 1994 introduced significant changes in the public budget process in South Africa. The Constitution of the Republic of South Africa, endorsed in 1996, calls for specific laws and regulations regarding the implementation of measures to improve fiscal transparency and participation and commits government departments to the progressive realization of various socio-economic rights within the constraints of available resources. The Medium Term Budget Policy Statement (MTBPS) is among various government budget policy documents that provide a roadmap to preserve public finances and sets out the overarching policy goals that will guide government budget decisions and priorities over a three-year expenditure period, the Medium Term Expenditure Framework (MTEF) (National Treasury, MTBPS 2014)[1].

As the world economic recovery remains in a slow pace, the MTBPS indicated a downwards revision of economic growth from an expected growth rate of 2.7% to 1.4% in 2014/15. The government has committed itself to containing its spending within its previous targets but concedes that revenue has not recovered as initially expected and in fact will remain subdued over the medium-term (2014/15-2016/17). Nevertheless, the government suggests a fiscal package that will reduce the expenditure ceiling by 25% and raise tax revenue over the next two years. This is intended to reduce the budget deficit and stabilize the debt which is now set to reach R2.4 trillion in 2017/18 (Financial and Fiscal Commission (FFC), 2014)[2].

In addition the finance minister, Mr Nhlanhla Nene, emphasized the importance of more investment and initiative by both the private and the public sectors required to ensure economic growth and fiscal sustainability.

[1] National Treasury. Medium Term Budget Policy Statement (MTBPS), 22 October 2014. Available from http://www.treasury.gov.za/documents/mtbps/2014/mtbps/MTBPS%202014%20Full%20Document.pdf. Last accessed on 7 November 2014.

[2] Financial and Fiscal Commission (FFC). Financial and fiscal commission submission on the 2014 medium term budget policy statement. "Available from www.ffc.co.za/.../commission-submissions/717-submission-on-2014-fisc...pdf. Last accessed on 7 November 2014.

The MTBPS does not propose any changes to the original HIV/AIDS and TB spending for the current MTEF. The Adjusted Estimates of National Expenditure (National Treasury, AENE 2014)[3] indicate that the allocated amounts of R12.8 billion and R26,4 million for HIV/AIDS and TB respectively in 2014/15 will not change. Thus this paper only provides a snapshot of the performance of the South African economy and a quick analysis of the 2014 MTBPS from the HIV and AIDS spending perspective.

2. Economic outlook

As the pace of the South African economic growth declines, the expenditure ceilings are being reduced. In his MTBPS speech, however, Nene announced a decisive plan for fiscal change and highlighted that restraining expenditure growth will not compromise front-line services. He assured South Africans that government is dedicated to spending R4.4 trillion over the next three years, and the budget will continue to grow in real terms by 1.8% a year (National Treasury, MTBPS 2014). The funding will be allocated to the national strategic priorities in line with the Medium Term Strategic Framework (MTSF), which gives expression to the National Development Plan (NDP) that provides a long-term roadmap for South Africa's policy direction and strategy.

Nene also emphasised government's commitment to stabilise the size of government debt over the medium-term. Government debt is expected to increase to 39.2% of GDP in the 2015/16 financial year from the current level of 35.7% of GDP. The minister noted that with the increasing current account debt, rising inflation and stagnating economic growth, "fiscal consolidation can no longer be postponed" (National Treasury, MTBPS Speech 2014)[4]. He therefore outlined proposals to mitigate the negative impact of debt and inflation on the economy, including lowering public expenditure ceiling by R10 billion in 2015/16 and R15 billion in 2016/17, and introducing tax policy proposals in 2015 aimed at increasing tax revenue by at least R27 billion over the next two years.

Consequently, the government will freeze the budget of non-essential goods and services at 2014/15 levels; withdraw funding for unfilled posts that have been vacant for a while; and reduce the growth rate of transfers to public entities, particularly those with cash reserves. These are expected to help trim down the budget deficit from 4.1 per cent this year to 2.5 per cent over the next three years (2015/16-2017/18) (National Treasury, AENE 2014). However there remains a desperate need for more human resources for health due to shortage of specialist health workers such as doctors, psychologists, dieticians, pharmacists etc in the public sector. Before the withdrawal of funding for unfilled posts is actioned, necessary information needs to be collected to understand the reasons behind this and to propose corrective actions.

The MTBPS also proposes a reduction in the provincial equitable share. Reductions in provincial and local government conditional grants will target patterns of under-expenditure, indicating that provincial and local governments that have failed to spend their allocations will face cuts in their forthcoming conditional grant allocations. The local government equitable share will be protected to ensure the provision of free basic services which are essential for communities.

[3]National Treasury. Adjusted Estimates of National Expenditure (AENE) 2014. Available from www.treasury.gov.za/publications/.../**2014**%20**AENE**%20Guidelines.pdf. Last accessed on 25 November 2014.
[4] National Treasury. 2014. Medium Term Budget Policy Statement (MTBPS) Speech by Minister of Finance Nhlanhla Nene. 22 October 2014. Available from www.treasury.gov.za. Last accessed on 25 November 2014.

3. Expenditure on health and HIV and AIDS

Despite a struggling economy that places the public finances under mounting pressure, the government has pledged to maintain the value of core social expenditure programmes. Budgets for health, education and social development will increase in line with inflation over the medium term. With a greater emphasis on health, the government has allocated approximately R500 billion to health, or almost 11 per cent of total spending over the MTEF period (National Treasury, MTBPS 2014: 33). Relative to 2014/15, real growth in the allocation to health will slow from 4.7% in 2014/15 to 3% in 2015/16 and 2.9% in 2016/17 (Financial and Fiscal Commission, 2014: 23).

The Government has also taken important steps to increase the HIV and AIDS spending through the comprehensive HIV and AIDS grant which is set to increase by 13% (a decline from an estimated growth of 14.2% expected) over the medium term to strengthen HIV and AIDS testing and prevention programmes and increase the number of people on antiretroviral treatment, aiming to initiate 500 000 new patients on antiretroviral treatment each year (National Treasury MTBPS 2014; Estimates of National Expenditure (ENE) 2014: 16[5]).

4. Conclusion

Despite the slow growth of the South African national economy and the reduced allocations for health in real terms, there is an increase in allocations on HIV/AIDS and TB. The government has committed itself to protecting spending on core areas such as education, social services and health. Increasing allocations for HIV/AIDS and TB will help save lives and eventually improve the livelihoods and socio-economic wellbeing of those living with HIV/AIDS and/or TB. However, stronger financial management capacity remains core in budgeting and spending of HIV/AIDS and TB funds and needs to be built at all levels of government to ensure that budgets are well spent, and that desired results are obtained in line with government's outcome based budgeting approach. Financial management information must be generated and used to inform future financial planning activities and implementation against the backdrop of slow economic growth and shrinking financial envelopes.

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[5] National Treasury. Estimates of National Expenditure 2014 Abridged. Available from www.treasury.gov.za. Last accessed on 25 November 2014.