national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

ADDRESS BY THE MINISTER OF FINANCE, MR MALUSI GIGABA MP, ON THE OCCASION OF THE BUDGET VOTE 07 AT THE EXTENDED PUBLIC COMMITTEE ON FINANCE

In tabling the Budget Vote 07 for National Treasury, I would like to begin by expressing sincere gratitude to the leadership and staff of National Treasury for their continued commitment, pride and professionalism in serving the nation.

Particularly, let me extend a very special thank you to the former Director-General, Lungisa Fuzile, for 20 years of committed public service and on behalf of Deputy Minister Buthelezi and myself, for a professional handover as we assumed the Finance portfolio.

To the Chairperson and Members of the Standing Committee on Finance, thank you for providing oversight and advice on management of the nation's finances.

The finance family institutions are critical components of our country's fiscal and governance framework.

National Treasury has been one of our foremost institutions in role modelling the technocratic professionalism and ethical commitment of a capable and developmental state.

We will continue this proud tradition at Treasury and throughout the Finance family.

Accordingly, we are committed to filling the vacancy of DG expeditiously.

A number of excellent internal and external candidates have been considered, interviews have been conducted, and a recommendation will be forwarded to Cabinet for its consideration in the coming weeks.

We will also act quickly to fill other top management vacancies in the Department.

As the executive leadership of Finance, we are absolutely clear about our priorities: inclusive growth and economic transformation as spelled out by the National Development Plan.

Social justice cannot be fully attained if we maintain the current status quo.

Therefore, economic transformation should prioritise – among other objectives – changing the structure, ownership and institutions of our economy to include all South Africans in opportunity and wealth creation, particularly marginalised groups such as black people, women and youth.

What then is our role as the National Treasury in this vision?

The mandate of National Treasury is sustainable management of public finances, maintenance of macroeconomic and financial sector stability, and effective financial regulation of the economy.

Our work is also underpinned by the 2030 vision as articulated in the NDP.

Our facilitation of the division of national revenue to serve the public in line with the Constitution and government policy at the necessary scale is compromised by low economic growth, which, together with persistently high unemployment, poverty and inequality, makes demands on the fiscus to grow faster than the resources available to fund them.

The budget progress becomes ever more fraught as departments try to fulfil growing mandates using static or even declining resources.

As a consequence of low growth and rising demands on the fiscus, debt has grown substantially since the financial crisis of 2008.

For us to be able to borrow and refinance debt, credit rating agencies are critical as they rate public debt, and therefore their independent assessment of our creditworthiness and economic prospects are influential with investors.

The recent downgrades in our credit ratings by two rating agencies have left our foreign currency denominated and domestic currency debt rating at sub-investment grade.

We continue to engage intensively with all the rating agencies to take them into our confidence on ongoing reforms, growth initiatives, and our commitment to measured fiscal consolidation and improving the governance and sustainability of our state owned companies.

We hope these engagements will avert further downgrades in the short term, and that progress in these areas will improve our credit ratings in the medium term.

There is no magic bullet to improving our credit rating; we must implement the NDP and the 9 point plan.

Progress in our economic development programmes will result in improved credit ratings, business and investor confidence.

As the National Treasury, we can only do our part:

- to manage the fiscus prudently and sustainably, giving domestic and international investors confidence in our nation's macroeconomic stability;

- to facilitate a budget process which distributes resources to the programmes which will have the most impact in carrying out government policy;

- to monitor the debt levels of state owned companies closely to ensure they do not pose undue risk to themselves, or the country; and

- strategically to use state procurement to ensure value for money and economic transformation through targeted procurement from designated groups.

Ultimately however, government as a whole and especially the economic cluster, must work together to:

- implement structural reforms required to unlock growth;

- speedily conclude outstanding policy processes; and

- stabilize and revitalize ailing state owned companies.

We all have to pull our weight and walk the talk.

Chairperson,

Let me touch a bit on our current economic circumstances.

Together with a gradually improving global growth outlook, stronger global commodity prices, an improvement in local weather conditions and household and business confidence, the 2017 Budget Review forecast growth of 1.3% in 2017, rising moderately to 2.2% by 2019 as global growth and domestic confidence steadily improve.

We are not unique in our struggle for growth.

Our engagements at the IMF / World Bank Spring meetings, the World Economic Forum Africa and G20 highlighted the degree to which global leaders are uniting collectively to get the global economy on a faster and more inclusive growth trajectory.

A further positive advancement this year is the operationalisation of the Africa Regional Centre of the BRICS New Development Bank in our country.

We want to place special emphasis in these forums on advancing development within the African continent in the areas of infrastructure financing, industrialisation and beneficiation, regional integration and trade and domestic resource mobilisation and arresting illicit financial flows.

Of course we cannot expect international investors to invest in what we ourselves do not invest in.

The DBSA is determined to contribute to closing Africa's infrastructure gap, by increasing project preparation activities and catalyzing infrastructure investment at city and regional levels.

The Land Bank is spending R3 billion this year on agricultural development and transformation.

The Public Investment Corporation must continue to play a leading role in investing sustainably in the development of South Africa and the rest of Africa.

As a shareholder in large companies it can push companies to advance meaningful transformation as a matter of good corporate strategy.

It can also lead by example in empowering black asset managers by allocating them more funds to manage.

Chairperson,

In implementing the 9-point plan, we have made progress on improving ease of doing business, energy availability, labour relations and market competition.

We have been and will continue to work closely with business, labour and other social partners on practical initiatives, building developmental coalitions, to drive inclusive growth.

Our engagement with various investors has highlighted discomfort with our low level of economic growth and slow pace of implementing necessary reforms.

To be blunt, the two most important things we can do to restore confidence and reignite growth are to provide policy certainty and stabilise state-owned companies!

We must take action to finalise the mining policy, broadband rollout, digital migration and spectrum allocation.

We must further act with urgency to address the fiscal risks posed by state-owned companies.

Chairperson,

For South Africa to retain its sovereign independence to make decisions in its national interest and in response first and foremost to the citizens of our country, we must avoid the trap of incurring levels of public debt we cannot afford to repay.

The prospect of sustained low growth over the medium term remains the greatest risk to fiscal policy.

Since 2009, spending has increasingly been funded by borrowing.

Measured consolidation is needed to ensure fiscal sustainability, and we are committed to this path.

We first set an expenditure ceiling in 2012 and have since then consistently hit our targets through a government-wide commitment to improving efficiency and prioritising the most essential sectors and services.

Spending plans over the medium term allow for moderate real expenditure growth, with priority given to advancing higher education, health and social development.

The government wage bill will stabilise as a share of the budget, largely as a result of measures to reduce appointments in non-critical posts.

I am pleased to announce that the budget deficit for 2016/17 is marginally lower than the estimate presented to the House in February which was 3.9 per cent of GDP, and is now estimated at 3.8 per cent of GDP.

Over the next three years the deficit will be reduced to 3.3 per cent, stabilising debt as a percentage of GDP and confirming the resilience of our public finances.

In the period ahead, government will focus on strengthening budget execution and the in-year monitoring of spending.

The National Treasury is working with the Department of Public Service and Administration and all departments to strengthen our monitoring of personnel trends, and help managers operate within budget constraints.

We are working with other government stakeholders on a new infrastructure financing facility that will address shortcomings in the planning and execution of infrastructure projects and will ensure thorough technical analysis takes place.

Chairperson,

We are reforming state procurement to be strategic rather than merely administrative function.

We seek to use it to,

- advance economic transformation by prioritising targeted groups,

- efficiency by consolidating spend and reducing administrative burdens through modernisation, and

- the fight against corruption by minimising opportunities for malfeasance.

We plan to table a single Public Procurement bill addressing all the legislative and regulatory requirements of the system during 2017.

The OCPO has already achieved R7 billion in savings as a result of renegotiation of the government’s biggest contracts, renegotiating rates with airlines, hotels and car rental companies, restructuring mobile and fixed line telecommunications and smarter use of technology.

We anticipate saving an additional R15 billion over the next three years through:

- Renegotiation of government leases;

- Collaborating with the Department of Health in reducing the cost of medical equipment, health services and medicine; and

- Collaborating with the Department of Basic Education in reducing cost of stationary, school books, furniture.

The OCPO has also reviewed the PPPFA Regulations to accommodate support for SMMEs, township and rural businesses, youth and women owned businesses, and localisation.

The revised Regulations took effect on 1 April 2017 and will enhance opportunities for SMMEs to access government business.

We will devote significant attention to eliminating barriers to doing business with the state, especially for small business, and ending the irresponsible and destructive practice of paying suppliers late.

Chairperson,

Our Constitution requires an equitable division of nationally collected revenue between national, provincial and local government.

The Division of Revenue Bill for 2017/18 which has been adopted by this House provides funding to provinces and municipalities to deliver services such as education, health, housing, public transport, water and sanitation, and electricity.

National and provincial treasuries have agreed to focus on four “game changers” in their efforts to improve the capacity and financial performance of municipalities, and these are:

- A new Municipal Standard Chart of Accounts will be implemented across all 257 municipalities from 1 July 2017. This is a major reform that will create line of sight from a municipality’s IDP, through their budget, financial reporting and annual performance plan against pre-determined service delivery targets;

- An improved supply chain management to reduce irregular expenditure and generate significant savings, led by the OCPO;

- An improved revenue management framework for municipalities that seeks to improve the internal controls, cash flow management and operational efficiencies in municipalities and reduce unnecessary and wasteful expenditure; and

- Improved asset management is essential for continuous delivery of services and to generate associated revenue. The budget guideline is that municipal capital budgets have a 60 per cent allocation for new assets and 40 per cent for the renewal and upgrading of existing infrastructure. In addition, municipalities are encouraged to spend at least 8 per cent of the value of their assets on routine maintenance.

We also need to make every effort to address the culture of non-payment by engaging all stakeholders.

Government and citizens must pay for the municipal services they consume and uphold the prescripts of our legal framework.

Chairperson,

Apartheid spatial planning designed cities that locate poor black residents far from opportunities, resulting in what has been dubbed the 40x40x40 syndrome, in terms of which poor black people live in 40 square metre houses, 40km from work, with transport consuming 40 percent of household incomes.

This is intolerable!

Transformation of these spatial development patterns is an urgent priority if we are going to improve the economic prospects of people living in townships and achieve inclusive growth.

The National Treasury, through the Cities Support Programme is assisting the 8 metros to refocus their plans and budgets to invest in corridors that integrate former townships with the core economic areas of their cities, driving down transport costs, accelerating the provision of affordable housing, ensuring effective delivery of basic services, and effective management of land uses.

Let us harness all of our recourses, including public and private investments, to give all our people a sense of ownership of their cities.

Chairperson,

Economic growth for 2016 came in below expectations, leading to an under-collection in tax revenues of R30.7 billion for the 2016/17 fiscal year compared to what was forecast in the 2016 Budget.

Although tax revenues overall underperformed, there was an encouraging increase in corporate income taxes, showing that the economic activity may be starting to accelerate.

Tax increases of R28 billion were announced to consolidate the fiscal position, where the additional burden will fall mainly on those with the highest incomes.

These tax changes will help improve the progressivity of our tax system to more effectively redistribute income in our society.

Everyone, individuals as well as companies, needs to pay their fair share.

We continue to be grateful to South Africans for funding their government through high tax compliance even in these challenging times.

Reliable and efficient tax collection is a critical capability for a developing country, and SARS is an important asset in this regard.

It is charged with collecting R1.265 trillion rands this financial year.

We will continue to work with SARS to ensure it can fulfil its mandate to the nation and collect the revenue required to ensure South Africans fund their fiscus themselves, which is a vital test of national sovereignty.

Further measures will be taken this year to combat base erosion and profit shifting through increased global co-operation and additional legislative changes.

Tax legislation currently before or soon to come to Parliament will facilitate the implementation of the 2017 tax proposals, including the tax on sugary beverages.

The draft Carbon Tax Bill is also expected to be tabled in Parliament later this year.

Chairperson,

The financial sector plays a critical role in our country, but this must be enhanced to achieve the aspirations of all South Africans.

The Joint Standing Committees on Finance and Trade and Industry have had a number of hearings on the transformation of the financial sector.

Coming out of those hearings the following stands out:

- We need to reinvigorate the Financial Sector Charter to ensure all South Africans participate fully in the ownership, management, supply and take-up of financial services;

- Transforming the financial sector to serve South Africa better is key, including supporting SMEs and ensuring that financial institutions procure from SMEs and emerging businesses;

- Increased attention must be given to mutual based organisations that provide financial services like stokvels, burial societies and cooperatives, to build these into credible competitors to the highly concentrated banking and insurance sectors;

- Good conduct practices and financial inclusion result in a financial sector that helps South Africans to save for university and retirement, buy a home, make and receive payments and insure against theft and other losses.

National Treasury will continue to support our parliamentary process in developing a comprehensive plan that sees our financial sector fully reflect South Africa's demographics.

This year, together with the Department of Postal Services and Telecommunications, we will complete the process that will enable the Postbank to obtain a banking license.

It is well established that a well-regulated and resilient financial system is a key foundation of any economy, and reduces the likelihood of claims on tax-payer funds to bail out failing banks and other financial institutions during times of crisis.

The long-awaited Financial Sector Regulation Bill is expected to be passed by Parliament next month to ensure the implementation of a comprehensive system for better regulating the financial sector.

The Insurance Bill also currently before Parliament builds on the Twin Peaks model of financial regulation envisaged in the Financial Sector Regulation Bill, particularly in respect of prudential supervision of insurers.

The Financial Intelligence Centre Act will strengthen our regulatory framework on combating financial crime.

In the coming weeks, I will outline steps to implement the Act.

Chairperson,

State-owned companies need to be managed well in order to be engines or enablers of inclusive growth.

The IMC on SOC reforms is working to provide direction on various issues such as corporate governance, the shareholder management model, financial position and institutional arrangements, as well as private sector participation.

As part of this reform process, work is in progress on a holistic resolution of the governance and financial issues affecting our state-owned airline.

The work towards reviewing the appropriate group corporate structure for the State's Aviation assets is complete.

We are currently reviewing the options and recommendations and will soon announce a way forward.

Chairperson,

In conclusion, we must all of us do our part to advance our national development.

Government, business, labour and civil society must continue working together, guided by the NDP, the medium-term strategic framework and the 9-point plan, in pursuit of inclusive growth and economic transformation.

Whatever our differences from time to time, let us not loose fight of the task at hand.

We are not here for our own sake, but to represent the interests of all South Africans, and make decisions that better their lives.

Let us find areas of agreement and cooperation to drive practical initiatives which move our country forward.

It is my privilege, Honourable Chairperson, to commend this, the Budget Vote 07, before the Extended Public Committee.

I thank you.

Issued on behalf of National Treasury
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