MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE SPEECH BY MINISTER OF FINANCE MR TITO MBOWENI

DATE: 11 JULY 2019

Honourable House Chairperson
Honourable Members of Parliament

I am pleased to present the Budget Vote 7 for the National Treasury, and in this regard, I wish to thank the Chairpersons and members of the Finance and Appropriation Committees for their engagement with the issues we are seized with.

In February, I brought to this house the resilient and evergreen Aloe Ferox. I brought it to symbolise the planting of a seed of prosperity for our country. Today, I address the house against the back drop of growing fiscal challenges. I remain convinced that that the Aloe still encapsulates what we aspire to be as a National Treasury, and as a country: resilient and evergreen.

The total allocation to this vote in this financial year is R30.8 billion. This allocation will allow the National Treasury to conduct research on the economy together with our partners in and outside of government, and develop policies to maintain fiscal stability and promote growth. Together with the South African Reserve Bank, the National Treasury also ensures the stability of the banking sector and the overall financial system. It also coordinates intergovernmental fiscal relations; manages the budget process for government and the revenue estimates of the state; and enforces transparent and effective management of revenue, expenditure, assets and liabilities. This allocation includes transfers to SARS, FIC, the State Security Agency and our commitments to multi-lateral finance institutions. It will also include contributions to Civil and Military Pensions.

In the State of the Nation address (SONA) the President gave an honest, clear and sobering outline of the current economic situation. He stated, and I quote: “Our economy is not growing. Not enough jobs are being created”. He thereafter called on all of us as leaders to focus on “those actions that will have the greatest impact…” and those actions that will “catalyze faster movement forward…”.

In the last few years, South Africa’s economy has significantly underperformed. Growth has lagged behind global and emerging market levels, real GDP has grown slower than population growth for five (5) consecutive years, and our current GDP performance on a per capita basis is the weakest since the 1960s.

Although global conditions have at times been unfavorable, especially in respect of capital flows, domestic constraints have become the main cause of persistent underperformance. For example, the first quarter GDP contraction of 3.2 percent was fairly broad-based, indicating that the potential for long-run growth is dominated by downside risks and that domestic structural factors abound.

What are the reasons for this economic performance? As indicated, the National Treasury does extensive research and has identified five (5) primary impediments to growth:

a. Unemployment;
b. Inequality
c. Poor productivity
d. Poor education outcomes; and
e. Inefficient and poor-quality public service delivery.

State-Owned Enterprises and Economic Stability

The recent economic performance requires an acceleration of government's efforts to address constraints to growth while continuing to provide support to vulnerable groups, and National Treasury will be at the forefront of this.

Government needs to:

a. Continuously promote policy certainty;
b. Resolve our SOE challenges to restore fiscal sustainability;
c. Ensure security and reliability of electricity supply;
d. Continue working to attract investment; and
e. Streamline and make government regulations more effective, while making it easier for businesses to register, innovate, export and create jobs.

In this context, the issue of SOEs is critical. Eskom presents the biggest risk to the fiscal framework because of its financial problems and negative impact on the lives of ordinary South Africans. Given the high risks to the economy of a systemic failure if Eskom were to collapse, government is urgently working on stabilizing the utility, while developing a broad strategy for its future. In addition to the support announced during the February budget, I consider introducing a Special Appropriation Bill in the House on 23 July 2019 after consultation with Parliament, to make available additional funding for Eskom, for the current and next financial year. As indicated in the February budget, National Treasury in consultation with the Department of Public Enterprises have developed the terms of reference and scope of work for the Chief Restructuring Officer and the appointment will be made soon.

Once the annual Appropriation Bill, currently before Parliament, is law, additional financial support will be provided to SOEs, namely SAA, SABC and Denel from the contingency reserve.

But I must emphasize that this additional government support cannot be a blank cheque to these SOEs. We really and truly cannot go on like this. A broad strategic framework in the form of a Green Paper which will culminate in a White Paper will be published. This will deal with the future that government expects SOEs to play in a fast-changing micro and macro-economic environment. In some cases, such as in aviation and in broadcasting, various companies are making profits and providing good quality service. Yet SOEs in the same sectors, operating under the same economic conditions, are relying on government bailouts. We cannot allow this to continue.

Promote Growth and Job Creation

Let me remind the House of the package of five (5) measures government will implement to stimulate economic growth, which were outlined by President Ramaphosa in September 2018:

a) Implementing growth-enhancing economic reforms; such as broadband spectrum allocation, restructuring the electricity sector and regulation of the transport sector to lower prices;
b) Reprioritization of public spending to support job creation and economic growth;
c) Establishing an Infrastructure Fund;
d) Addressing urgent matters in education and health; and
e) Investing in municipal social infrastructure improvement.

Fiscal resilience and debt sustainability

Current economic performance will have a substantial impact on our fiscal stability, requiring tougher and strategic choices. Tax collection is underperforming in a weak economic environment, with a revenue shortfall in 2018/19 of R57 billion compared to 2018 budget estimates. Meanwhile, debt service costs have increased and persistently poor economic growth further exposes us to the risk of the re-pricing of our debt. At the time of the budget, debt as a percentage of GDP was projected to reach 60.2 percent in 2023/24, but this was based on growth estimates that are now less likely to be achieved. Therefore, we will be focusing our efforts in the short term on addressing the issue of rising debt, and on stricter controls of the spending side of government finances.

Madam speaker, up to now we have maintained real growth in spending, and the budget tabled in February reflected a real increase (that is, above inflation) of 2.4 percent in spending estimates. It will be difficult to sustain this momentum if we do not decisively address certain aspects of government spending, especially for underperforming programs. In this regard, we need to look carefully at those government programs that can be recalibrated, to improve their performance and to lessen their reliance on the fiscus.

Spending efficiency and Public Procurement

The National Treasury will continue developing and updating the In-Year Monitoring (IYM) system to monitor the spending by all national and provincial departments on a monthly basis. In line with section 32 of the PFMA, the spending numbers of all departments will be published quarterly. We strongly encourage honourable members to access the numbers in these publications, familiarise yourselves with them, and use the spending trends reflected therein to hold accounting officers in all spheres of government accountable for their performance in spending public money.

We will introduce a procurement data transparency portal where all procurement data will be easily accessible for the monitoring of government projects.

During this financial year, the National Treasury will table a new Procurement Bill as a single overarching legislation for public procurement in the country.

Local and Provincial Government

Honourable members, there are serious challenges in our municipalities. The Auditor-General presented his findings on local government finances on 26 June 2019 and needless to say, the outcomes are very disappointing.

Let me outline to this House how we are responding to the challenges in municipalities. In 2018, an MOU was signed which allocates the responsibility for financial management support of municipalities to the National Treasury and Provincial Treasuries, while issues of governance and service delivery support are allocated to the Department of Cooperative Governance (DCOG). It is essential that the mandates in this MOU are formalized and implemented more aggressively by both departments.

The National Treasury is providing in-kind assistance through the Municipal Financial Improvement Program (MFIP) and the Local Government Financial Management grant. In this regard, six priority areas have been identified for intervention by National and provincial treasuries:

a. Budgeting;
b. Revenue Management;
c. Supply chain management;
d. Asset management;
e. The Municipal Standard Chart of Accounts (M-SCoA); and
f. Audit outcomes

During 2018, the 10 municipalities with the highest unauthorized, irregular, fruitless and wasteful expenditure were prioritized for support. This included the training of councilors, the rollout of assessment tools, circulars and guidelines on disclosures, as well as the development of standard operating procedures. We are hopeful that with time these efforts will bear fruit.

It must be noted that many of the issues resulting in the unfavorable audit outcomes are deep-rooted and pervasive, and in some cases they are related to poor political leadership stability and high staff turnover. The measures that we are able to implement are affected by these realities. Therefore, strong oversight from Parliament will be indispensable in helping us to turn around these municipalities.

South African Revenue Services (SARS)

Honourable members, we are rebuilding our damaged institutions and restoring good governance and appointing strong leadership to the entities. President Ramaphosa has taken decisive steps to root out poor governance and corruption, including through the work of independent judicial commissions. While the Zondo Commission continues its work, we are already seeing firm outcomes from some commissions, notably the Nugent Commission of Inquiry. Judge Nugent has presented his findings and Cabinet has welcomed and accepted them. In this regard, work is underway to implement the findings expeditiously.

Cabinet noted that most of the failings at the South African Revenue Service (SARS) stem from a common cause, namely a “massive failure of governance and integrity”, and has approved that the Minister of Finance introduce amendments later this year to the SARS Act to give effect to the governance, oversight and organisational recommendations of the Commission. It will take time to reverse the damage done in previous years, but we will ensure that SARS once again achieves high performance outcomes in collecting government revenue.

The South African Revenue Service (SARS) has been one of the exceptional institutions of our government. It has gone through a difficult period, but it is reemerging as a key part of transformation of our country. Therefore, I am sure you will all join me in welcoming the new SARS Commissioner, Edward Kieswetter, who was appointed by President Ramaphosa with effect from May, 2019. Commissioner Kieswetter and his team are already working hard to implement the findings of the Nugent Commission. We wish the new Commissioner well in his new duties and give him the assurance of our full support. We look forward to the rollout of new innovations that will improve the ability of tax-payers to handle their tax affairs, such as the rollout of a new e-filing app.

Public Investment Corporation (PIC)

Madam speaker, we are pleased to welcome the new interim Board of Directors for the PIC and we wish the members well in the performance of their duties.

South Africa Reserve Bank (SARB)

Finally, madam speaker I wish to say a few words about the South African Reserve Bank (SARB). We welcome the recent decision of the President to reappoint the 10th Governor, Governor Lesetja Kganyago, to a further five (5) year term and to appoint two new Deputy Governors of the SARB. I congratulate Governor Kganyago and his reconstituted leadership team. His reappointment is an important statement of the confidence we have in him, and our commitment to the constitutional mandate of the SA Reserve Bank.

CONCLUSION

As I conclude, honourable Speaker, let me remind members of the daunting task that we face. Economic performance remains below the levels required to achieve the objects of the NDP, Vision 2030. If we are to avoid totally missing our targets we need to take strong steps to reinvigorate growth and stabilize our fiscal affairs. The broad-based decline in economic activity during the first quarter underlines a lack of confidence, insufficient demand, and a fiscal situation in serious danger due to the financial problems of state-owned entities.

If we are to right the ship, we need to focus on those actions and policy choices that will produce strong positive results for economic activities, through attracting investments and making it easier for South Africans to operate businesses, especially entrepreneurs. We also need to send a message that we will get the basics right. We will run a tight fiscal ship where spending is undertaken efficiently and with the right priorities, and where the service delivery arms of government, especially provinces and municipalities, focus on their core mandates before all else. We must find a long-term solution to SOEs and gradually remove the structural rigidities that prevent growth and job creation.

These are our challenges, and in overcoming them we will once again prove the resilience of our people and our institutions, like this Aloe here. In this regard, I wish to thank the entire team at the National Treasury for their dedication and hard work. Furthermore, I would also like to thank the Standing Committee of Finance members for their time and effort spent in processing the annual performance plans for NT and SARS.

Honourable speaker, I hereby table the budget vote for the National Treasury for consideration of the House and I look forward to a constructive debate.

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