MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

RESPONSE BY THE MINISTER OF FINANCE, ENOCH GODONGWANA, TO THE DEBATE ON THE 2022 FISCAL FRAMEWORK AND REVENUE PROPOSALS

DATE: 9 MARCH 2022

Madam Speaker;

Honourable Members,

Fellow South Africans:

Two weeks ago, I delivered the 2022 Budget Speech. We also tabled the following documents:

- The 2022 Division of Revenue Bill;
- The 2022 Appropriation Bill;
- The Second Adjustments Appropriation (2021/22 Financial Year) Bill;
- The Estimates of National Expenditure;
- The 2022 Budget Review

We highlighted, among others, reduced global economic growth projections owing, in part to, elevated inflation, withdrawal of the US fiscal support package and the consequences of volatility in China's troubled real-estate sector.

On the domestic outlook, we projected real economic growth of 4.8 per cent in 2021 and 2.1 per cent in 2022. We said we expect real GDP growth to moderate at 1.7 per cent in 2024.

On the revenue side, we reflected on the better than expected revenue collection, mainly from elevated commodity prices. We indicated that although the revenue gains are expected to dissipate in the short term, some of the improved revenue collection is expected to continue over the MTEF period.

Honourable Members, since then, there has been significant global developments that will have an impact on our economy – notably the conflict between Russia and Ukraine. This conflict carries with it significant risks for a world economy that is yet to fully recover from the shock of the COVID-19 pandemic.

The longer the conflict lasts as well as the imposition of further sanctions could lead to widespread global inflation and impede global economic recovery.

On the positive side, we expect that the rally in export commodity prices, stemming from supply concerns brought about by the conflict, will provide added support to the local mining sector and a possible windfall to revenue collections.

However, the rising oil price, the potential weakening of the rand against the US dollar, and supply constraints around wheat, pose upside risks to food and headline inflation.

Yesterday, StatsSA released GDP numbers for the fourth quarter of 2021 – our economy grew by 1.2 percent, after shrinking by 1.7 percent in the third quarter of 2021. This is 0.2 percent lower than the Treasury estimations.

Overall, South Africa's economy grew by 4.9 percent last year, compared to the Covid-19 driven contraction of 6.4 percent in 2020. This represents a slightly better growth than estimated by National Treasury.

There were improvements in a number of sectors namely: agriculture, manufacturing, services and transport. Of concern are declines in mining production, construction, electricity, government and financial services.

Madam Speaker, we must act with speed to accelerate the pace of inclusive economic growth and job creation. This must shape all our macro and micro economic policies and interventions. It is only through a sustained economic growth that South Africa will be able to significantly reduce unemployment, poverty and inequality.

As outlined in the Economic Reconstruction and Recovery Plan, and emphasized in the State of the Nation Address as well as the Budget Speech, we must act urgently to deepen social compacting and broaden consensus around what needs to be done to pull our economy out of its poor state.

In this regard, work has begun to finalize a series of social compacts with various social partners. Efforts to grow our economy will not only depend on macro-economic interventions.

We must continue with our reform agenda – in energy, telecommunications, rail, ports water and sanitation, as well as in boosting tourism and attracting rare skills into our economy.

We are encouraged that the spectrum auction began yesterday, and will be complete by the end of this month. This will support lowering the cost of data; improving broadband coverage including in rural areas; increasing broadband speeds; and the rollout of 5G.

Equally, we also need to get the basics right.

This entails reducing regulatory constraints, providing effective services, as well as coordinating and sequencing economic interventions.

Our cities and provinces have an important role to play in creating an enabling environment for investment.

In the City of Tshwane, for example, we are at risk of losing a potential multi-billion-rand investment by Ford in an electric vehicle plant.

Ford has already invested R16 billion in the Tshwane Automotive Special Economic Zone where it is producing its Ford Ranger model. This is the largest foreign direct investment project our country has seen in recent times and has already created around 8,000 jobs.

Ford intended to invest further in bringing its electric vehicle production to South Africa. This, however, has been put at risk because the City of Tshwane has been unable and perhaps unwilling to secure the electricity the new plant needs.

The Tshwane example reminds us that a deficit of political will at municipal level makes it massively harder than it should be to create conditions for job-rich growth.

Madam Speaker, as part of addressing the public sector wage bill, a Public Sector Labour Summit is scheduled to take place at the end of this month.

The Summit is an important opportunity for all stakeholders to engage honestly and transparently and chart a path towards a more sustainable public service and remuneration guidelines.

Much has been made of $750 million loan that we took from the World Bank. Let me repeat what we said before. The World Bank loan has no conditionalities attached. It does not in any way threaten the sovereignty of our country.

We considered all forms of concessional and non-concessional funding necessary to address the shortfall between our revenue and our expenditure. We then chose an affordable option available to us.

In the State of the Nation Address, the President announced the extension of the Social Relief in Distress grant to March 2023. The President further indicated that in this period, detailed technical work and engagements will take place to identify the best options to replace this grant.

In this regard, work is underway to review the grants system, with a view to developing an optimal support mechanism for grants recipients.

The review will also inform our approach to long term social security for South Africa.

This includes considerations regarding:

- Social assistance;
- Social insurance;
- Active labour policies; and
- Artisan training for learners exiting vocational training, where we intend to engage not only the private sector, but also municipalities and state-owned enterprises to equip learners TVET colleges with relevant industry experience to enable them to transition to gainful employment.

I will now respond directly to some of the issues raised in today's debate.

Thank you.