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Speaking notes for First Reading Debate

Minister of Finance

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1. I would like to thank this House for the spirit within which the discussions and debates on the Appropriation Bill have been conducted. In a country as divided as ours, and given the sometimes acrimonious debates in this house on various social, political and economic challenges, it is clear that there is a remarkable consensus on issues related to the budget. In particular, that our key public spending priorities are education, health, infrastructure, basic household services and fighting crime; there is almost complete agreement. We may disagree about the exact balance of spending, we may disagree about the state of the capacity to implement and we may differ on precisely how to deliver on various objectives. Nevertheless, the debates in this house show that we agree on much about our national budget.

2. The call by the President in his State of the Nation Address to deal with matters in a business 'unusual manner' has certainly taken hold. Our call – Si yim bumba – we are in this together has galvanised our country and the political parties in this house, to come together to face the challenging times ahead united as one country.

3. From listening to the debates and in reading the reports of the various committees that have deliberated on the Appropriation Bill, there are as many views on where budgets should be increased as there are on 'concerns about absorptive capacity – capacity to spend'. I welcome all these views and comments. They help enrich the debate and keep us on our toes. I also trust that many of these detailed issues on the quality of spending, capacity to spend or value for money

will be taken up by the various portfolio and standing committees in deliberations on individual votes. I'll return to the issue of value for money later.

4. The process of putting the national budget together is a long, complex one. We take seriously the views expressed by members in debates in this house and in the various committees that debate the budget. Through the Ministers' Committee on the Budget, we assure South Africans that the budget is not a technical exercise but a deeply political one, with oversight provided by the executive and legislatures at various points. We also take into account the views of various social formations, including the Peoples' Budget Campaign and that of various political parties. We have to balance the needs of all South Africans in the interests of growth and development. The budget must also be set within both a political and economic context which recognises the gains that we have made since 1994 and the challenges that we continue to face in ensuring a better life for all.

5. In October, the weather forecast suggested a high likelihood of a global economic slowdown. In February, the advent of a global slowdown was upon our doorstep, though there were still questions about its severity and longevity. In just four weeks since the budget, the global economy is looking decidedly more battered and worn. The sale of Bear Sterns to JP Morgan Chase for about a tenth of its value just a week before is a clear sign that the global financial system is in deep trouble and that we have not yet seen the end of the fallout from the sub-prime mortgage crisis. The US has cut interest rates from 5 and a ¼% just a few months ago to 2 and a ¼% this week. The massive injection of liquidity into the US financial system and the steps taken by the US Fed (actually the New York Fed) and the US Treasury to arrange the sale of Bear Sterns is unprecedented.

6. From the beginning of this year, up to 12 March, our stock market has fallen by about 7.5% in dollar terms. During the same period, the Dow Jones Industrial Index has fallen 8.7%, Shanghai exchange in China has fallen 20.5%, the Mumbai stock exchange has fallen 22.3%, the London Footsy has fallen 9.2% and the French CAC 40 has fallen 11.3%. So yes, Madam Speaker, the world economy is taking strain but our shock absorbers are helping to cushion against the worst effects of this crisis. We have what it takes to ride out this storm. We will be affected, but the policies that we've put in place since 1994 will put us in good stead to avoid the worst effects of the present crisis.

7. Two factors that are making the present global economic crisis more severe for the worlds poor are food and oil prices. The global food price index produced by the Economist magazine is up 70% in the past year. The spot price of maize, the staple diet for many South Africans, has gone up by 30% in the past year. In the year January, food inflation in South Africa stood at 13.4%. Over the same period, the figure for China is 18.2%, for India it is 11.4%, in Russia it is 16.7%. The factors that are driving up food prices include rising demand for meat due to rising incomes in India and China, increased use of cereals and soyabeans for bio-fuels, rising input costs, variable rainfall in major producers such as Australia and the fall in the dollar. These are global phenomena which impact on the poorest of our people.

8. This morning, Governor Tito Mboweni reminded us of the steps we have taken to reduce our vulnerability to global shocks. We have over US$32 billion in foreign exchange reserves. We have reduced our debt, especially our foreign and short term debt. Our financial system is strong and well regulated. However, it is also worth reminding ourselves that our large current account deficit increases our vulnerability. We have a shortfall between our savings and our investment needs. To fill this gap, we need almost R4 billion a week or foreign savings. We do not want to slow down investment. We need even higher levels of investment to grow this economy, to reduce the scourge of unemployment, to bridge the divides between rich and poor. To do these things, we have to attract foreign investment, in even greater quantities than in the past. We call on all parties to support our endeavours to make this country an attractive destination for foreign investment. We seek a wider partnership with all players, business, labour and community organisations to attract the capital we need, because the alternative is lower growth and even fewer jobs.

9. Many commentators have suggested that our 4% growth forecast for this year is optimistic. I wish to point out two facts. Firstly, over the past seven years, our macroeconomic forecasts have been closer to the mark than any private sector forecast. Secondly, because we only get two bites at announcing our forecasts, we take great care and diligence in making them. We are confident that we will meet the 4% growth rate and that the economy will accelerate in the outer years of our medium term horizon.

10. In announcing the Accelerated and Shared Growth Initiative, we identified several binding constraints on faster growth. These include the need for more infrastructure spending, better outcomes on the skills front, higher levels of foreign exchange reserves, lower levels of crime

and improved public sector performance. The budget that we've tabled speaks to each of these constraints, seeking to unblock the constraints on higher growth and more inclusive growth.

11. Our budget reinforces the view that the state is not a passive bystander in the development of this economy. The budget is an instrument of an activist state that seeks to intervene to support higher growth and more equitable growth. The public sector has an important role to play in investing in the infrastructure required to ensure faster economic growth and that will crowd in private sector investment. Our economy faces a series of constraints to higher growth ranging from skills shortages to electricity constraints. Only higher levels of investment in building both human and physical capital will allow us to break the constraints.

12. The better planting season in 2007 has meant that for many products, our prices have not increased by as much as the rest of the world. Nevertheless, a 30% increase in the price of maize and at 13.4% increase in the food component of our CPIX basket has meant severe hardships for many South Africans. In the budget, we took steps to increase the school nutrition programme by over 30% next year. Social grant increases take account of higher inflation with the state old age grant rising by 8.5% and the child support grant by 10%. We have also budgeted for a continual expansion of the social security system, extending the number of beneficiaries that receive grants beyond the 12.5 million at present. We continue to monitor the situation and will act in the interests of our people to attempt to protect them from these hardships. But we also know that what we do must be sustainable.

13. The Income and Expenditure Survey released two weeks ago show some interesting trends about income distribution in South Africa. Between 2000 and 2006, average income per person increased by 33% in real terms. The poorest 10% of households have seen increases of 79%, while the poorest 30% of the population have enjoyed real increases above the national average. It is also true that the richest 10% have seen strong growth in the income, by some 37% in real terms over the period. It is worth pointing out that all South Africans have seen real growth in their incomes. Our social security system has made a significant impact on poverty and on the lives of the poorest 30% of the population. Madam Speaker, given rising returns to skilled labour and the fact that we operate in a global market for these skills, reducing inequality remains a key challenge. It is also clear that we are making progress in fighting poverty and inequality.

14. The Income and Expenditure survey pointed out that the share of spending on food has fallen from about 25% in 2000 to below 20% in 2006. This is a positive development and is indicative

of rising prosperity where the proportion of the household spending on other, more discretionary items is rising and spending on food as a share of spending is falling. Nevertheless, the poor still spend a considerable share of their income on food.

15. Our policy of gradually expanding our social grants system in complemented by efforts to expand the social wage and in creating more jobs. Poverty reduction depends on much more than just social grants. A focus exclusively on social grants is antithetical to our vision of a developmental state. We seek to achieve a balance between an expanding social security system and investment in the things that allow for people to break out of poverty themselves. Our Constitution implores us to go beyond seeing the poor as passive victims of poverty and recipients of state grants or services. Social grants are not an alternative to better schooling, investing in water, in land reform, in creating jobs.

16. Oil prices have increased by over 87% in the past year. South Africans were shocked this month when the petrol price increased by over 60 cents to R8.11 a litre. The Financial Times this week reported that all oil futures contracts entered into in the past few weeks for delivery between the present date and 2016 were struck at a price over US$100 a barrel. This suggests that while oil prices may fall, it is clear that we are in an environment where oil prices are likely to stay above US$100 a barrel for a considerable amount of time. This has implications for how we think about the future shape of our cities, our spatial geography, our public transport systems and its implications for moving people and goods in a more efficient manner.

17. Our adoption of inflation targeting in the late 1990s has enabled our economy to grow and to become more competitive. We recognise that interest rates are a blunt instrument to achieve the objective of lower inflation. However, it is also evident that even the non-food and oil components of inflation are increasing and so, during this time of heightened turbulence, it is important that we continue to use inflation targeting as our anchor upon which we steady our economy and invest for higher growth. We cannot, at the first signs of stress, abandon our anchor.

18. Several members have raised the appropriateness of increasing the general fuel levy and the Road Accident Fund levy at a time when fuel prices are rising. The general fuel levy is being increased by 6 cents a litre or 5%. This is below the projected rate of inflation. It is true that fuel taxes do impact on the poor and rising fuel costs impact negatively on disposable income. However, we must also accept that certain products create negative environmental externalities

and it is appropriate that taxation be used to encourage conservation and more efficient use. Going forward, as we invest in public transport systems, we have to see the tax system as playing a role to encouraging greater use of public transport. The 5 cents a litre increase on the Road Accident Fund levy is above the present inflation rate, but it is below that overall rate of increase of petrol. On the Road Accident Fund, Honourable members, we do indeed have a problem, which several members have raised in this debate. Parliament has a role to play in helping resolve this problem both through its legislation and through oversight of the Road Accident Fund. .

19. In the budget, we announced an allocation of R60 billion over five years to support Eskom's capital investments. These investments are critical to ensuring economic growth well into the future. We are working with Eskom to ensure that they have the resources to meet their investment needs. We have also been clear that cheap electricity, which has had benefits for the economy over the past 15 years, must give way to more appropriately priced energy so as to provide the resources to raise investment levels and to ensure that we use it more efficiently. We are firm in our view that the shift to a more energy efficient economy has long term benefits for our country and has the potential to enhance the labour absorption capacity of the economy. We recognise that there are shorter term adjustment costs that have to be met. Our policies must ensure that these costs are orderly and take account of the impact on employment.

20. There has been a vigorous debate in these chambers on the fiscal stance adopted by government. Such debate is welcomed as it ensures that more South Africans understand what it is we seek to achieve. Given the high current account deficit, rising inflation and the volatile international environment, the measures we have taken to raise national savings are correct and will provide a degree of protection in these troubled times. The economic reforms that have been put in place since 1996 seek not to pander to international capital or to the whims of any one interest group. They are firmly aimed at providing our economy with the resources and the protection required to grow and to grow more equitably. Furthermore, fiscal policy has provided the public sector with the resources to impact on the lives of the all South Africans. We might debate the magnitudes and levels of savings we seek to garner through our fiscal stance but we all recognise the fact that fiscal policy has created a stable platform upon which we can achieve our social, political and economic objectives.

21. There is also unanimity in this house that budget allocations in themselves do not change peoples' lives. It is the translation of financial resources to quality schooling, bricks and mortar,

better roads and public transport networks, improved health care and more effective policing which our people seek. Judging from many of the remarks by members, we recognise a growing frustration with the pace of service delivery, notwithstanding the allocation of significant amounts of money. We accept that in many parts of the public service, we do not get good value for the billions we spend. This House has a critical role to play in raising the bar on the performance of the public sector and in this regard I welcome the steps taken by Parliament to hold the executive and departments and senior managers to account for the money that this House allocates to them. Over the past decade, we have steadily improved the amount and quality of information that we provide to the legislatures and the public on service delivery. It is your task to use that information to hold government to account. And where the information provided is of poor quality, make a noise, make a loud noise so that we can step up our game even further. I fully agree with the sentiments expressed yesterday by the Honourable Mashiane who implored this House to have a greater attention to detail.

22. This government will not allocate resources to poorly conceived plans. We will not pander to the wild ambitions of some departments who seek resources for what the Honourable Cronin referred to as ‘vanity projects’. We seek your vigilance in ensuring that the hard-earned fiscal space that we’ve created is allocated towards and is used effectively on projects that will make the greatest impact on the lives of our people, not those that are driven by personal aggrandisement.

23. In criticising areas where the results achieved have not met our legitimate expectation, we must not lose sight of those areas where we are making steady progress. Both the Community Survey and the Income and Expenditure Survey point to improvements in the standard of living and in access to basic services. Some of the most significant gains have occurred in the area of built environment infrastructure with access to schooling, health care, water, sanitation and electricity rising rapidly over the past decade. We applaud these gains and commit that our shoulder is still pressed firmly to the wheel to ensure that those who still live in poor conditions benefit too.

24. Finally, I would like to thank both the Portfolio Committee on Finance and the Joint Budget Committee for its hard work and diligence in processing this bill, in taking on board the views of groups both inside and outside this house and in supporting our collective efforts to steer the budget towards the objectives we all hold so dearly. In particular, I wish to thank the the chair of the portfolio committee on finance, the Honourable Nhlanhla Nene and the joint chairs of the budget committee, Ms. Louisa Mabe and Mr. Buti Mkalipi.

25. In conclusion, Madam Speaker, I wish to repeat that we are all in this together. Si yim bumba. We face a difficult set of challenges in the period ahead. We are confident that our ship is strong, that we will weather the present storms that are raging worldwide. We have steadily built up our defences. Yes, we are going through a difficult period, but this economy has the resilience to continue growing and we are well placed to benefit from a global recovery in the near future. When one looks beyond this storm, one can see the tremendous potential of our economy. Similarly, when one looks at our public finances and at our public sector, we can see that the bigger picture shows steady progress in developing our capabilities and in improving the lives of the poor. We will ride out this storm. We will create a better life for all.

End.