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Speech by Finance Minister Pravin Gordhan

on the State of the Nation Address

5 June 2009

Honourable Speaker

Mr President,

Deputy President,

Honourable Members,

INTRODUCTION

Mr President, your administration takes office during one of the toughest economic times in living memory. South Africa is facing its first recession in 17 years and we are witnessing global economic conditions last seen during the great crash of the stock market in 1929 and the depression that followed. This is a reality we must accept. Thanks in part to the health of our public finances, this is not a paralytic constraint. We remain committed to the goal of a better life, inclusive economic growth, decent jobs, and dignity and social justice for all our people.

Adversity and challenge have always inspired South Africans to reach greater heights. Ours is a long-standing culture of resilience, creativity, and a passion to deliver and to overcome the odds.

The new challenge you put to us is to focus on better delivery, and to work together in the spirit of cooperative governance and partnership with all sections of society. We remain mindful that the collective sum of a well-directed programme of action is far greater than the sum of its individual parts.

Mr President, you have inspired us to ask the tough questions, to be humble and reflective about our shortcomings. The current challenges require us to find new ways of doing things. We must be willing to shift or transform our paradigms so that we can be more focused and effective in delivering the priorities outlined in the State of the Nation Speech.

THE GLOBAL ECONOMIC CRISIS

According to the IMF, "the global economy is in a severe recession inflicted by a massive financial crisis and an acute loss of confidence. While the rate of contraction should moderate from the second quarter onward, world output is projected to decline by 1.3 per cent in 2009 and to recover only gradually in 2010, growing by 1.9 per cent. Achieving this turnaround will depend on stepping up efforts to heal the financial sector, while continuing to support demand with monetary and fiscal easing."

The global crisis is not of our making. However, the virus of this crisis affects the entire globe. The damage has spread from the financial sector in developed countries to the real economy all over the world. It is now accepted that the crisis we are facing today can be traced back to the early 80s with the deregulation of many financial institutions. Some institutions became "too big to fail". Unconstrained greed and the failure of risk management and corporate governance are hallmarks of this crisis.

The impact of the financial crisis on the real economy and the depth of uncertainty have evoked questions and debates about economic models. There are now calls for a fundamental change to the relationship between governments, citizens, capital markets and the rest of the economy. The crisis is challenging conventional wisdom amongst economists, ratings agencies, and the financial sector itself. Deputy President Motlanthe and Minister Manuel have engaged with the G20 and other institutions to develop a global response.

SOUTH AFRICA IS WEATHERING THE STORM

Like the rest of the world, South Africa has not escaped the effects of the global recession. Since the last quarter of 2008, our economy has been in decline, export earnings have fallen and jobs have been lost. Nonetheless, we are better off than many other countries in the world.

The immediate implication for fiscal policy in South Africa is that, despite the best efforts of our Revenue Service, tax revenues, after adjusting for inflation, are expected to decline.

Needless to say, there will be limitations to what we can spend. Our ability to borrow from the capital markets is now limited by higher borrowing costs. We are compelled therefore to separate in the programme of action those things that need to be done urgently, from those that will have to await a more favourable economic outlook. We must also ensure that every rand that the government spends achieves the set goals and has the desired impact.

In February this year, taking account of the global economic slowdown, government tabled its most expansionary budget in our short history. As a result our economy is weathering the devastating storms only because of tough decisions taken earlier.

As we weather the storm we must also address more fundamental issues impacting on job creation. We must "never waste a good crisis". The current global contagion presents us with an opportunity to transform and restructure our economy so that we can take full advantage when the tide turns.

The budget provided for a deficit of 3.8 per cent of GDP, and together with the borrowing requirement of state owned enterprises, the public sector borrowing requirement is set to reach R186 billion. Foremost amongst our responses to the economic crisis is our R787 billion infrastructure investment programme. In general, the major projects are on track and are being funded. The National Treasury is working with Eskom, Transnet, the National Roads Agency and our water authorities to ensure that these enterprises can borrow the required funds in the capital markets with state support, where necessary.

The budget also announced a significant step-up in spending on public works programmes. I want to reaffirm a commitment made by my predecessor, Minister Manuel in this regard. We also welcome the inclusion of a community works programme under the auspices of the EPWP and we will endeavour to support this new stream of projects.

Our approach will continue to ensure fiscal sustainability. We will find creative ways of funding government's programmes. We are determined to root out corruption and inefficiencies. We will ensure that government gets value for the money it spends. We will create better synergies and effective partnerships both within government and with other stakeholders.

In addition to these measures, National Treasury is working with other departments to implement recommendations made by the Joint Presidential Economic Working Group in response to the global economic crisis. Job creation is the joint outcome of several things: industrial and trade promotion, labour market arrangements, skills development, macroeconomic management, investment in technology, rural development, land use planning, housing and urban development.

Parliament has revived the Appropriation Bill, allowing for the 2009 budget proposals to take effect. Other legislative procedures include the revision of the list of department names – in terms of section 14 of the Money Bills Amendment Procedure and Related Matters Act – which Minister Baloyi is finalising. Government's spending programmes for the present year are well under way.

We have also identified the need for strategic alignment between state-owned enterprises and development finance institutions in order to maximise capital investment in the domestic economy. The capital resources and delivery mandates of development finance institutions will be better co-ordinated to facilitate and give impetus to the development programmes in our economy.

Better alignment of these institutions with government's strategic priorities will strengthen our developmental agenda. In the course of this year, I will table proposals to a committee of Ministers overseeing our development finance institutions to consider how we can draw private sector financial institutions into appropriate co-financing and risk sharing arrangements, in support of infrastructure investment and broader access to credit.

Over the past decade considerable progress has been made, Honourable Speaker, in improving our tax system and broadening the tax base. Government is still required to raise revenue, even in these difficult times. This would require of all of us to pay our fair share of taxes, and stop the abuse of our tax system. I am happy to report to this House that as at 31 May 2009 we have seen a 10 per cent increase in the number of tax compliant employers, demonstrating that even in the face of the crisis more companies are willing to do business legally. The SARS will intensify its efforts to detect and contest non-compliance. This is in accordance with international best practice – the IRS of the USA has been asked to hire 10 000 more auditors to raise more taxes and combat off-shore tax schemes!

It is imperative that we deal with all forms of leakage from the state, especially at a time when every cent needs to be properly used for its intended purpose. Accordingly, the National Treasury will establish a unit to monitor and investigate corruption in public procurement processes. It will focus on both government employees and private sector involvement in these crimes.

OUR PRIORITIES GOING FORWARD

Let me turn briefly to some of the areas of public expenditure and service delivery that will enjoy priority in the period ahead.

One of the strengths of our current fiscal structure is the social assistance system that brings relief to households that would otherwise be without income support. Considerable work has been done by an interdepartmental task team on options for improving both savings and contributory social security in partnership with the financial services sector. I look forward to working with my Cabinet colleagues and this House on a more integrated social security system that encourages savings and broadens the coverage of risk benefits.

Of particular importance is the approach we take to financing health services. We face immense challenges in this area, not just because of the burden of diseases associated with HIV and tuberculosis, but also because modern comprehensive health services are expensive and highly complex. We have to find cost-effective solutions to the challenge of providing and managing health services, and we have to find better ways of working together with the private sector in building the infrastructure required, managing services and training professional staff. Following the State of the Nation Address on Wednesday, I have set up a task team at the National Treasury to work with health officials to explore models for broadening public-private partnerships in the health sector.

CONCLUSION

We are fortunate, Honourable Speaker that our fiscal position is strong, public debt is moderate and the foreign reserve position of the South African Reserve Bank is in good health. These are considerable blessings, due in large measure to the foresight and wisdom of my predecessor. These strengths mean that we are able to continue with the expanding infrastructure investment programme announced in recent budgets and overseen by the boards of Eskom, Transnet, the National Roads Agency and other public entities. And we are able to continue with the broad-based social assistance programmes that are provided for in the national budget.

These are fiscal strengths, to which we should add the technological and financial capability of the South African business sector, and the collective vision and mobilising power of organised labour and civil society. To these formidable strengths, Speaker, we can surely add the great disciplines of modernising societies – hard work, a culture of savings, respect for social institutions and shared family values, nurture of the land and the natural environment – and payment of taxes when they are due.

Our development path is about building state capacity, and about strategic alliances with partners – with business, labour, civil society; strategic partnerships that may be local, regional or global in their reach. Our development path is about restoring economic growth, decent jobs and livelihoods, and about a clear understanding of the respective roles of government and the private sector that support the dynamic of an enterprise-based economy while continuing to invest in the institutions and enabling arrangements of a just and inclusive society.

So, Honourable Speaker we reaffirm our commitment to finding lasting solutions, wiping away the hunger and fear on children's faces and eliminating the hopelessness and despair of being jobless. That, Honourable Speaker, is our commitment to the people of South Africa.