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Budget Vote Speech

Vote 9: National Treasury

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Minister of Finance

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Mister Chairperson
Honourable Members

It is one year exactly since the appointment of the new government, and nearly three months since this year's Budget was presented to the House.

Last year's financial accounts are now closed. Allow me to begin with a word of appreciation for the many thousands of public servants who have quietly and diligently kept orderly books of account over the past year, contributing to sound audit reports and measurable value for money in government expenditure.

The heroes of good governance are these honest, hard-working officials. The revenue at our disposal, and effective stewardship of our public resources, would not be possible without their ordinary and disciplined patience with double-entry record-keeping in the public accounts. Yes, I know there is much to be done to improve public accounting. But the fact that we can meet today, six weeks after the close of the financial year, and comment on the fiscal outcome with reliable numbers at our disposal is testimony to the sound foundations that are in place in the work of the Accountant-General, the Auditor-General and our Accounting Standards Board.

Mister Chairperson, the books have been closed on last year – revenue was about R8 billion more than we expected, and expenditure a bit less. The budget deficit was 6.7 per cent of GDP – rather better than 7.3 per cent that was anticipated, though considerably wider than 1.0 per cent of GDP recorded in 2008/09.

The Ministers' Committee on the Budget and the Treasury have begun work on next year's budget. Preliminary data suggest that we will see moderate economic growth this year, perhaps somewhat higher than we projected in February. But last week's employment statistics were a sobering reminder that more must be done, more urgently, to restructure our economy and create jobs, particularly for young people.

Nationally and internationally, economic and financial developments continue to present formidable challenges both to our understanding of the growth and development process and to the practical implementation of policy and government programmes.

We have been witness to some extraordinary events unfolding in Europe over the past few weeks.

Debt crisis and structural balance

After months of uncertainty and inaction, the European Union has taken action to ward off a further crisis in financial markets.

Despite immense public anger and protest action, the Government of Greece has been obliged to enact a 30 billion euro fiscal curtailment programme, while negotiating a 110 billion euro debt restructuring arrangement with member countries of the European Union and multilateral financial institutions.

Several other European economies face the possibility of similar difficulties, and questions are being asked about the sustainability of the European Union itself. Late on Sunday, the EU and the IMF agreed to an historically unprecedented one trillion euro financial support programme.

So on the one hand, the global recession of 2008 and 2009 appears to be over. Many economies including our own have experienced encouraging growth in trade and activity over the past six months. Yet on the other hand there is widespread concern that the fiscal debt problems of OECD countries will spill over into another financial crisis and a second wave of trade and employment cutbacks.

The problems are most severe for countries that entered the recession with high levels of public debt – in several cases in excess of 100 per cent of GDP. Between 2004 and 2007 – at the height of the global boom – Greece was running a budget deficit of 6.5 of per cent GDP, with debt averaging 106 per cent. Today, Greece's debt is 140 per cent of GDP, and the budget deficit was 13 per cent of GDP last year.

Though we are not in this position, we need to take a closer look at the current turbulence in global finances, because the underlying trends may hold lessons for our own development path. How did other countries get into such difficulties? The immediate crisis is typically straightforward – it is a story that has taken many forms, in many countries, over many centuries.

Unsustainable borrowing is the mirror-image of imprudent lending – both fuelled by an unrealistic expectation that good times will last forever. When the bubble bursts, borrowers pull back their plans and lenders withdraw credit, trade declines, unemployment rises and businesses come under stress.

But this cycle of market euphoria and disillusion is just the surface manifestation of underlying structural imbalances. In the United States, for too long consumption spending ran ahead of production, and American consumers relied on foreign savers. The party came to an end, most dramatically in the collapse of sub-prime housing credits.

In many European economies, the underlying problems are rather different, embedded in difficult-to-change social institutions: pension systems that are unsustainable because life expectancy is now so much higher than it was when these benefit schemes were designed; public sector wage and employment trends that are unaffordable; tax systems that have failed to keep pace with business modernisation; industries that have been left behind by global trends in trade and technology.

Are these simply Europe's problems? Or are there signals here of concerns we need to address too?

Our overall fiscal position is in good health. Consistent with our counter-cyclical stance, we were running a fiscal surplus before the crisis broke, and debt was 27 per cent of GDP. We can therefore respond to the crisis with a wider deficit for several years, without threatening the integrity of the public finances.

We will maintain our fiscal strategy, and at the same time address some key development challenges ahead.

We have not yet made enough progress in our social security and retirement reform agenda – we have an excellent opportunity here to design arrangements that will be durable and equitable, and will avoid the mistakes that many other countries have made in promising more than can be afforded.

In public sector employment we have made substantial improvements to remuneration and career progression in recent years. Over the period ahead, we need to ensure that keep the right balance between paying better wages and salaries, investing in productivity improvements and employing more civil servants in front line services. If we are to achieve sustainable improvements in living standards for all, we have to ensure that salary increases are affordable, equitable and aligned with improvements in performance and service delivery.

And in growing the wider economy, broadening participation, deepening trade and strengthening our revenue base, we have recognised that a new growth path is needed, that industrial policy has to be founded on a well-considered action plan and that we need to do more to promote a dynamic economy, capable of responding both to domestic demand and international opportunities. In reflecting on Europe's experience, we surely also can see lessons for regional cooperation with our neighbours in Southern Africa, the importance of strengthening South-South trade and financial relations and the urgency of governance reform in the world's multilateral financial institutions.

So there is much to be learnt from the international experience, and we will no doubt feel some of the effects of the uncertainty in financial markets and possible downturn in trade again over the period ahead. But the primary lesson is that we must remain focused on our own long-term structural growth and development challenges – these are different in important respects from the European or Asian situation, and we have to construct a development path that is suited to our own circumstances, taking into account our commitment to and shared interest in Africa and the region around us.

Towards an inclusive growth path

As many commentators have noted, Mister Chairperson, while we have become a more integrated community over the past sixteen years, we remain a profoundly unequal society.

What must we do to become more equal? How do we overcome the economic gulf between rich and poor, how do we give practical meaning to our commitment to a South Africa that belongs to all?

We should not fall into the trap of thinking that there is an easy road. Economic history is littered with examples of interventions that were short-sighted and self-defeating; policy measures that ignored their unintended negative effects. And even successful and necessary interventions require careful balancing: industrialisation and urbanisation bring transport congestion and rapidly growing housing needs; progress in service delivery is unavoidably uneven in its impact.

But there are clear signposts we need to follow.

One is that employment is a key success factor. Income support and welfare services can contribute to poverty reduction, and education is an important enabling condition, but if workseekers cannot find jobs, then the unemployment fault-line remains a formidable dividing-line between opportunity and vulnerability, between progress and despair.

This leads to a second signpost, which is really a cluster of direction indicators, pointing in a multitude of directions. An economic growth path has to create jobs along many roads – a range of policy measures is needed, and jobs must be created in many sectors, many industries, many occupations, many kinds of skills and associated learning opportunities.

Similarly, the review of our further education institutions and the sector education and training authorities that Minister Nzimande has undertaken is a necessary and critical reform programme – for long-run growth and development has to be accompanied by more effective and better targeted skills development, training and vocational education.

A range of fiscal interventions is also needed, some new and some reinforcements of existing programmes. These include a counter-cyclical policy stance, focused especially on infrastructure investment, strengthening of the Expanded Public Works Programme, targeted relief and income support programmes, trade promotion, capacity building and infrastructure investment in municipalities, and measures focused on youth employment. Responsibility for these and other initiatives is now explicitly set out in performance agreements of the economic cluster Ministers – whose mandate, President Zuma has rightly determined, is firmly focused on the job creation challenge.

I have already pointed to another signpost with important implications for both fiscal sustainability and the long-term trend in income distribution – I refer to the still outstanding work shared amongst several Ministers and Departments for social security reform and the financing of health services.

But income distribution is not only an outcome of public policy and programmes, it is also shaped by social norms, remuneration practices and the exercise of power and privilege. Extreme earnings disparities cause offence not just when they are associated with profiteering or financial malfeasance, but also when the reward for honest work seems disproportionate or weakly aligned with incentives. There is a national discourse needed here, aimed at moderating high-earning remuneration levels within our large corporations, including state-owned enterprises – for the social dimensions of earnings trends can surely not be ignored in the economic calculus of risk and rewards. We are creating a dangerous culture in South Africa, and the divide between the haves and the have-nots will only widen, to our detriment, if we do not address this challenge.

Improving service delivery: accountability and value for money

Alongside the economic policy responsibilities we share with several other Ministries, Mister Chairperson, much of the Treasury's work is focused on integrity, accountability and value for money in the use of public funds.

This is an especially difficult challenge in times of economic stringency.

President Zuma has called for us to do things differently, to ensure that we bring better services to South Africans, efficiently and effectively. This is the central aim of our budget process. In the period ahead there will be further reforms to the budgeting system, taking into account the new performance mandates of Ministers and with a special focus on monitoring and measuring performance and progress against identified targets.

We are also mindful of the need for further progress in financial management, supply chain management, human resource management and governance of public entities. I need to express my appreciation for the work of Parliamentary committees in strengthening oversight of government spending, and in particular for the diligence of the Standing Committee on Public Accounts.

We must also thank our trade unions and other organisations for their support in fighting corruption. We must intensify our efforts to root out this culture of "easy money". Instead, we must surely aim to be able to say: "I've worked hard, done creative things, saved and invested, and I've made this money myself instead of taking from the public purse!"

Under this spotlight is a very considerable share of national income. In the current financial year, national and provincial government will spend R907 billion, 33.6 per cent of the GDP – up from 28 per cent just five years ago.

Treasury's first order of business for 2010 is the implementation of the 2010 Budget and the development of the 2011 Budget. Within the currently strained economic and public finance context, the budget process this year will focus strongly on the realignment of existing resources towards priority areas. Cost saving will therefore continue to be an integral part of departmental budgeting and expenditure analysis, as part of a broader review of expenditure and service delivery priorities.

The Treasury is also strengthening its capacity to address long-term infrastructure and capital investment requirements and alternatives. We will in due course benefit from the work of the newly appointed Planning Commission, and we particularly welcome the range of expertise and diversity of perspectives that its membership will bring.

South African Revenue Service

Providing government with funds to finance public services requires that sufficient resources be raised from the economy to pay for these services. In this respect, the South African Revenue Service has provided a sure foundation to our fiscus by raising the financial resources for expanded and accelerated service delivery. We must all thank the millions of honest taxpayers who continue to contribute to the growth and development of our country, especially in these most difficult economic conditions. It remains a central focus of SARS's work that all taxpayers should pay their fair share. This, regrettably, is still not the case! Several further steps will be taken to improve compliance in the year ahead.

Third party data from employers and financial institutions has proved highly effective in identifying cases of tax evasion including employers withholding PAYE deductions and taxpayers failing to disclose interest and other income.

Other sources of data – including the stock exchange data and registration data from other government departments such as Home Affairs and CIPRO - provide further scope for closing the net on the non-compliant.

Using data from the Department of Social Development, the National Prosecuting Authority, the Special Investigations Unit, and the South African Revenue Service has identified more than 200 000 individuals who appear to be collecting social service grants unlawfully. Through verification activities country-wide, the authorities will now be in a position not only to collect taxes due from such individuals and apply the relevant punitive measures, but also to ensure that illegitimate social payments are discontinued.

From September this year SARS will require all those receiving any form of employment income – including those below the tax threshold – to be registered with SARS to help reduce the scope for non-compliance.

The net is also closing in on those who have sought refuge in tax havens. In the aftermath of the global financial crisis there has been a welcome acceptance of the need for greater transparency of financial dealings. In the tax arena a number of jurisdictions that have previously been unwilling to share information with SARS have now signalled their willingness to do so. Agreement in principle on the text of Tax Information Exchange Agreements has been reached with the Bahamas, Bermuda, Cayman Islands, Guernsey, Jersey and San Marino. Negotiations are in progress with another three jurisdictions and four more have signalled an interest in negotiations. The world is indeed becoming a smaller place for those non-taxpayers who refuse to contribute their fair share.

The success of collaboration between tax, financial and enforcement agencies in the broader financial and justice systems is also evident from significant progress made in the earlier identification and more efficient dismantling of complex fraudulent schemes aimed at abusing the trust of citizens.

I can today report that further evidence of such collaboration was demonstrated in the early hours of this morning in Durban and Pretoria where SARS investigators assisted by the South African Police, clamped down on a company listed on the JSE's Alternative Exchange, suspected of being involved in another multi-million rand fraudulent investment scheme involving the abuse of trust of vulnerable citizens - this time the product is a so-called "immune booster pack for HIV/Aids sufferers".

Those who seek to abuse the VAT system to defraud the fiscus will also be pursued – as recent arrests have shown. Increased export controls as part of the Customs modernisation programme will assist SARS in identifying fraudulent VAT refunds linked to exports.

SARS and the Department of Home Affairs have developed a real-time risk-based movement control system which significantly enhances our capability to streamline the movement of goods and persons through our ports while at the same time stopping unwanted goods and people. The system is currently being implemented in all key ports of entry ahead of the 2010 FIFA World Cup.

At the same time, continued enforcement actions by Customs and enforcement units in SARS, in conjunction with the South African Police, the Directorate of Priority Crimes and a number of external stakeholders have already made a major impact in the smuggling, manufacturing and distribution of counterfeit goods. More than one million counterfeit DVD's have been seized over the past three months. In addition during the last two weeks In April there were seizures of counterfeit World Cup clothing worth more than R108 million.

Financial Intelligence Centre

Mister Chairperson, the Financial Intelligence Centre continues to play an important role in assisting to identify the proceeds of crime, money laundering and the financing of terrorism. In this past year the Centre identified R66.1 billion that passed through bank accounts in South Africa as suspicious transactions, requiring further investigation by South African law enforcement agencies. At least R128 million was frozen by the Centre for being funds suspected of being the proceeds of crime relating to fraud, various commercial crimes and narcotics trafficking.

The Centre continues to lead the South African delegation to the Financial Action Task Force which deals with combating of money laundering and terror financing standards. At the request of the G-20 the FATF has undertaken a process to identify countries that pose a risk to the international financial regulatory system by not having sufficient measures in place to minimize the abuse of financial institutions. This is one of the issues that the G-20 has been dealing with as it seeks to bring reform and stability to the financial system.

Public investment and development priorities

Mister Chairperson, the finance family includes, alongside the National Treasury and the South African Revenue Service, several other institutions with notable roles and responsibilities in securing sound and sustainable financial development.

I am pleased to confirm that the working relationship between the Treasury and the Reserve Bank remains strong, and indeed is critical to our successful negotiation of the uncertainties of the current financial environment. Members of the House will be aware that we have tabled proposals to further secure the independence of the Reserve Bank, to deal amongst other matters with anomalies in the law that might otherwise be abused by opportunistic shareholders. We have a duty not just to protect the integrity of our central bank, but also to affirm its role as a source of statistics and economic analysis, as supervisor of our banking system and as the centre of our international payment system. The Reserve Bank also plays a leading role in the development of the banking and payment systems in the wider region.

Members of the House will also be aware that the Financial Services Board has extensive responsibilities, and the fact that our banking sector and our major savings and insurance institutions remain in good health is in no small measure a consequence of the standards of regulatory oversight applied by the Reserve Bank and the FSB – these are immeasurable institutional strengths.

Allow me to say a few words, before concluding, about an important savings fund which does not yet fall under FSB supervision, but which I believe should in due course also be subject to the Pensions Fund Act and associated regulatory standards. I refer to the Government Employees Pension Fund, which pays pensions every month to some 300 000 former civil servants and invests funds on behalf of over a million employees of national and provincial government.

The GEPF is governed by a Board on which members and the state as employer are equally represented. A separation of administration of contributions and benefits from governance of the Fund has recently been completed. In future therefore a new agency, known as the Government Pensions Administration Agency, will report to Parliament on the administration of pensions on behalf of both the GEPF and the National Treasury, which has several post-retirement and other benefit funds provided for on programme 8 of the voted appropriation. The administration agency now has thirteen regional offices, including new centres at Pietermaritzburg, Durban, Cape Town, Port Elizabeth, Nelspruit, Kimberley and Bloemfontein. The benefit payments backlog has been reduced over the past year by an estimated 37 per cent.

The funds of the GEPF are invested by the Public Investment Corporation, which has steadily widened its funds under management to include not just government bonds but a range of equities, property and targeted infrastructure investments. During the year to March 2009, the PIC's assets under management declined from R786 billion to R739 billion – largely as a result of the general decline in capital markets. During the 2009/10 year a strong recovery was achieved, bringing assets under management to over R900 billion, or some 23.6 per cent up year-on-year.

Much of this investment is channeled to government infrastructure and development priorities, both through government bonds and direct investment in state-owned enterprises. Currently, R91.5 billion is in bonds issued by state-owned enterprises, including Eskom and Transnet issues, funding of the Airports Company to complete the new King Shaka International Airport, construction by SANRAL of the Gauteng Freeway Improvement Programme and investment by the Trans-Caledon Tunnel Authority in several major water infrastructure projects.

In the process of creating value for the GEPF, the UIF and other investor clients, the PIC contributes directly and indirectly to a wide range of development projects. So for example, the PIC has invested R550m in the development of Bridge City, a shopping mall in Kwa-Mashu, 25km North-West of Durban city centre, which will be linked with central Durban by an underground railway station, which is set to be completed in 2011. Other future constructions include a 400-bed provincial hospital, a regional magistrate court; all linked to an inter-model transport hub for taxis, buses, rail and cars.

Financing in support of the National Industrial Policy Action Plan will be prioritized in the period ahead, together with support for affordable housing, educational loans, road infrastructure, and the taxi recapitalisation programme. About R30bn is available to fund economic infrastructure, social infrastructure, sustainability, and job creation projects. Funds of the GEPF together with the Development Bank of Southern Africa will contribute to supporting Eskom in building additional generation capacity and improving the maintenance of its power stations. These are investments with clear long-term social and economic benefits, while also yielding satisfactory financial returns on a risk-adjusted basis.

Conclusion

In concluding let me return, Mister Chairperson, to the uncertainty of the financial and economic outlook of the world economy. These are circumstances in which we have to be cautious in our growth projections and prudent in managing the public finances. But they are also circumstances in which we are called upon to be bold in setting targets for service delivery, and in reinforcing the momentum of infrastructure investment aimed at expanding productive capacity and broadening participation in our economy. We also have to be courageous – perhaps even adventurous – in seeking a new growth path that delivers employment, sustainable growth and a more equal society.