Budget Vote 10: National Treasury

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Honourable chairperson, in presenting the National Treasury's 2013 Budget Vote for the consideration of the House, allow me to reflect briefly on where we stand in meeting our longer term social and economic development objectives.

The global economic outlook is still depressed, and so our own efforts to strengthen economic performance remain critically important. I will say a few things about this challenge shortly.

But even in the currently depressed environment, in which growth is lower than we would like and the revenue outlook leaves little room for fiscal expansion, we are continuing to make progress in the service delivery programmes that are central to development and transformation.

Social and economic progress is best measured, Honourable chairperson, over the long term, and in the past nineteen years we have seen substantial advances on several fronts. Let's reflect on some of these:

- Our economy has grown by over 80 per cent since 1993. National income per capita has increased by 40 per cent in real terms.
- Total employment has increased by more than 3.5 million since 1994.
- Gross fixed capital formation increased from 15 per cent of GDP in 1993 to an average of 20 per cent over the past five years.
- Our social grants system now reaches over 15 million beneficiaries.
- Over 3 million housing units have been built.
- Access to electricity has increased from 50 per cent to over 80 per cent of the population; access to water and sanitation has similarly improved.
- Over 1.6 million work opportunities were created in phase 1 of the expanded public works programme. For the period ahead, it aims to achieve over 500 000 fulltime employment opportunities.
- A new tax administration has been established since 1994 in the South African Revenue Service, and an overhaul and modernisation of the tax structure and administration which allowed tax rates to be lowered alongside broadening of the tax base.
- Over R600 billion in BEE transactions has been recorded since 1995.

- We have demonstrated our capacity to host major global sporting events, and South Africa remains a favoured destination for conferences and events. We continue to see strong growth in tourism.

- Major public infrastructure projects include our partnership with Lesotho in building the Highlands Water Project, completion of the Gautrain rapid rail link, expansion and rehabilitation of our main airports, major national road improvements and the expansion of power generation capacity and rail transport that is now in progress. The total value of infrastructure projects currently under way and in planning amounts to over R3.6 trillion.

- We also had to restructure the fragmented public administration system inherited from the apartheid era (which we tend to forget) while restoring order to the overall public finances.

- Public debt was reduced from nearly 50 per cent of GDP in 1994 to 23 per cent in 2008. Main budget revenue increased from R112 billion in 1994 to over R800 billion last year, while expenditure increased from R135 billion to around R1 trillion.

Honourable chairperson, you will recall that in tabling the 2013 Budget in February I drew attention to the National Development Plan (NDP) which was published last year, and the contribution that it has made to focusing our policies and programmes on long-term growth and development challenges. In a sense, the NDP builds on the foundation that I have briefly outlined.

We need the National Development Plan to be a catalyst of ideas, and a spur to further action in addressing the challenges of growth, employment, environmental sustainability, redistribution, social cohesion, education, universal health coverage, social protection and regional economic development.

On infrastructure investment, we also have the work of the Presidential Infrastructure Coordinating Commission. On industrial development, we have the Industrial Policy Action Plan. On environmental protection, we also have the biodiversity and sustainable development strategies. All of these plans complement each other.

Much of the work of the National Treasury, Honourable chairperson, is directed at understanding and reviewing the fiscal and financial implications of these strategies and plans. And this is a job that is getting more demanding every year. We have many policies, many strategies, many action plans.

We now need to do better in converting these plans into actions and implementation.

And so the House will welcome, I know, the new emphasis on performance, and measuring results, in our budget documentation and also in the Treasury planning documents and the strategic plans of the South African Revenue Service, the Development Bank of Southern Africa, the Land Bank, the Government Pension Administration Agency, and the other institutions in this ministry.

The plans for 2013/14 of both the Treasury and the Revenue Service were discussed by the Portfolio Committee on Finance last week.

- The Finance Committee has rightly emphasised in its report to the House that not enough is being done to strengthen municipal governance and financial management. We agree. The Treasury has placed 1800 interns in municipalities this year, and we aim to expand further on this programme in the year ahead. As the Committee report says, "National Treasury cannot manage municipalities from Pretoria, as municipalities were responsible and accountable for running their own affairs".

- The Finance Committee has requested a progress report on the establishment of the Chief Procurement Office and steps taken to improve supply chain management processes and combat corruption. This is indeed a top priority, and a new organisational structure for this office has been agreed, new procurement rules will be implemented this year and steps are being taken to improve the capacity of procurement officials and modernise systems and increase accountability and transparency.

- The Finance Committee has also requested a progress report on provincial financial management interventions. The outcomes for the 2012/13 year show marked improvements in financial performance of provinces in which the National Treasury has been active.

- The Committee has asked for reports on the new automated tax clearance certificate system, the single business registration project, trends in the cost of tax compliance for business and progress with one-stop border posts in Lebombo. On all of these issues, Honourable Speaker, we are no longer in the policy and planning phase: the tax clearance system gets under way this year; compliance costs are being reduced through simplified systems and new facilities at border posts have been constructed.

Let me turn to the outlook for the economy. Honourable chairperson, we have to face the reality of slow growth internationally, and difficult challenges in our own economy. But it is time to construct a positive narrative, and to work together to implement it. There are many countries that have greater instability, but their economic narrative is extremely positive. South Africans want to focus only on the negative and yet what is needed urgently is to focus on the positive.

In the words of JM Keynes, *"The future never resembles the past – as we well know. But, generally speaking, our imagination and our knowledge are too weak to tell us what particular changes to expect. We do not know what the future holds. Nevertheless, as living and moving beings, we are forced to act. "*

The burning question for South Africans is not only how we navigate through global uncertainty and risks but can we become more resilient and globally competitive. What will it take and can we up our game? In all the cacophony of the present can we build a common purpose among all of us? That's what 50 million South Africans demand of us.

We have to build on our strengths:

- Good infrastructure

- Institutions that work

- Robust democracy

- A dynamic private sector

- Strong public finances and healthy financial institutions.

Honourable chairperson,

- South Africa's GDP growth was 2.5 per cent in 2012. Our Budget forecasts project growth of 2.7 per cent in 2013, accelerating to 3.5 per cent next year.

- Overall investment spending remained robust last year, growing by 5.7 per cent. Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation and low interest rates are expected to support improved growth rates over the medium term.

- Consumer confidence remains weak, and business surveys also suggest fragile levels of confidence in the economic outlook. This is likely to constrain private household consumption and business investment during 2013.

- Formal sector non-agricultural employment has slowed in tandem with the slowdown in growth, with just 83 000 jobs created in 2012, up 1 per cent on an annual basis.

Labour unrest and stoppages in the mining sector contributed to a much weaker economic performance in 2012. Mining and quarrying subtracted 0.5 percentage points from fourth quarter growth in 2012 and a cumulative 1.2 percentage points from GDP growth in the second half of 2012.

The outlook for the mining sector has been weakened by continued labour unrest and production stoppages, as well as markedly lower commodity prices.

In part, slower growth in South Africa reflects a weak global environment. The International Monetary Fund has downgraded global GDP growth outlook for 2013 to 3.3 per cent from 3.5 per cent previously, although it kept its 2014 estimate unchanged at 4.0 per cent. The IMF sees a three-speed global economy with emerging markets continuing to lead the recovery, and a growing divergence between resilient growth in the US and contraction or sluggish growth in the euro area.

While global financial conditions have improved, the outlook remains weak with downside risks emanating from the Eurozone debt crisis, US fiscal policy challenges, and slower growth in major emerging markets, including China, India and Brazil.

These are clearly circumstances, Honourable chairperson, in which we need to take bold steps to strengthen economic performance.

- The present uncertainty in the labour relations environment in mining and other sectors requires concerted action by organised labour, business, civic leaders and government. There is no room for complacency here: we are all in this together. If we do not resolve our labour relations challenges, we will all be losers, we will see deteriorating confidence, job losses and business failures. But if we find balanced, fair and socially responsible solutions, we all stand to gain: we will see higher investment, higher employment and improvements in living conditions.

- Infrastructure investment is also an arena in which more concerted action is underway. This is not just about building and maintaining the energy, water and transport networks we need for faster growth, but is also about raising our savings performance so that we can finance more rapid investment and growth.

- In urban development, with the city support program we will see more investment in housing and more rapid industrial growth and job creation.

- In rural development and agriculture, we are addressing constraints to land reform and improve support for emerging farmers.

- In further education and skills development, there is greater alignment between the skills that businesses need and the curricula that our colleges offer.

- In regional development and trade, we are beginning to build infrastructure and institutions across national borders that promote more rapid growth, investment and job creation.

I need to stress, Honourable chairperson, that economic growth in our times requires new ideas and a diversity of approaches. In the words of renowned economist Michael Spence, *"No one has a complete formula for restoring growth. We will have to be persistent, determined, pragmatic and experimental - a mindset familiar to policy makers in emerging economies where these complex issues are being dealt with on a regular basis."*

As part of strengthening our economic performance, a sustainable fiscal policy stance remains critical. Owing to sound management of the fiscus when economic growth was strong, government was able to enter the 2008-2009 recession with healthy public finances and a comparatively low level of debt. This enabled a flexible response to deteriorating economic conditions. Spending growth reinforced the social security net during a period of declining employment, and provided an economic stimulus through rising allocations towards infrastructure, and programmes aimed at business support and increasing employment. Going forward, the deficit level will moderate through a combination of revenue growth in line with the economic recovery, and disciplined real growth in spending.

The countercyclical response to the downturn in economic conditions has been substantial and by various measures was amongst the largest in the world. From the peak of the economic cycle in 2007/08, the budget balance swung from a surplus of nearly 2 per cent of GDP to a deficit of

6.5 per cent by 2009/10. This increase in the deficit was not just the result of slowing revenue, as government's efforts to support the public service delivery and the economy also resulted in expenditure increasing from 28.5 per cent of GDP to 33.6 per cent over the same period.

In aggregate, the final outcome of tax revenue for the 2012/13 fiscal year amounted to R813.8 billion, a 9.6 per cent increase or R71.2 billion higher than actual collections in 2011/12 fiscal year.

The persistence of economic weakness since 2009 has meant that government's share of the economy has remained substantial and the deficit has remained high. Counter-cyclicality is not just about supporting the economy and sustaining government spending when revenue declines due to economic conditions. It is also about reversing the accumulation of debt built up during difficult times when economic conditions improve.

At the same time, Honourable chairperson, we need to enhance our capacity to finance long-term infrastructure investments and municipal capacity. I am pleased to report that the Corporate Plan of the Development Bank of Southern Africa (DBSA) outlines a concerted effort to support basic and economic infrastructure development in South Africa and the region. Government will, over the next three years, invest R827 billion in the building of new and the upgrading of existing infrastructure. These investments will improve access by South Africans to healthcare facilities, schools, water, sanitation, housing and electrification. Simultaneously, investment in the construction of ports, roads, railway systems, electricity plants and bulk water schemes will contribute to faster economic growth. The DBSA has been asked to support government in these critical development areas.

Honourable chairperson, the past year has been a busy one in respect of financial sector reform.

A wide range of measures are being taken to improve the environment for retirement savings and reduce the costs and risks associated with financial services. The 2013 Budget Speech announced refined proposals for further consultations with the public. A central proposal is that pension funds should transfer members' balances into a preservation fund when they change employer, as the default option, and should also identify suitable retirement annuity products for the years beyond retirement. A harmonised tax treatment of pension and provident fund contributions and benefits is also proposed, together with higher caps on contributions.

We have also proposed steps to enhance the governance of pension funds. I will shortly meet with business leaders in the life insurance industry to discuss costs. A first draft of legislation dealing with these proposals will be published towards the end of the year.

We have taken a number of steps to improve our already world-class financial system. This includes complete overhaul of our securities legislation. Parliament passed the Financial Markets Act last year, and the President has agreed to it coming into operation on the 3 June 2013. In addition, a comprehensive new set of banking regulations were passed in November 2012, and a new law to oversee Credit Ratings Agencies was passed.

In addition, over the past year I have initiated a comprehensive process to deal with abuses in unsecured lending. In October last year, banks agreed to put in place measures to curb excessive lending to vulnerable households and selling of inappropriate products. Ongoing monitoring of this is crucial, and the new market conduct regulator will play a critical role.

The National Treasury is involved in a number of areas:

- Infrastructure investment that supports regional integration, including road, rail, and port facilities;
- Reducing red tape, corruption and delays at border posts;
- Using our financial institutions to partner with businesses wanting to expand into the continent;
- Developing regional markets for food, energy and water.

Our participation in Africa-wide and regional bodies also contributes to regional cooperation:

- The SADC Finance and Investment Protocol is assisting in bringing about macro-economic, monetary and financial sector convergence, as well as fostering a conducive regulatory and legislative environment to facilitate investments and their financing.

- Reform of the Southern African Customs Union Agreement remains a priority, to improve its contribution to both trade promotion and development finance as well as fiscal sustainability for our neighbours.

- Progress is being made in trade facilitation through the creation of one-stop border posts and improved customs legislation to increase border efficiency.

- In addition to the role of the Development Bank of Southern Africa, we are working with our BRICS partners to establish a new development finance institution focused on the needs of emerging economies and African infrastructure investment.

Honourable chairperson, the strategic plan of the National Treasury covers two changes to the organisational structure of the departments: the creation of a fully-fledged Chief Procurement Office (CPO) and the Government Technical and Advisory Services Centre (GTAC).

The CPO is created in response to the need to improve public sector supply chain management processes to curb fraud and corruption, and to derive maximum value for every rand that we spend of taxpayers' money. The strategic objectives of the Office include:

- Modernising state procurement by taking advantage of information technology

- Improving compliance with relevant legislative frameworks

- Enhancing governance, and increasing accountability and transparency in state procurement

- Improving capability and performance of supply chain management practitioners.

Honourable chairperson I table Budget Vote 10 for the consideration of the House.