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"Guardians of Governance"

Nhlanhla Nene

Minister of Finance

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The Chair of the Institute of Internal Auditors South Africa, Ms Shirley Machaba

The Chair of the Global Board of Directors of the Institute of Internal Auditors, Mr Anton Van Wyk

The President and CEO of the Institute of Internal Auditors Global, Mr Richard Chambers

Members of the board and the CEO the SA chapter of Institute of Internal Auditors

Honoured guests

Ladies and gentlemen

Thank you for the opportunity to share some thoughts with you this morning. I had been given a brief to talk about Africa's rightful place in the global leadership arena, but rather I would like to focus on the global and domestic economy, implementation of the National Development Plan and its fiscal implications, and how South Africa's prosperity is increasingly being linked to that of the rest of the African continent.

But in light of the announcement yesterday by the South African Reserve Bank (SARB) placing African Bank under curatorship, let me comment briefly on South Africa’s financial services sector.

The financial services sector is at the heart of the South African economy and touches the life of each and every citizen. Financial services allow people to make daily economic transactions, save and preserve wealth to meet future aspirations and retirement needs, and insure against personal disaster.

At the level of the macroeconomy, the financial sector enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people.

No financial sector regulatory regime can prevent failure of all financial institutions. Indeed, effective policy includes the resolution of financial firms in trouble in a way that imposes losses on those investors who profited from that firm’s activities, and who were in a position to exercise influence over that firm’s management. In this regard, the role auditors play in providing transparency to financial markets is vital.

Having said that, National Treasury had already, in 2012, begun the process of further strengthening financial sector oversight and the events that culminated in curatorship of African Bank are a powerful reminder of the urgency of this work.

Overview of the global and domestic economy

Let me turn to the global and domestic economy. The global economy has continued to strengthen, but growth is uneven and downside risks still remain. The IMF recently revised down its forecast for global growth from 3.7 per cent to 3.4 per cent in 2014 due to a weak first quarter outcome in the United States, as well as downward revisions to the 2014 outlook for several emerging markets. Many economies continue to perform below their potential, which has a negative impact on the demand for our exports and therefore our ability to grow. The normalisation of monetary policy in the US is likely to increase borrowing costs for emerging economies, including South Africa.

While growth in developed countries has gained momentum, the expansion in emerging markets has slowed. Slower growth among some of the emerging markets has affected negatively the international price of many of our export commodities and led to a deterioration in our terms of trade. Developing economies remain vulnerable to volatile capital flows, and growth is constrained by supply-side issues similar to the ones experienced in South Africa.

On the domestic front, the key challenges to our economic growth are largely domestic. Supply side disruptions have plagued the domestic economy over the last couple of years, weakening confidence and reducing the level of investment and household consumption. Private investment grew by only 1 per cent in first quarter of 2014, while private household consumption recorded modest growth of 1.8 per cent.

The growth of the South African economy is not sufficient to address our challenges of poverty, inequality and unemployment. The most recent Quarterly Labour Force Survey shows that the unemployment rate in the country has climbed to 25.5 per cent. Private sector employment is still not picking up, with public sector employment supporting the labour market. With the labour force expanding and over 40 per cent of the working age population not participating in the labour market, structural unemployment remains a persistent challenge for South Africa’s long term growth and employment prospects.

Despite weak economic growth, consumer inflation is rising and is currently at 6.6 per cent, above the SARB’s target range. This poses a significant risk to the purchasing power of consumers and the cost of doing business in the country. The outlook for inflation led to the SARB raising interest rates at the beginning of the year, in what is widely expected to be the start an of interest rate hiking cycle.

Seasonally adjusted Kagiso Purchasing Managers’ Index fell to 45.9 index points in July (June: 46.6). This indicates that economic activity remains sluggish. Business confidence remains weak with the BER confidence index currently standing at 41, indicating that 60 per cent of businesses taking part in the survey are unhappy with business conditions. The business confidence index has been hovering around this level for the past 12 months.

Government is working hard to improve the business conditions. We recognise that improving business conditions requires not only releasing the current supply side constraints but also improving policy alignment and policy certainty.

Labour unrest in the platinum sector was resolved in June 2014 with the conclusion of a three-year wage deal between mineworkers and mining companies. The restructuring currently taking place in the sector as well as a focus by government to implement interventions to support the improvement in social and economic conditions of mining towns are likely to restore long-term stability in the mining sector.

The National Development Plan outlines policies and actions, which place us in a better position to address our domestic challenges. In June President Zuma announced various measures that will be taken to accelerate growth of the economy and allow us to take advantage of the many opportunities facing us.

Implementing the NDP

Government has adopted the medium-term strategic framework (MTSF) in order to align the work of government at national, provincial and local level behind a single, coherent programme. The MTSF is government's implementation programme for the first five years of the NDP.

Many of the priorities identified in the NDP are not about new programmes, but about improving the quality of implementation of existing policies. The MTSF is a high-level strategic document that Cabinet and the whole country will have available to monitor the implementation of the NDP.

Government recognises that it is operating in a constrained fiscal environment. Our current fiscal programme seeks to stabilise the growth of debt and restore fiscal sustainability. Weaker growth outcomes, higher inflation and rising interest rates will place additional pressures on this fiscal programme. But the expenditure ceiling identified in the last budget remains in place and if this proves insufficient, additional measures will be considered to meet our fiscal objectives.

National Treasury and the Department of Performance Monitoring and Evaluation in the Presidency have worked together to ensure that the commitments made in the MTSF can be funded within the resource constraints we face.

Given continuity in the policy agenda since the last administration, most of the programmes contained in the MTSF have already been financed by spending plans that were announced in the budget. For instance, the table contained on page 4 of the 2014 Budget Review links our spending programmes to the critical actions identified in the NDP. In large measure, these are the same actions identified in the MTSF.

National Treasury is currently working with the rest of government to prepare spending plans for the 2015 MTEF, which will be announced in February next year. A key objective in this process is to ensure greater alignment between the allocation of resources and the strategic objectives of government. The MTSF will be a critical input to the discussions that are taking place, and will help identify the priorities that require improved resource allocation.

Since there is a limit to resources available, the new priorities and programmes identified in the MTSF will largely be financed by shifting resources away from less urgent uses. This will require government to make difficult choices and trade-offs in the period ahead. It is widely recognized within government that the one thousand billion rand available in the annual budget needs to be better deployed.

An important feature of the MTSF is that it draws our attention to the outcomes we seek to achieve as a country, rather than the matrix of inputs or outputs that are often the preoccupation of administrators. Where possible, resources will be redeployed to achieve the same outcomes through improved delivery models, changed institutional arrangements or improved policy frameworks. For instance, where appropriate, partnerships with the private sector or between a group of public agencies can achieve better results, more efficiently than when state departments act alone in an uncoordinated fashion. The alignment and coordination of government, which is a major thrust of the NDP and the MTSF, can itself result in more effective use of resources.

To support this reprioritisation of resources, the National Treasury and DPME are conducting a series of in-depth expenditure reviews that aim to improve allocations on the basis of evidence of programme effectiveness. The expenditure reviews will assist government to identify inefficiencies, realise savings and redirect resources to priorities.

Given the constrained fiscal environment, government will need to do more with less. Earlier this year, National Treasury issued a set of cost containment guidelines that limit spending on non-essential goods and services budgets. Means of strengthening this work are under consideration, and particular attention will be paid in the next budget to line items that are not critical for service delivery or MTSF objectives.

Whereas the MTSF outlines a five-year strategic programme, budget planning works over a three-year cycle. In some cases, the programmes and objectives set in the MTSF will not be possible to achieve in the current three-year expenditure framework. Where this is the case, consideration will be given to achieving the objective within the five-year horizon of the MSTF but beyond the three-year horizon of the budget. The focus will be on planning and preparation so that spending capacity is well-calibrated to absorb resources towards the end of the term of the administration.

In order to sustain the expansion of budgets over the longer term, it is essential that we rebuild the momentum of growth in South Africa. Faster growth in the years ahead is both a key objective of the NDP and the MTSF and a necessary condition to unlock the resources needed to implement our plans.

Government is working together with the private sector and labour to achieve this. The MTSF helps provide focus to urgently needed economic transformation which can unlock the structural constraints on growth.

South Africa and the African continent

Over the past two decades, South Africa's economic prosperity has correctly become increasingly intertwined with that of the rest of the continent. Macroeconomic stability, political reform, favourable demographics and stronger institutions have transformed Africa into a rapidly growing region that is attracting investment.

Economic growth in sub-Saharan Africa is expected to accelerate to about 5.5 per cent this year. Growth has been pronounced in dynamic sectors with high growth potential, including technology, telecommunications, financial services and retail. Indeed, Africa is rising!

Africa's share of global foreign direct investment is rising. Over the last decade South Africa's investment into other parts of the continent has doubled every five years to about R30 billion by 2012. These trends contribute to a virtuous cycle of increased investment and economic growth, supported by growing consumer demand for goods and services. In contrast, wage and consumption growth has stagnated in Europe and the United States.

Government is committed to supporting the expansion of South African firms into the rest of Africa, which will be mutually beneficial and bolster long-term growth prospects on the continent. It will provide tax revenue, profits and dividends into the receiving country and to South Africa.

South Africa provides a number of natural advantages as an African hub, including:

- advanced financial, regulatory, tax and accounting standards;
- a modern telecommunications network;
- extensive economic infrastructure; and
- direct air connections to most major cities on the continent and internationally.

BRICS and Africa

The agreement by the five BRICS member countries to launch the New Development Bank will benefit South Africa and the rest of the continent. As a potential borrower, South Africa could use the Bank as an alternative source of financing its infrastructure build program/ infrastructure development plans, as well as for regional integration initiatives.

The Bank offers South Africa another benefit. Sub-Saharan Africa is one of the world’s fastest growing economic regions, but has infrastructure bottlenecks which make it difficult for the region to achieve its growth potential as well as for the world to do business in African markets. The World Bank estimates that Sub-Saharan Africa requires US$93 billion per annum to meet its infrastructure needs; the region however only manages to raise half of this on annual basis.

Therefore, there is a large funding gap and the New Development Bank will complement the work already done by other development finance institutions.
Addressing these challenges is a priority for the region. The bank’s regional centre which will be based in South Africa will be strategically located to meet this need. A significant number of the New Development Bank’s clients will come from SubSaharan Africa.

There are a number of potential infrastructure projects on the continent, but these have never been realised because of the lack of funding for project preparation, a key step in making project ideas ready for implementation and funding. Built in the operating model of the New Development Bank will be a project preparation facility and a special focus on regional/cross-border projects in energy, transport and logistics. These will certainly contribute towards boosting intra-Africa trade and unleashing of the potential of the continent to grow even much faster.

Other than its membership of the BRICS, the most significant achievement in South Africa's post-1994 international relations has been our accession to the Group of Twenty Finance Ministers and Central Bank Governors.

Membership of the Group of Twenty Finance Ministers and Central Bank Governors affirmed that while South Africa was not one of the biggest economic powers in the world, we were a significant player in the system of international financial and political economic governance. Through these and other many other for a, South Africa will continue to amplify the African voice.

In conclusion, as President Zuma said last week at the National Press Club in Washington DC, it is truly a season of great hope and promise for Africa.

Thank you