



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

**MEASURES GOVERNMENT IS PUTTING IN PLACE TO GROW THE ECONOMY AND
IMPLEMENT THE NEW DEVELOPMENT PLAN**

**SPEECH BY THE MINISTER OF FINANCE NHLANHLA NENE TO THE AMERICAN CHAMBER OF
COMMERCE BUSINESS BREAKFAST**

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I would like to thank the American Chamber of Commerce in South Africa for the opportunity to talk to you this morning.

Introduction

Leaders of the 20 nations whose collective economic output accounts for more than 80 per cent of the global economy will meet this weekend in Brisbane, Australia, to review the state of the global economy. They will do so against the backdrop of global economic recovery that remains uneven.

The focus of the summit will be on how members of the G20, both collectively and individually, can implement additional measures to raise global economic growth by two per cent over the next five years, over and above its current trajectory.

The G20 member countries have agreed to take concrete actions to see this collective ambition through. These actions include measures on investment, competition, trade and employment.

South Africa's performance

South Africa's economic performance has weakened since the beginning of the year. We have therefore revised downwards our growth projection to 1.4 per cent this year, which is down from 3.6 per cent in 2011.

Short term pressures on the economy have increased: global growth has slowed, whilst the room for fiscal expansion has reduced.

Electricity constraints have reduced the incentive for firms to invest whilst strike activity has weighed heavily on growth and confidence. This has put greater pressure on employment and growth, and has made our longer term challenges all the more prominent and more difficult. These challenges include high levels of unemployment, dismal education outcomes, poorly located and inadequate infrastructure, high levels of social inequality and a strong reliance on resource intensive growth.

Against the backdrop of an uneven global recovery, South Africa needs to work swiftly to lift the binding constraints on growth in order to achieve rapid and inclusive growth.

National Development Plan

The National Development Plan (NDP) provides a strong platform for the actions we can take as a nation to transition to a faster-growing and more inclusive economy.

The plan promotes, among others, enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities and accelerated rural development.

The NDP explicitly recognizes the importance of both the public and the private sector in addressing these challenges. Business is the key partner in ensuring that the NDP becomes a reality. Business can do this by adding value, innovating, fostering technological progress, transferring knowledge and creating jobs.

But business needs the support of a capable and effective state that creates an enabling environment whilst furthering social equality.

The government must ensure efficient network industries (such as roads, rail, telecommunication and ports). It has to lay the foundations for the supply of skilled labour and deliver a supportive and predictable regulatory environment. The next phase of growth will be about the dynamism and agility of the private sector, and the synergies between the private sector and government.

By creating a platform for action, government strategic framework for the next five years bolsters policy coherence, alignment and coordination across government. Importantly, most priorities of the five-year MTSF are financed within the prevailing three-year medium-term expenditure framework. Because when you have a plan without a budget, the budget becomes the plan.

The two major challenges facing the economy are the need to encourage greater private sector investment and the need to improve the state's capacity to monitor, implement and manage projects.

I can hear you saying, but what is government actually doing?

First and foremost, we have to put public finances on a sustainable footing. The 2014 Medium Term Budget Policy Statement outlined a package of measures. First, we have to slow down the growth of government debt. To do otherwise would be to place our achievements over the past 20 years at the mercy of fickle global markets. Therefore, fiscal consolidation can no longer be postponed. The fiscal framework achieves this through slowing increases in spending, and penciling in moderate increases in tax revenue.

Second, we have to improve the quality of government services. Despite the huge increase in government spending over the last ten years, the quality of government services have remained a challenge.

Thanks to a freeze in non-essential services and wage moderation, combined with tax measures to increase revenue, we will improve the fiscal position by over R50 billion over the next two years whilst maintaining a focus on investment spending.

In addition, any potential support given to State Owned Enterprises will be budget neutral. If required, balance sheet support will come from disposal of non-strategic assets. We will not borrow to bail out SOEs.

Our second main thrust is to crowd in private investment. The past 5 years have seen investment rise to nearly 20 per cent of GDP, buoyed by a doubling of public sector spending on infrastructure. While public investment has been resilient, private investment has remained subdued since the onset of the global financial crisis beginning 2008.

Our concrete actions include:

- o Continuing support for business. Incentive programmes housed in the Department of Trade and Industry grew by 18 per cent a year over the past three years. We are in the process of establishing special economic zones which will bolster trade competitiveness and support rapid growth in exports amidst an environment of a competitive exchange rate.

- o Partnerships that draw private capital into public-sector infrastructure projects will be used. The independent power producer programme shows how the private sector plays an important role in helping South Africans start businesses. Closer coordination between government and business can help unblock skills and capacity shortages, avoid duplication and allow flexibility in responses.

- o Government has also stepped up efforts to promote entrepreneurship and self-employment, through the establishment of a dedicated Ministry for Small and Medium Industries, while a fund is to be set up to support informal sector enterprises, particularly in the townships.

We are taking steps to improve labour relations. Every business requires good relations between employers and employees. In line with improving domestic labour relations, dispute resolution mechanisms have been galvanised via recent amendments to the Labour Relations Act. Additionally, the recent Indaba on labour relations has begun the work of identifying areas where solutions to long standing problems can be addressed.

An important focus will be not only the National Minimum Wage, but other areas in which we can improve the functioning of labour relations in this country.

Although policies are often set at the national level, we know that business happens at the local level. Hence our focus on improved urban environments and reinvestment in cities, which will lower costs of searching for jobs and reducing the cost of living and of doing business. To this end, we are introducing a new approach to local government infrastructure financing with a focus on mixed-use precincts; we are reforming the local grant system and we are finding ways to expand debt financing for municipal infrastructure.

Furthermore, we are providing support to municipalities such as project preparation facilities to help municipalities prepare plans that are ready for

implementation and we are expanding the infrastructure delivery management system from provinces to large cities.

To reduce infrastructure bottlenecks, government needs to ensure that there is sufficient infrastructure to lower the cost of doing business and ensure certainty.

The top priorities of the MTSF include:

- o Expanding energy supply through public and private investment, including procuring 2.5GW of privately supplied baseload electricity and signing cogeneration agreements for over 800MW to be added to the national grid.
- o Enhancing the performance of sea ports and inland terminals, revising and consolidating port charges, establishing a single transport regulator and reducing cross-subsidisation in transport pricing.
- o Preparing to exploit on- and offshore oil and gas by developing an exploratory drilling plan and legislation
- o Expanding rail capacity for coal exports between Mpumalanga and the Richards Bay Coal Terminal, building a new heavy-haul rail line from the Waterberg region, and increasing port capacity for iron exports via Saldanha and the Northern Cape corridor.

To bolster confidence, trust and dialogue between public and private sector stakeholders, the Presidential Business Working Group is working hard to identify blockages to growth, investment and employment.

In this regard, a task team focused on combatting unnecessary red tape is up and running and has already produced excellent results.

Business is also preparing proposals on “shared-services” models in the investment task team, where municipalities without the necessary capacity can draw on a pool of skills to ensure infrastructure programmes are planned, executed and maintained.

Other confidence boosting measures include the commitment by the Presidential Infrastructure Coordinating Commission to host quarterly meetings with business on the infrastructure build programme. These meetings will be a

forum for business to make inputs on the overall infrastructure build programme and linking these projects to localisation efforts in moving toward 75 per cent local content targets set by government.

The Skills and Education Task Team have agreed to find ways to scale up Work-Integrated Learning and work based learning to support the SIPS skills needs and pilot models. Other goals are to scale up and improve the quality of entrepreneurship education and to support the National Education Collaboration Trust and other foundations improving the quality of education.

The third major focus at hand is to enhance the state's capacity to plan, manage and maintain its programmes and infrastructure. In this regard, service delivery outcomes will be bolstered by efforts to tackle corruption. Financial accounting and control systems are being strengthened. The Office of the Chief Procurement Officer (OCPO) has been established to centralise oversight of public procurement. The office will introduce a national price-referencing system which will be launched early next year. Procurement systems will also draw on private-sector expertise and best practice. Fighting corruption will also require the active citizenry emphasized in the NDP.

A strong focus on improving educational outcomes will improve the quality of our basic education system, and increase the supply of appropriately skilled workers. New tools for monitoring educational outcomes, such as the annual national assessments, will establish platforms to address longstanding challenges.

Conclusion

I am confident that we have the framework in place to turn things around. The next two years will be challenging. But I am confident that South Africans will rise to the challenge. They have a history of doing so when circumstances call for it.

Thank you