MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MR NHLANHLA NENE

BUDGET 2015: MAKING THE RIGHT CHOICES TO CHANGE THE TRAJECTORY OF OUR ECONOMY AND SOCIETY

VENUE: Deloitte, Woodlands Office Park, Sandton
DATE: 3 March 2015

Thank you Mr Bam

Honoured guests

Ladies and gentlemen

I am sure you are all too familiar now with the details of the budget we tabled in parliament on Wednesday last week.

So, I won't bore you with the details, but will try and provide a frame which I would suggest we should all use in examining the 2015 budget.

The 2015 Budget presents a story about making the right choices in order to change the trajectory of our economy and society. In short, this 2015 budget is about four things:

1) Narrowing the budget deficit;

2) Improving the quality of spending;

3) Reducing constraints on the economy; and

4) Continued support for programmes that benefit the poor the most.

I take it for granted that we are all agreed on the need to protect the poor and the vulnerable in our society, so I am not going to dwell on the fourth point. Unless, of course, some amongst you, ladies and gentlemen, are itching to raise a point of order!

So why narrow the budget deficit?

Slow economic growth means that the economy does not generate enough tax revenue needed to close the gap between revenue and expenditure. And to continue borrowing more money would jeopardise the sustainability of public finances. This is illustrated by the fact that interest payments will consume R420.8 billion over the next three years. As the custodian of public finances, government must therefore take carefully considered steps to narrow the budget deficit.

The steps taken are:

- A reduction in the expenditure ceiling of R25 billion over the next two years. This is not the same as cutting expenditure. It is about slowing the pace of expenditure growth;
- An increase in taxes of R17 billion in 2015/16;
- Interventions to improve the composition and quality of spending, including reducing wage bill growth; and
- A commitment to the funding of state-owned companies in a manner that doesn't add to national government debt.

As a result of the consolidation package, national debt stabilises at 44 per cent of GDP in 2017/18.

What are we doing to improve the quality of spending?

Let me give you a few examples:

- Since 2012/13, government has reallocated resources from underperforming programmes to critical frontline services. These measures have begun to improve the composition of expenditure;
- Capital remains the fastest growing item of non-interest spending over the medium term, with compensation and goods and services growing slowest;

- Cost-containment measures first announced in 2013 have resulted in a decline in spending on non-core goods and services items, and will be strengthened. Between 2013/14 and 2014/15, expenditure on business consultants and advisory services, catering and entertainment, and travel and subsistence is estimated to fall by R1.5 billion. Spending on these items will be monitored and the Auditor-General will audit compliance.
- In the 2014 Medium Term Budget Policy Statement, government announced a freeze on personnel headcounts for 2015/16 and 2016/17, with any additional personnel paid for from existing allocations. Public-sector salary negotiations are under way. A multi-year agreement that protects public servants' purchasing power would allow for a stable, predictable wage bill and reprioritisation of resources towards areas of need.

What are we doing to support the economy?

In this difficult environment, the 2015 Budget contributes to important changes under way that will place the economy on a more solid foundation for sustainable growth in the future.

These interventions include:

- A shift from a growth path reliant on consumption to one led by investment;
- Implementing major investments in backbone infrastructure to enhance productivity;
- Strengthening incentives for tradable sectors with significant potential for job creation and facilitating the transition to a less energy-intensive economy;
- Investing in cities to reverse inequitable and inefficient patterns of human settlement; and
- Numerous reforms and regulatory changes, and a strategic review of state owned entities, to raise long term growth potential.

These changes all contribute to the vision of the National Development Plan (NDP). The Budget also reflects the policy priorities contained in government's medium-term strategic framework (MTSF), which identifies the key actions required to implement the NDP.

There are numerous interventions outlined in the MTSF which target agriculture and downstream agricultural value chain (food processing etc). These sectors, agriculture and agro processing are labour intensive and less likely to be impacted by electricity shortages. They stand to benefit from lower oil prices.

Agricultural exports to Europe, and processed food exports to sub-Saharan Africa should also benefit from real effective exchange rate depreciation and growth conditions in these regions. Similarly, there are a number of immigration interventions which should complement global growth and exchange rate changes in promoting tourism. Similar to agriculture, tourism offers employment creation potential.

Similarly, various incentives exist that should help firms become more energy efficient, or promote firms or sectors that are less energy intensive over those that are more energy-intensive. With the rising price of electricity generally and the proposed 2c/kWh electricity levy – firms will be incentivized to be as energy efficient as possible. Whilst this imposes some costs in the short term – it also reduces long term cost pressures, reduces carbon footprint, and enables firms to compete in globally carbon-sensitive markets in the future.

Opportunities also exist for firms that specialize in energy efficient equipment, back up electricity supply, and thanks to the extensive Independent Power Producer procurement programme – firms involved in power generation, electrical equipment supply or maintenance, construction/engineering/ or consulting services.

Various Incentives exist to support industrial investment and the manufacturing sector. This support takes several forms including:

- Infrastructure provision (e.g. Special Economic Zones);
- Directly boosting demand through government procurement using the Preferential Procurement Policy Framework Act (PPPFA), designation of sectors, and the National Industrialisation Participation Programme;

- Grants and financing (e.g. Manufacturing Competitiveness Enhancement Programme (MCEP), funding from the Industrial Development Corporation and funding from the Small Enterprise Development Agency);
- Tariff protection and rebates; and
- Support for skills development, business development, market access, transformation, and Research & Development through both tax incentives and funded programmes.

Our economy's longer term growth potential is supported by investment in bulk municipal infrastructure – and this is reflected in the growing expenditure by general government. R570 billion is allocated to local government infrastructure and services, of which R107 billion is targeted at bulk infrastructure and affordable housing. R18 billion will go to electrification, and other large sums have been set aside for water and sanitation projects and bulk water schemes.

This means that over the next three years there will be many opportunities presented for businesses that are able to supply construction services to Government across transport, electricity distribution, water, and for the supply of equipment and machinery and the maintenance thereof.

Industries also rely heavily on critical skills to be successful – and the budget has made significant allocations to improve skills across the economy. R200 billion is allocated over the medium to broaden access to quality post school education and training.

Reforms under way through the medium-term expenditure framework will put our economy on a higher growth path. Government has rolled out a wide array of initiatives to promote energy efficiency, bolster competitiveness, boost skills and job creation, cut red tape and improve business confidence. Government is also stepping up its work with municipalities, in partnership with the private sector, to reshape South Africa's cities and improve their contributions to economic growth.

In conclusion, ladies and gentlemen, to eliminate unemployment and poverty, South Africa requires much higher levels of economic growth, supported by accelerated implementation of structural reforms identified in the National Development Plan. Working together, government, business, labour and civil society can speed up these reforms over the period ahead.

Ends