MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Debate on the Appropriation Bill in the National Assembly

Address by Minister of Finance
Malusi Gigaba

08 June 2017

We are considering this year's Appropriation Bill under difficult circumstances.

The economy's contraction by 0.7% in the quarter is a setback, and introduces significant downward bias to the GDP growth estimates communicated in the 2017 Budget Review, which projected 2017 GDP growth at 1.3 per cent.

Whilst the IMF recently revised our 2017 growth projections down to 1%, the World Bank has revised their GDP projections to 0.6% in 2017 from 1.1 %.

Several favourable factors supportive of domestic growth remain in place; however, aggregate growth in 2017 will likely be reined in by the contraction in the first quarter.

The current growth rate, if sustained, will lead to further decline in GDP per capita and revenue, threatening the affordability of our planned expenditure.

This puts more pressure on us as government to intensify our growth programme and improve confidence as a matter of urgency.

However, we cannot afford to become despondent in the wake of these developments; we must remain positive and must remain singularly focused on growing the economy and creating prospects for it to get out of the low grow path.

Cabinet has committed to provide clarity and certainty on key policy areas aimed at unlocking growth in the economy within the next few weeks.

We should soon be announcing concrete timelines for the finalisation of these policy processes which will result in the provision of the clarity sought by the markets.

We appreciate the issues as raised by credit ratings agencies and we commit to a speedy response.

We remain committed to inclusive growth and economic transformation as outlined in the NDP, the Medium Term Strategic Framework, and the 9 point plan.

Deputy Speaker,

In the midst of a persistently challenging economic environment, government remains committed to containing the budget deficit and stabilising public debt, whilst maintaining spending on core social and economic programmes.

Over the next three years, government aims to reduce the deficit to 3.3 per cent, thereby stabilising debt as a percentage of GDP and confirming the resilience of our public finances.

However, the prospect of sustained low growth over the medium term remains the greatest risk to our fiscal policy objectives and limits government's ability to generate more revenue or sustain higher levels of debt to finance its existing commitments.

Further consolidation measures may be required to ensure fiscal sustainability.

We remain committed to improving efficiency and prioritising the most essential sectors and services.

We remain steadfast in our commitment to funding social protection for vulnerable members of society, even in difficult times.

Spending plans over the medium term allow for moderate real expenditure growth, with priority given to advancing higher education, health and social development.

We remain focused on maintaining the fiscal framework whilst redoubling our efforts to grow the economy and lifting it out of the risk of the low growth trap.

Deputy Speaker,

The government wage bill will stabilise as a share of the budget, largely as a result of measures to reduce appointments in non-critical posts.

We are working with the Department of Public Service and Administration and all departments to strengthen and monitor personnel trends, and help managers operate within budget constraints.

Between Budget 2016 and Budget 2017, the gross tax revenue target was revised down, pointing to an economy under significant stress.

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Measures are being implemented to continue to realise efficient spending and to generate additional taxes over the medium term.

In the period ahead, government will focus on strengthening budget execution and the in-year monitoring of spending.

We have to do more with less.

Achieving value for money and eliminating wastage is a key objective in the years ahead.

Government departments should not expect additional funds from the fiscus but need to fulfil their mandates within the budgets that are being voted on.

We are working with other government stakeholders on a new infrastructure financing facility that will address shortcomings in the planning and execution of infrastructure projects and will ensure thorough technical analysis takes place.

Procurement reforms offer the possibility of a sustained improvement in the effectiveness of public spending.

Initiatives led by the Office of the Chief Procurement Officer will boost efficiency and narrow opportunities for corruption in government.

Over the next three years, the office aims to save R25 billion by renegotiating contracts with government's top 100 suppliers, consolidating spending on common goods and cutting red tape.

Significant risks remain to the achievement of our fiscal targets.

However, Government remains committed to narrow the budget deficit and stabilise debt in the medium term, including achieving a primary surplus in 2018/19.

This will require tough decisions and resilience.

We must reignite growth in the economy and pursue transformation relentlessly.

Building confidence is about raising expectations about future economic growth in both household disposable incomes and the profits of the real sector.

We have to strengthen our developmental coalition in NEDLAC.

We have to ensure that our preferential procurement regulations form a crucial link between macroeconomic policy, industrial development and job creation. This is the most powerful way to increase the multiplier effects of our fiscal interventions.

Our interventions must protect the incomes of the poor, protect existing jobs and create new job opportunities, and we must preserve and expand our industrial capabilities as a nation.

We must respond in a way that addresses the immediate challenge of arresting the recession whilst simultaneously laying the foundations for long-term transformational growth.

We will have to urgently implement tailored interventions that are aimed at stimulating value-added, labour intensive and locally-owned sectors.

This approach will ensure that we protect the public finances against adverse shocks in the medium to long term.

We will have to ensure that our SOCs are efficiently governed and they strictly implement our local procurement commitments.

We have to find ways to improve the manner in which our Development Finance Institutions are funded, to empower them to aggressively respond to the growth challenge.

We also have to fast-track our interventions in relation to illicit financial flows, money laundering and other activities.

The challenges facing our economy cannot be resolved by government alone or through populist rhetoric.

The poor of our country are not easy pickings or low-hanging fruit for opportunist vote seekers and grabbers.

The challenges they face are real and to solve them requires sustainable programmes, a singular focus, unyielding determination and a resolute leadership.

Whilst the political parties continue to bicker on the budget and the economy, the ruling party and its leadership, government, business, labour and other social partners must multiply their united efforts to reignite growth in the economy in an inclusive manner.

Our economy today needs leadership!

In that regard, and in conclusion, we must congratulate Mr. Dondo Mogajane on his appointment by Cabinet as the new Director General of the National Treasury.

We wish him well in his new assignment.

I Thank you.