



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE SPEECH

REMARKS BY THE MINISTER OF FINANCE, MR TITO MBOWENI

DATE: 23 JULY 2020

Honourable Speaker/House Chairperson

Honourable Members

Thank you for this National Assembly mini-plenary sitting of the consideration on Budget Vote debate for the National Treasury.

Section 216 of the Constitution of the Republic and the Public Finance Management Act clearly spell out the role of the National Treasury. To give effect to these requirements, in each year, the National Treasury prepares an Annual Budget and a Medium Term Budget Policy Statement. This year, circumstances have also required us to prepare a Supplementary Budget.

The Budget Vote you consider here today is in support of these constitutional and legal responsibilities, underpinned by our strategic objective to “improve living standards”. I cannot overstate the urgency of this task in the context of the current global pandemic, and the economic devastation it has brought with it.

With this in mind, we need a strong National Treasury, staffed with the best our country and the world has to offer, and we are working to fill the critical vacancies in the department.

The National Treasury has set itself a three-pronged strategy. The first prong is to achieve *sustainable public finances*. The National Treasury is on a mission to restore fiscal strength. This a minimum condition required to prepare South Africa for the next pandemic or economic shock. More importantly, it is a necessary condition to improve the quality of life of all citizens and free the potential of each person.

The second prong is to strengthen the *Sound Financial controls and management of public finances* across the public sector. Our historic response to this pandemic would not have been possible had it not been for the cooperation across all arms of the state facilitated by good financial control, including the provincial MECs for Finance, whose support I highly value. In this regard, effective intergovernmental relations are critical in ensuring that all arms of government work closely together to deliver on improved living standards for all.

The third prong is to *advocate for sound economic policy* in line with the President's direction. We intend to strengthen our macroeconomic policy framework, facilitate regional and international cooperation, and continue the roll-out of our improvements to the system of financial regulation.

Important conversations have been taking place since the address by the President on 21 April about how we reorient the country for a new global reality.

Strong empirical analysis, honest debate and hearing each other out are important parts for building democratic consensus about the direction of economic policy.

We all agree that economic growth is urgent. One of the key projects that the National Treasury will be driving is to work closely with our colleagues in the rest of Government to drive a package of reforms to improve productivity, lower costs and reduce demands of state-owned companies on the public purse. These measures include finalising electricity determinations, unbundling Eskom and taking other steps to open up energy markets, modernising ports and rail infrastructure, and licensing spectrum.

The Deputy Minister, Dr David Masondo, has been tasked with the critical job of driving Operation Vulindlela, which coordinates the critical structural reforms our economy desperately needs to grow. He will work closely with the Presidency in this endeavour, and it will put economic growth at the centre of what we do as the National Treasury and as Government.

To realise the full benefits of these reforms for the economy's growth potential over the long term, implementation should begin now.

Further short-term measures for growth

In March this year, government initiated a wide-ranging relief package to manage the immediate impact of the virus. The initiatives involve scaling up capacity in the public health system and mitigating the effects of restricted economic activity for households and businesses. Concurrently, the South African Reserve Bank has reduced interest rates and provided support to the bond market, while indicating that it is prepared to take additional action as required.

As part of the package of short-term measures to support economic revival growth, we announced a loan-guarantee scheme. The Loan Guarantee Scheme has already provided over R11 billion to qualifying businesses. As we gradually open the economy, we expect more lending to take place as businesses retool themselves to restart and adapt. We have made changes to the scheme, effective from today. This includes business restart loans, aligning the credit assessment criteria, increasing the length of the loan drawdown and repayment period, and relaxing the credit risk criteria. Further details are on the websites of the National Treasury, South African Reserve Bank and the Banking Association.

Fiscal outlook: taking action to stabilise public debt

Underpinning all of this, sound finances are critical for our country. The team at the National Treasury is working tirelessly to deal with our ballooning public debt.

Even as South Africa responds to the current health and economic crises, a fiscal reckoning looms. The public finances are dangerously overstretched. Without urgent action in the 2021 budget process, a debt crisis will follow. Failure to contain debt, the budget deficit and debt-service costs will damage the country's long-term economic prospects.

As you know, the supplementary budget projected that tax revenue would be R304.1 billion less in the current year compared with the 2020 Budget estimate. Revenue shortfalls include tax relief measures amounting to R26 billion in foregone revenue implemented as part of the COVID-19 relief package. More significantly, the shortfall reflects the expectation that the tax base will temporarily shrink as businesses close and people lose their jobs.

With this in mind, the role of the team at the South African Revenue Services led by Commissioner Kieswetter is critical. In line with this stated strategic objective SARS has accordingly seized illegal cigarettes worth R77 million in the period 1 April to date, up from R15 million in the prior year. The increase in seizures has been largely due to joint operations between SARS, SANDF and SAPS. SARS has seized 137kg of Rhino horns, and R225 million has been collected from one illicit second-hand gold industry.

Madam Speaker, as set out in the Supplementary Budget, the gross borrowing requirement has increased to R776.9 billion. Gross national government debt is projected to increase to R3.97 trillion (or 81.8 per cent of GDP) in in the current year.

This increase in debt means that we now budget for a direct charge of R236 billion for debt service costs, which is R7 billion more than we budgeted in February. Debt is expensive.

The National Treasury Assets and Liability Management team has revised Government's financing strategy to minimise the effect of this deteriorating financial position on its stock of debt and on debt-service costs. The revised strategy includes draw down on sterilisation deposits – money deposited at the South African Reserve Bank to offset excess market liquidity resulting from the purchase of foreign currency reserves, and using existing cash deposits to finance foreign currency commitments.

We have continued with our efforts to mobilise funding from multilateral institutions, to date the New Development Bank has approved 1 billion US Dollars from its Emergency Assistance Program and the African Development Bank has also approved a loan of approximately \$288 million.

We have also applied for \$4.2 billion from the International Monetary Fund under the Rapid Financing Instrument that will be used to provide for direct budget financing and negotiations with World bank are still on-going, more detail will be provided once transactions are

concluded. We expect to raise a total of approximately \$7 billion as indicated in the supplementary budget.

Honourable Speaker, in conclusion, the National Treasury and my Ministry have one core driving objective – to improve the living standards of the people that live in this land. This was a task we had set ourselves long before the pandemic that now confronts us. The pandemic gives new urgency to our objective.

Governments across the world and the community of nations are being tested to cushion the impact of the pandemic and save lives. The collective under the Ministry of Finance is determined to do our best in this mission, as well as to gear our economy to withstand the many challenges we face.

With this objective in mind, I present the National Treasury Budget Vote to this House.

Thank you.