MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE 8
NATIONAL TREASURY: THE PILLAR OF THE STATE
MINISTER OF FINANCE TITO TITUS MBOWENI, MP
20 MAY 2021

Check against delivery

Honourable Speaker/House Chairperson,

Chairperson of Standing Committee of Finance, Honourable Joe Maswanganyi, and the committee members,

Honourable Members

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

Introduction

It has been an eventful year in the life of our country and across the globe since the last Budget Vote debate. South Africa, like the rest of the world, has had to deal with the human cost and massive economic impact of the Covid-19 pandemic.

This year, a significant economic recovery is taking place, especially as vaccines are being rolled out. Like many African countries, South Africa has the opportunity to benefit from the combined effect of a faster global recovery, higher commodity prices and global monetary conditions. We should not lose focus on achieving strong and sustainable economic growth at home.

Therefore, taking this opportunity will depend on our ability to implement domestic reforms. At the same, there are many risks to the outlook including the ongoing Covid-19 pandemic, uncertainty about the sustainability of emerging market debt in a period of rising global interest rates, and our domestic electricity constraints.

National Treasury: Purposes and functions

National Treasury's legislative mandate is based on section 216(1) of the Constitution, which tasks us with ensuring transparency, accountability and sound financial controls in the management of South Africa's public finances. This role is elaborated on in the Public Finance Management Act (1999). The department is mandated to:

- Promote national government's fiscal policy and the coordination of macroeconomic policy
- Ensure the stability and soundness of the financial system and financial services
- Coordinate intergovernmental financial and fiscal relations
- Manage the budget preparation process

- Enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

The main agencies in this vote are the National Treasury, the South African Revenue Services, the Financial Intelligence Centre and the State Security Agency. Collectively they will receive R41.1 billion in 2021/22 for their own operations. A large portion of the Vote allocation is dedicated to transfers to provincial governments for the provincial equitable share.

The department has the following increases to its baseline: R7 billion over the MTEF period to stabilise the Land Bank's financial position; R1 billion in 2021/22 for the improvement of ICT systems and capacity building in SARS; and R191.1 million over the MTEF period to partially support the operations of the Infrastructure Fund.

This budget will be committed to the National Economic Reconstruction and Recovery Plan, including by supporting vital economic reforms, and advancing the transformation of our economy. In addition, we continue to work to relieve the devastating effects of the Covid-19 pandemic.

Active measures are being implemented to realign the composition of our spending from consumption towards investment, and support efforts to lower the cost of capital through Operation Vulindlela. The Deputy Minister, Dr David Masondo, will provide more detail regarding Operation Vulindela during his input.

Economic Overview:

a. The International Monetary Fund's April 2021 World Economic Outlook has forecast global growth to be 6.0 per cent for 2021, reflecting surprisingly rapid recoveries in advanced economies (AEs) and China. AE's 2021 forecast growth has been revised up to 5.1 per cent with the US expected to reach pre-pandemic output levels this year. China, meanwhile, is expected to continue to expand (forecast at 8.4 per cent in 2021) off the back of state-sponsored investment drive and pent-up demand.
b. South Africa's GDP rose by 6.3 per cent in the fourth quarter of 2020 on a quarter-on-quarter seasonally adjusted and annualised (q/q saar) basis after expanding by 67.3 per cent in the third quarter (upwardly revised from 66.1 per cent). However, with our recovery lagging other comparable countries and without faster growth, South Africa is unlikely to reach 2019 output levels before 2023.

c. Despite the nascent recovery, the pandemic and subsequent lockdown worsened already dire unemployment statistics. The unemployment rate rose to a record high of 32.5 per cent in 2020 with nearly one out of three workers without work. More recent data shows that between October 2020 and January 2021 the percentage of employed adults declined from 55 per cent to 52 per cent.

d. On the positive side, inflation remains benign, with some pressure from food prices and administered prices, particularly electricity.

e. Since the beginning of April, rising global commodity prices, due to increased global demand and strong stimulus measures, have seen the rand appreciate strongly (up 4.2 per cent ytd to R14.08/US$ on 14 May 2021)

Fiscal Sustainability:

a. The South African government continues to pursue a balanced and prudent fiscal strategy in order to stabilise the public finances. The fiscal framework is sacrosanct, and the spending ceiling announced in February remains a key fiscal anchor and will not be adjusted upwards.

b. A less severe revenue shortfall enables government to continue to support the economy and the health sector, while narrowing the deficit more rapidly than projected in the 2020 Medium Term Budget Policy Statement.

c. However, we have a long and difficult road ahead. As we are all aware, Government is taking the required steps to avoid a debt spiral. The tax revenue shortfall for 2020/21 was R175.5 billion, which is a record. Meanwhile, debt service costs will increase to R269.7 billion in the current financial year, eclipsing total spending on health-care, and consuming R1 out every R5 we raise in taxes.

d. Over the medium term, continued expenditure restraint will underpin fiscal sustainability. Efforts to narrow the budget deficit and improve the composition of spending – primarily through restraining wage bill growth – remain on course.

e. Capital spending is the fastest-growing component of non-interest spending.

f. The main budget primary deficit narrows from 7.5 per cent of GDP in 2020/21 to 0.8 per cent of GDP in 2023/24, and gross government debt stabilises at 88.9 per cent of GDP in 2025/26.

Overview of the National Treasury Annual Performance Plan (APP) for 2021/22

Madam Speaker, the National Treasury APP 2021/22 focuses the efforts of the department on the following key areas:

a. Sustainable public finances remains our primary focus. We are hard at work to establish and operationalise the Infrastructure Fund. We are also enabling an Intergovernmental fiscal framework that promotes financial sustainability. Ensuring effective provincial and municipal budget systems is a key focus, as well as promoting investments in local economic development and reducing illicit financial flows.

b. We are actively advocating coherent economic policy. The National Treasury remains committed to working with all stakeholders in the quest for a transformed banking and financial sector. We also continue to upgrade the economic policy making and coordinating capacity of the state. Our programme, entitled: Southern Africa – Towards Inclusive Economic Development, or SA-TIED, is a collaboration with various government departments and international agencies to produce high-quality, evidence-based policy research and build the economic policy capacity of the state.

c. Sound financial controls and management of public finances. The key focus in this area is the urgent need to table the amended Public Procurement Bill. We are working relentlessly to eliminate wasteful and fruitless expenditure. Irregular expenditure will also be targeted. We have identified several high risk state-owned entities, whose management and governance systems are being reviewed. We intend, working with the relevant colleagues, to implement thorough recommendations.

Honourable Members, the 2021/22 APP sets an ambitious agenda for the National Treasury that will require all of us to be galvanised and to harness our collective efforts, commitment, and capacity to meet these expectations with actions.

Covid-19 Response

At the time of the February Budget, we could not predict the trajectory of the pandemic in our country. Budget provision was nevertheless made to support provincial health departments to sustain the Covid-19 response and manage additional waves with R8 billion allocated to the provincial equitable share in 2021/22.

On 17 May, phase 1b and 2 of South Africa's COVID vaccination rollout commenced. The vaccination programme so far has been allocated R10.3 billion, of which R6 billion is allocated in the current year, 2021/22. Of this amount, R4.35 billion is for the procurement of vaccines by the National Department of Health and R1.5 billion is allocated to provincial health departments to support the service delivery cost. This is something we will continue to monitor.

Local Government: Where the rubber hits the tar

Honourable Members, from the early years of our democracy, it was envisioned that newly formed municipalities, supported by national and provincial government, would play a catalytic role in driving social and economic transformation at local government level.

It is indeed lamentable that the trajectory of municipal performance is rather unimpressive. Much of the progress made has unfortunately been eclipsed by the widespread “failure” of many municipalities. Rather than moving communities forward, many municipalities have themselves regressed – struggling to perform their basic functions, unable and sometimes unwilling to bill for services and collect revenues and some have even been bold enough to request financial assistance from national and provincial government to pay salaries.

Currently, there are 163 municipalities in financial distress, 40 municipalities in a financial and service delivery crisis and 102 municipalities who have adopted budgets this year which they cannot fund. And, for the first time in our democracy, the national executive has been ordered by a high court to constitutionally intervene in the affairs of a municipality owing to a financial and service delivery failure.

As I make this submission before this House today, I am both the Minister of Finance of the Republic of South Africa and also responsible for the Lekwa Local municipality in the Mpumalanga Province.

Honourable members, while the situation at the Lekwa municipality is extremely unfortunate, it shines a light on a number of issues affecting the performance of local government.

Poor political leadership demonstrated by political infighting in councils and political interference in administrative matters have served as a stumbling block to a viable municipal sector. We can't speak of economic recovery and prosperity when municipalities, as agents responsible for helping government achieve these objectives, find themselves in a perpetual crisis. In the Lekwa municipal intervention, Cabinet decided on 12 May 2021 to dissolve the municipal council. We hope that this form of "consequence management" will send the right signal to other municipal councils.

Administrative incompetence will not be tolerated. National and provincial government have to date spent billions of rands in local government capacity building programmes. The poor performance of many municipalities shows that there was almost a zero return on that investment.

Honourable members, perhaps the most illuminating insight to emerge from the Lekwa intervention is that the power to induce change at local government level is shifting. Municipalities no longer appear to be the agents driving change in the local space. Rather, communities and businesses are becoming increasingly intolerant of municipalities that can neither deliver basic services nor conduct their administration effectively. Communities are mobilising against municipal ineptness and are turning to the courts for recourse.

It is clear that the tide is turning and that deliberate and decisive action is needed to restore the integrity of the municipal sector.

Madam Speaker, as I conclude let me reiterate that economic reconstruction and recovery and stabilising the public finances in the wake of the Covid-19 pandemic continue to be our guiding lights. Our continued gratitude goes to the Chairperson of Standing Committee of Finance, Honourable Joe Maswanganyi and the committee members. We look forward to the support of this Honourable House in our mission.

I thank you