MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY THE DEPUTY MINISTER OF FINANCE TO THE GTAC SAVINGS@WORK CONFERENCE

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Good morning,

I would like to welcome:

- the Canadian Head of Cooperation – Jennifer Cooper
- the Director-General of Treasury and his colleagues
- our esteemed panellists Dr Mcebisi Ndletyana, Pam Yako and Amanda Jitsing
- our special speakers who are presenting the fruit of their labour to us
- and, all the participants, from South Africa and all over the world.

I believe that we have reached over 300 registrations for this conference. I want to congratulate GTAC in National Treasury for hosting this conference, which I must say, is very well timed. I say this because, as we all know, it is increasingly important that government find ways to deliver services efficiently, that we cut out waste, and that we identify areas of spending that are not delivering for the public.

This is something we all know, but I think it is important to contextualise this conference, and to locate the efforts you and other officials are engaged in in the wider process of stabilising public finances and putting us on a more sustainable footing. The skills you are learning – the skills that we are all learning – are going to be crucial to policy-making in the medium-term, and I think it is worth explaining why I think that.

It is no secret that South Africa has serious economic challenges. Among the most serious of these is that government is struggling to stabilise public debt. This is a problem that emerged before the COVID-19 pandemic, and it has its roots in the large, structural gap that we have between tax revenues, on the one hand, and, on the other hand, government's spending commitments. Serious as this was before Covid, it is has obviously become even more challenging now.

One of the strategies government tried to close the gap between spending and revenue, was to try to increase taxes, which even included raising VAT. But, as we have argued in the Budget Review, this has not really worked because economic growth has continued to fall, which has meant that tax revenues kept coming in lower than we expected. In fact, we now have to worry that raising taxes may even contribute to the growth slowdown, which is why this year's budget offered some tax relief.

Because we were not able to increase tax revenue, even the modest increases in spending which we had been budgeting for led to larger and larger deficits and more and more borrowing.

As you all know, debt service costs are now the fastest growing line item in the budget, and they have been for some time. When that is already happening, and when you still need to borrow more and more, you lose credibility in capital markets, and you have to pay higher interest rates when you borrow. That's what the downgrades of our credit rating reflected: buyers of South African debt were worrying that we may be over-extending ourselves. And, the truth is, we *were* over-extending ourselves.

This is the reason Cabinet decided in 2019 that much more needed to be done to consolidate spending, and to make sure that spending was more aligned with the performance of the economy and with what the country could afford. It was for this reason that the budgets of 2019 and 2020 introduced measures to slow the rate of growth of spending.

I want to emphasise that this was all done before Covid-19. It was where we were in 2019 and even in 2018. But, of course, Covid-19 has really battered our public finances: the recession means that tax income for government is much lower than it would have been, and, of course, we have had to spend a lot of money on supporting the economy and households. It is true that high commodity prices have helped us bring in more revenue than National Treasury projected in the Supplementary Budget last June, but we are still far, far below where we thought we would be when we presented the budget in February 2020. The result is that our budget deficits over the next few years are going to be largest this country has ever had.

I make all of these points because it is important to understand that the difficult decisions government took in the budget last year and this year were not because of ideology or because we like to make life difficult for ourselves. We took those decisions because we have to get the financial house of government in order. If we don't do that, we will have even deeper crises down the line and a deeper crisis is in nobody's interest.

Besides, all the debt government has accumulated already, combined with big deficits every year, is weighing down on the economy and making it hard to grow. It also means that more and more of our tax revenues will be going to paying debt service costs, reducing the pot that is available for service delivery and building infrastructure. The bottom line is that to get out of this very tough situation, government is going to have to spend less than we probably want to spend to respond to all the needs that we have.

And, precisely because we can't spend as much as we might want to, we have to spend much better. That is the only way that we will make progress against poverty and inequality and slow economic growth.

Which brings me back to this initiative… the spending reviews themselves and this conference serves to showcase them, and to help institutionalise the methods and thinking behind them. If we as a government are going to spend our scarce resources better, we need a much better understanding of how we spend them now, what we achieve with the money, and whether there are ways to spend more efficiently and effectively. The only way to do that well is not by telling stories and making nice documents, but to crunch a lot of numbers so that we can see where all the money goes.

That is what you have all been doing, and I must say that I am very impressed with the results or the reports I have read. The quality is very high and the insights they offer is very profound. They show just how much we can learn from our own databases when we apply our analytical skills well.

There have been a couple of reports, for example, on the costs government incurs renting office accommodation, and, frankly, some of the results are really frightening: when we reviewed leases of national departments, we found that 60% of leases were above the current market rates, and that the average premium being paid on these leases was about 45%. Extrapolating to the full lease portfolio, that means of the R3 billion that was being paid to lease office accommodation in 2015, as much as R700 million might have been saved if the rents had been at market rates.

I think that this examples show how much potential there is for spending reviews of the kind you are doing to help us find ways to reduce the costs of delivering public services. That is an absolutely critical task because of all the challenges we face, and it is going to be up to officials like you to help guide government towards a more sustainable footing. If we are to succeed in the task of building a state that can deliver and that can do so sustainably, officials will have to become increasingly strategic and innovative about what to prioritise and what to deprioritise, how to deliver efficiently, and how to hold people accountable to high standards.

I want to congratulate you once again on this initiative and to wish you luck and success in your deliberations over the next two days. Your work is essential to the country, and we thank you for it.

Thank you.