



Medium Term Budget Policy Statement

2011

Speech

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Minister of Finance

25 October 2011

Honourable Speaker,

I have the honour to present the third Medium Term Budget Policy Statement of President Zuma's administration.

We present this Policy Statement at a time when our own economy is recovering, but there are still winds of uncertainty in places that seem far away, which can rapidly affect us, for better or worse.

We have learnt from the 2008 global crisis that sound fiscal and financial institutions do not provide immunity against job losses in our own economy arising from turbulence originating elsewhere in the world. Nor are they sufficient to reposition our economy on a new growth trajectory that creates jobs, reduces inequality and improves the quality of life of our people.

Our economic transformation requires much more.

It requires an extraordinary national effort from all role-players, committed not just to identifying the barriers to progress, not just to proposing solutions, but also to working together, over the long haul.

In February, at the time of this year's Budget, Mister President, we referred to your clear injunction:

“We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high.”

We said in this Budget, Mister President, that it *“reflects the collective determination of the Government to address with energy the challenges of creating jobs, reducing poverty, building infrastructure and expanding our economy. The Budget sets out a financial framework for implementing this vision, a framework that is sound and sustainable. It recognises that building South Africa is a multi-decade project that must invigorate our capacity to grow, and must include all South Africans in that growth.”*

This remains our point of departure, but once again we have to take stock of this uncertain environment and review how we might better address our challenges and seize new opportunities.

For the past two years we have felt the shock waves of financial crises, first in the United States and the UK, now centred in Europe.

A year ago at the time of the 2010 MTBPS we thought we would see a sustained improvement in the global recovery and in our economy. That was not to be. The eurozone crisis has brought new financial challenges and threats to global growth, and we are also seeing rising inflation and overheating in several economies, including Brazil, India and China. Once again, we face the prospect of declines in global trade, falling industrial demand, delays in investment, liquidation of businesses and stressed financial institutions, this time with the added risk that fiscal austerity in some parts of the world will extend the slowdown and deepen the crisis.

The crisis of leadership currently reflected in the Eurozone and in Europe is having a damaging effect on the global economy including our own. The world expects Europe to urgently mobilise the resources required to recapitalize banks and support a durable restructuring of insolvent or debt-laden economies.

The MTBPS sets out the fiscal and budgetary dimensions of the government's response to what some have called "dangerous times". It challenges us to confront both our immediate priorities and long-term development imperatives. It invites this House and all South Africans to join in our collective effort to do more, with the resources at our disposal, to strengthen our economic performance and improve public service delivery.

In brief, Mister Speaker, the MTBPS advises the following –

- The global environment poses considerable risks to the world economic recovery, and the outlook for our own economy.
- Our tax revenue collections have not yet recovered fully from the effects of recession, and so our counter-cyclical fiscal stance allows for a temporary increase in borrowing.
- Higher borrowing must be carefully managed: capital markets are volatile, and debt service costs are already the fastest growing category of expenditure.
- Over the next three years, we will stabilise the debt level through fiscal consolidation and a moderation in expenditure growth.
- The composition of our spending needs to change – while public service expenditure has continued to expand strongly, we are not doing enough to build a growing economy.
- Therefore, we must prioritise public infrastructure spending and invest in job-creating assets.
- We must also support business investment, through a competitiveness package and protect workers and enterprises affected by current economic conditions.

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- We will create a “policy reserve” and indicate options for reprioritizing expenditure and mobilizing other resources within the state to fund economic development priorities.
- We have to address inefficiency, extravagance and waste in public administration, for trusteeship is at the heart of the contract between government and its citizens.

In confronting these challenges forthrightly, we are mindful that similar issues are faced by many other countries.

Across the world, there is rising indignation about unemployment, about inequality, about environmental degradation, about corruption, about the abuse of power. Correctly so.

Across the world, there is impatience at the slow pace and poor outcomes of international cooperation, and there is anger about the impact of financial and governance failures on ordinary people, on employment and on livelihoods. But anger is not enough – we have to act, we have to be bold and far-sighted in our resolve to move ahead with the reforms that will build a better future not just for ourselves but for generations to come.

Mr President, you have put jobs at the top of the agenda of our new growth path. Cabinet has endorsed a twelve-point programme of action and we have targets and delivery schedules for a wide range of public services, programmes, projects and activities.

- Minister Chabane leads a department dedicated to monitoring and evaluating performance.
- Our planning commission under Minister Manuel has provided a diagnostic assessment and will shortly release its long-term vision for

public consultation and debate. (And the man in the yellow suit is knocking on our doors to ensure that we have the numbers we need to set targets and track our progress with confidence.)

- Minister Nkwinti is steering a new course in development of rural livelihoods, in addition to chairing the work of our economic cluster.
- Minister Patel has taken the lead in the dialogue with social partners that must underpin programmes of action not just within government but across society as a whole.
- Ministers Motshekga and Nzimande are seeking better ways of managing our schools and expanding access to higher education and training opportunities.
- Improvements in our justice system are in progress, under Minister Radebe's guidance.

How do we achieve the right balance between these and other objectives in public policy? How do we manage the tension between promoting a dynamic enterprising economy and provision of collective goods and services?

The *Medium Term Budget Policy Statement* does not set out the details of policies or spending plans, as these are the responsibility of specific Ministers and their departments, and are still in preparation. But it provides the broad framework and it signals what is likely to be affordable. It also invites Parliament, and all stakeholders, to reflect on the choices before us, and to assist in finding the best combination of revenue measures, borrowing and spending plans, that is consistent with economic growth, sustainability, broad-based development and social progress.

Economic outlook

In reporting on the outlook for the economy, Mister Speaker, we have to take account of the slowdown in the world economy and continuing uncertainty associated with the unresolved European debt crisis and sluggish growth in the United States. Global trade and growth at present are mainly driven by continuing expansion in China, India and other fast-growing developing countries.

Advanced economies are expected to grow by 1.6 per cent on average this year, rising to 1.9 per cent next year. Taking into account population growth, this is, at best, standing still. On the other hand, developing Asia will continue to grow at over 8 per cent a year, and Sub-Saharan Africa is projected to grow by between 5 and 6 per cent a year.

South Africa's economic growth typically follows the average global trend quite closely. We saw a gradual recovery last year and an annualised GDP growth rate of 4.5 per cent in the first quarter of this year, but in the second quarter growth slowed to 1.3 per cent. For 2011 as a whole we now expect growth of 3.1 per cent, which is somewhat below the projection at the time of the Budget in February.

For the period ahead, growth is expected to be 3.4 per cent next year rising to just over 4 per cent in 2014 and 2015. The current account deficit of the balance of payments will average about 4 per cent of GDP. Consumer price inflation has increased over the past year, and is expected to stabilise at about 5½ per cent a year.

Within the global economy, the overall trend is a gradual but still inadequate convergence between living standards in rich and poor countries. The gap is still very wide and individual country performance varies considerably.

But we have not yet seen convincing evidence of convergence within the South African economy: the income gap and the development gap are still very wide and employment growth has been too sluggish.

Also of concern is that the trends in expenditure and production are not taking us in the direction of faster, sustainable growth.

- Household consumption spending has recovered strongly since the 2009 recession and household debt remains high, but private sector capital formation in 2011 is still well below its 2008 peak.
- Government consumption has also increased steadily, but general government capital spending has declined for three years in a row.
- Exports are still more than 15 per cent below their 2008 level in volume terms, whereas imports are near their all-time high.

South Africa has benefited from the boom in commodity prices over the past several years, but this has not led to significant growth in mining production. Energy constraints, inadequate transport capacity and uncertainty in the regulatory environment have held back progress. In contrast, mining production expanded by 30 per cent in Australia, and 44 per cent in Brazil between 2003 and 2010. This has provided a huge boost for investment, tax revenues, jobs and incomes in these countries. Minister Shabangu's engagement with the Chamber of Mines on increasing investment in our mining resources is therefore to be welcomed.

In the manufacturing sector, rising domestic costs and weak external demand have held back the output recovery. Minister Davies is seeking common ground with leaders in industry on a strategy to revitalise manufacturing and provide appropriate support.

We recognize also that the volatility of the rand remains a difficulty for many businesses in the tradable goods sectors. The currency has traded in a range of R6.58 to R8.25 to the US dollar this year, with volatility clearly linked to global financial turmoil. The rand weakened by as much as 7.5 per cent against the US dollar in one day during September, before strengthening by 5.4 per cent on another. Depreciation in the rand in recent months has brought some relief to manufacturers, though it has also contributed to some upward pressure on prices.

Of particular importance is the trend in food prices. Minister Joemat-Pettersson's efforts to improve our agricultural trade position and support emerging farmers are critical not just for food security, but also because of the employment potential associated with farming activities. The expanding role of the Land Bank in supporting the farming sector will assist in growing our agriculture sector while contributing to job creation.

Mister Speaker, trends in the labour market indicate the magnitude of the economic challenge ahead. Real wage levels have increased in both the public and private sectors, but the pace of job creation has been far too slow. In the fifteen months to March 2010, 426 000 jobs were lost in the formal non-agricultural economy, and the estimated overall loss of jobs was more than double this. In the subsequent fifteen months of recovery to June this year, just 210 000 jobs were created, mainly in the public sector.

The quarterly employment survey records 8.3 million formal non-agricultural jobs. Several million people also earn uncertain incomes in agriculture or household employment, and in informal, seasonal and unrecorded activities. How do we bring these activities into the formal economy? How do we improve livelihoods in vulnerable and insecure activities, in which productivity is low though there may be potential for growth?

The recent recession has exposed similar concerns in many other countries. Everywhere in the world there is a struggle to boost job creation and to recognise and enhance the value of atypical forms of work. So we need to acknowledge Minister Oliphant's difficult task in finding the right balance between protecting job security and adjustment to changing market opportunities. The agreement recently reached between the South African Clothing and Textile Workers' Union and employers in this sector illustrates that dialogue is the way to make progress.

Countries deal with these issues in differing ways. We have to learn from international experience, and adapt these lessons to our circumstances.

- Social security and health insurance reforms are important elements in building a better deal for vulnerable workers, providing protection against unemployment, illness or injury, and securing an adequate income in retirement.
- Better city planning, investment in public transport and well-targeted financing of housing and residential development are also important elements in the social wage. These are activities that create work opportunities in themselves, but they also create better living conditions for working people and make it easier for the unemployed to search for jobs.

The central thrust of our economic policy challenge is to support competitiveness and promote the kinds of structural change that will lead to more rapid, inclusive growth. This means that we need a reserve of funds, and a capacity to direct these resources effectively. The MTBPS proposes a competitiveness support package of R25 billion over the next six years to boost industrial development, assist enterprises and accelerate job creation. This initiative will build on several broader programmes:

- Tax incentives for industrial investment, technology and training amounting to over R8 billion for recently approved projects
- Continuing investment in energy, water, transport and communications and infrastructure
- Improved incentives for investment in industrial development zones, particularly where there is potential to participate in global supply chains and to develop competitive logistics hubs
- Regulatory and administrative reform to facilitate small business development
- Support for black business development, including preferential procurement and finance facilities
- Encouragement of export diversification, including new trade partnerships with fast-growing emerging economies
- Regional integration within sub-Saharan Africa, including investment in a north-south transport corridor and administrative reform of trade arrangements
- Support for job creation, training and community works projects
- Alignment of trade, investment and energy policies to support the transition to a green economy, including private sector participation in our renewable energy production programme.

Fiscal framework

The fiscal challenge over the next three years is complex. We must support job creation, maintain the value of the social wage and finance economic transformation outlined in the New Growth Path. Over the longer term we must realise a rising floor of social and economic rights. Achieving these objectives, Mister Speaker, requires us to work within a sustainable fiscal framework.

Since 2009, in response to the global crisis and the recession, we have pursued an accommodative fiscal stance. Revenue has fallen, but we have maintained real growth in expenditure, complementing the Reserve Bank's support for the economy through lower interest rates and monetary easing.

Beginning in 2002, non-interest expenditure doubled in real terms in seven years and consolidated spending increased to 32 per cent of GDP. This spending growth was largely financed by increased revenue associated with economic expansion and improved tax compliance and administration. But the higher revenue also included a temporary windfall associated with high commodity prices. Revenue has now declined relative to GDP, and the budget deficit has widened.

For the first six months of the fiscal year, tax receipts grew by 7.1 which is significantly lower than was anticipated in the February Budget. The lag in consumption spending and high administered prices have particularly affected small and medium size businesses, contributing to lower VAT receipts.

SARS detected increases in VAT fraud and has introduced more stringent screening of VAT refunds which, to date, has led to the prevention of R4.2 billion of potential VAT fraud.

Although corporate income tax has not yet recovered to pre-recession levels, it has remained resilient despite the uncertain economic climate.

On the trade side, customs duties and import VAT have grown significantly year-on-year and to some extent offset the poor performance of domestic VAT. Enhancements in customs administration have resulted in faster processing of commercial traffic at border posts and have, in the main, attracted favourable responses from traders.

This year, we expect tax revenue to be R729 billion, which is R13 billion below the February budget estimate.

- Next year government will spend over one trillion rands.
- The result is that the deficit will be 5.5 per cent of GDP this year. For the period ahead, the deficit will decline to 5.2 per cent next year and 3.3 per cent by 2014/15.
- The consolidated public sector borrowing requirement will be 8.1 per cent of GDP this year, falling to about 5 per cent of GDP in 2014/15.
- Government debt will rise from 23 per cent of GDP in 2009 to about 40 per cent of GDP in 2015, which signals the very substantial contribution of the fiscus over this period to economic recovery and growth.

Budget deficits and continued rising debt erodes the space for fiscal and monetary policy responses to future downturns. For the next three years, the aim is to moderate spending growth, combined with a recovery in tax revenue, so that national debt will be stabilised as a percentage of GDP. This means

that by 2014/15, we can begin to rebuild fiscal space, with a positive primary balance, or revenue broadly in line with non-interest spending. We must borrow to invest in infrastructure – not for government consumption.

We will once again create a “policy reserve” to finance the initiatives we propose in support of economic growth. Government as a whole has substantial financial investments, sometimes in surplus cash and sometimes in other assets. Where these resources could more productively be applied to other priorities, we will return surplus funds to the fiscus. Greater efficiency must also be sought in government cash management and in goods and services procurement, where ordinary disciplines of financial management have to be strengthened. Further steps will be taken to reduce administrative costs and unnecessary duplication of capacity. Departments will be obliged to identify and report on savings initiatives. We will request the Auditor-General to strengthen his focus on value for money.

Long-term sustainability depends also on shifting the composition of government spending from consumption to investment.

Our aim is to strengthen infrastructure investment and maintenance, because this is a key contribution to the underlying growth potential of the economy. This means that we must see a moderation in the growth of the wage bill and spending on goods and services over the MTEF period ahead. We must do more with less.

Over the past three years, the public service wage bill has increased from 35 per cent to nearly 40 per cent of non-interest expenditure. The proposed framework for the 2012 Budget provides for more moderate cost-of-living adjustments for public sector employees than in recent years, to be implemented with effect from April each year.

All of us must share in creating a greater momentum for growth, jobs and investment. As government we see the need for the same principle of moderation to be applied to ourselves as cabinet ministers and other political office bearers. This must also be extended to senior management in the public service and executives of state entities. It is vital that the private sector provides responsible leadership as well. Indeed, throughout the world we need to see a paradigm shift in this regard.

We want to assure our people that we will address inefficiency, extravagance and waste in public administration. In the wider economy, the same principle applies – moderation in consumption means higher savings and stronger growth.

Investment in infrastructure

We will do all of this and more, because we need to invest more in infrastructure that will help to stimulate our economy and increase job creation.

In recent years, infrastructure spending by many national and provincial departments and municipalities has lagged behind budget allocations. Efforts to strengthen capacity to manage capital budgets and construction contracts are therefore necessary. The Development Bank of Southern Africa is providing support in this area, but we also need to see much greater responsibility and accountability in municipal councils and key infrastructure departments, state-owned companies and public entities.

Public sector infrastructure spending in the current year is estimated at R233 billion, or 7.8 per cent of GDP. Over the MTEF period ahead infrastructure plans amount to R802 billion. This is a very substantial investment programme, within which there is considerable opportunity for local construction and manufacturing development and job creation.

- Investment in the energy sector amounts to R292 billion over the next three years
- Transport and logistics account for R226 billion
- Provision is made for hospital construction and other health facilities, amounting to R39 billion, and education infrastructure of R32 billion
- Substantial funding will go to municipalities and provinces for housing, residential infrastructure and local economic development.

Much of this will be financed through debt. State-owned enterprises will borrow about R74 billion this year to finance investment spending, rising to just under R80 billion next year.

We need to appreciate that debt has to be repaid, either through the tariffs and charges that are dedicated to these services, or through higher taxes. It is important to find the right balance between cost recovery from users of services, and general tax-funding. But the cost of not expanding capacity, the cost of not maintaining and rehabilitating ageing infrastructure, is an even greater future burden of congested and dangerous networks, constrained production and economic decline.

Adjustments to the 2011/12 appropriations

Before turning to the medium term expenditure plans for the 2012 Budget, Mister Speaker, I need to explain briefly the adjustments proposed for this

year's allocations. These are set out in the *Adjusted Estimates of National Expenditure*.

Additional appropriations are proposed amounting to R10.3 billion. Almost half of this amount is required to fund higher-than-planned wage bills – R3.2 billion in the provinces and R1.2 billion in national departments. The costs of the 2011 wage settlement will also require savings and reprioritization in departmental administration and programme expenditures.

Members of the House will note that many departmental votes include shifts in funds between identified activities, known as virements. Reservations have been expressed in this House about these mid-year changes to allocations, and the extent to which departments are able to amend allocations that have been approved in law. Our aim is to bring greater reliability and consistency to the appropriations over time. However, it is not possible to predict expenditures with complete certainty, and so some scope for adjustment has to be accommodated within the budget rules.

On top of the additional allocations for wages, R3.8 billion of unspent money from last year is rolled over to this year. This includes

- more than R1 billion for infrastructure projects
- almost R200 million for improving health facilities, and
- R105 million for the COP 17 Climate Change Conference in Durban next month.

The adjustments also include provision for unforeseeable and unavoidable expenditure.

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- Almost R150 million will go to help farmers recover from the damage caused by flooding at the start of the year and the harm caused by livestock diseases.
- R81.4 million is required by Minister Sisulu to fight piracy in the Mozambican channel in cooperation with the Mozambican defence force.
- An amount of R266 million is proposed for once-off gratuities to be paid to outgoing councillors following this year's municipal elections.
- R208 million is allocated to meet urgent needs associated with acid mine damage in the Witwatersrand basin. I understand that progress has been made towards a partnership between the water authorities, municipalities and mines that will contribute to addressing the region's water supply needs over the long term.
- R752 million goes to provinces for various conditional grants, including allocations for the repair of flood-damaged infrastructure.

The overall impact of the adjustments is a decrease of R0.9 billion in the 2011/12 expenditure estimate. In brief, we are adding to our spending plans for higher wages and salaries, but we will see offsetting under-spending on investment and maintenance of infrastructure this year. This is a pattern that needs to be reversed in the period ahead.

Medium-term expenditure framework and division of revenue

I turn now to the proposed expenditure framework for the 2012 Budget, Mister Speaker. I need to compliment this House, and the chairs of portfolio committees and the appropriations committee, for the constructive advice set out in the first set of budget review and recommendation reports last year. Parliament's attention to the details of public expenditure plans and their

implementation, is critical for the success of our economic transformation and social development agenda.

The expenditure framework for the period ahead provides for real growth in spending of 2.3 per cent a year. Reprioritization and a concerted focus on efficiency and improved financial management mean that new expenditure priorities are mainly financed by savings within this expenditure envelope. A total of R48 billion is added to the spending allocations over the MTEF period, partly to accommodate the carrythrough costs of this year's salary increases.

Chapter 4 of the MTBPS outlines the planned consolidated expenditure of national and provincial government and public entities, and summarises the division of revenue between national, provincial and local government.

Let me highlight key features:

- As a consequence of the wider budget deficit since 2008, state debt cost is the fastest growing category of spending, increasing to R115 billion in 2014/15, or just under 10 per cent of the total.
- Transport infrastructure is the second fastest category, rising from R67 billion this year to over R90 billion in three years' time. Minister Ndebele's responsibilities include the first phase of the commuter rail rolling stock replacement programme, and continued investment in the construction and rehabilitation of national and provincial roads.
- Public order and safety spending is set to increase by 7.4 per cent a year, with the main share going to the police vote under Minister Mthethwa.
- The expanded public works programme continues to make progress towards a target of 3.4 million job opportunities over the next three

years. The recently established community works programme will be expanded to about 250 000 participants by 2014/15.

- Education remains the largest priority in government spending. It accounts for over 20 per cent of non-interest allocations, and will rise to R232 billion in 2014/15.
- Health spending is set to increase by 7.4 per cent a year, from R113 billion this year to R140 billion in three years' time. This includes the NHI pilot projects in ten districts focused on comprehensive primary health care.
- Spending on local government, housing and community amenities will rise from R122 billion to R146 billion over the next three years, including targeted funding for upgrading informal settlements in 45 cities and towns.
- Environmental protection and green economy initiatives will continue to be strengthened, including assistance to municipalities for electricity demand management programmes and private sector partnerships aimed at reducing greenhouse gas emissions.
- Allocations for science and technology will increase by 9.5 per cent a year over the period ahead, with a special focus, under Minister Pandor's guidance, on support for business innovation with potential for growth and employment creation.

Of the R48 billion available for allocation in the 2012 Budget, 42 per cent goes to provinces and 11 per cent to local government. Personnel expenditure will take up part of the revised provincial shares, and allocations are also made for infrastructure repairs and rehabilitation and early childhood education programmes. Transfers to municipalities take into account service delivery backlogs that have to be addressed, and bulk infrastructure and waste management services.

Decisive steps need to be taken to address slow and inefficient spending on social and economic infrastructure by provinces and municipalities. The rules for infrastructure conditional transfers to provincial departments and municipalities will be adapted to improve planning, procurement and implementation procedures. The intention is to reward provincial departments and municipalities that accelerate implementation and that ensure efficient and cost effective delivery of services. These measures will be introduced from April 2012 and will be announced during the tabling of the budget next year.

To grow the economy and further accelerate access to basic services, greater infrastructure investment is needed by municipalities. The 2011 MTBPS signals a number of interventions in this regard.

- First, funding is targeted at smaller predominantly rural municipalities to improve their institutions to deliver faster and quality services to their citizens. This should put them in a position to recruit and retain skilled municipal managers and financial management expertise.
- Second, these municipalities will also be provided with greater national support. Depending on their circumstances and need, bulk infrastructure project implementation will be accelerated.
- Third, our metropolitan and secondary cities are home to the urban poor who are accommodated in many instances in large informal settlements. Over R60 billion is to be spent in these cities and towns to transform informal settlements into fully integrated and dignified built environments. The spirit of enterprise is there, we need to collectively roll up our sleeves and face these challenges head on.

Fiscal reform and financial stability

Mister Speaker, our fiscal policy is built on the principles outlined in the 2011 Budget Review:

- Counter-cyclicality – which means that changes in the budget balance work to offset the fluctuations in demand that create economic slowdowns and booms
- Debt sustainability – increases in the stock of debt, incurred by financing deficits during slowdowns, will be offset by debt reduction in boom periods
- Inter-generational equity – our children and their children should not be unfairly burdened by the future costs of commitments we make today.

Next year, the National Treasury will publish a long term outlook for the public finances, drawing on these principles, and taking into account South Africa's demographic trends and economic challenges. It will explore the implications for government finance of major long term priorities, including improved infrastructure investment and maintenance, social security and retirement reform, the establishment of national health insurance, the role of development finance institutions and the strengthening of our municipal finances.

The main source of finance for the real growth of total expenditure will be, as always, tax revenues. I wish to pay tribute to the Commissioner Magashula and the South African Revenue Service team for their continued hard work and success in building payments compliance and securing the revenue stream.

Coordination of fiscal and monetary policy is also critical to macroeconomic management and our financial stability. Working together with Governor Gill Marcus and the South African Reserve Bank, we have begun the reform of financial regulation and risk management set out in the paper *A Safer Financial System to Serve South Africa Better*, published in February this year. Prudential regulation has been strengthened by establishing the Financial Stability Oversight Committee, chaired jointly by the Governor and myself. It aims to ensure that we maintain financial stability and deal effectively with systemic risks to the financial system. Progress has also been made in setting up the necessary technical support to implement the proposed separation of prudential regulation and consumer protection, which will take two to three years to implement.

We have also agreed on several reforms to improve South Africa's position as a financial gateway into Africa and facilitate cross-border transactions. All inward-listed shares on the JSE will henceforth be classified as domestic assets and be included on the JSE indices, as agreed with the regulatory authorities. Steps will be taken to simplify procedures and reduce the cost of cross-border money remittances, particularly to neighbouring countries and the rest of Africa.

I am pleased to be able to assure the House that whilst some banks in advanced economies now appear to be undercapitalised, our own banks and financial markets are in robust condition. Our regulatory and oversight systems have stood the test of time, ensuring that our financial sector has remained steady in these troubled times. To take forward this work, I am pleased to welcome the new Banking Registrar, Mr Rene van Wyk, who will build on the firm foundations laid by his predecessor Mr Errol Kruger.

Conclusion

Mister Speaker, on previous occasions I have stated that we must target economic growth of 7 per cent per year sustained for a generation or longer. At this pace the economy would double in size every ten years, delivering jobs and prosperity and lifting millions out of poverty. For us as a nation to achieve this ambition requires deep rooted transformation of our economy that removes the many barriers to growth and development.

Microeconomic reforms are at the heart of undertaking structural change, increasing productivity and improving competitiveness. Central to these efforts are interventions that systematically raise the level of competition across industries and sectors, provide efficient and cost-effective energy, transport, ICT, and logistics networks, encourage innovation, foster entrepreneurship and enterprise development, and provide the platform for closer regional economic integration. Within government our reform efforts must provide value for money, improving the efficiency with which we build social and economic infrastructure and the delivery of high-quality public services particularly in health and education.

Minister Motsoaledi's insistence, for example, on achieving lower costs in our anti-retroviral procurement, and better management of medicines and other supplies in our hospitals and clinics, represents savings of billions of rand over time. Minister Motshekga's cost-savings through centralized publication and distribution of workbooks to schools is another excellent example. Minister Dlamini-Zuma has led an impressive administrative turnaround in the Department of Home Affairs.

I am also pleased to be able to report that the Jobs Fund, launched on the 7th June 2011, received a total of 2 651 applications following its first call for proposals, illustrating the demand, innovation and desire across both the

private and public sectors to create jobs. The applications were spread across each of the four funding windows – enterprise development, support for work seekers, infrastructure investment, and building institutional capacity. The Investment Committee has commenced the approval of projects with a total grant allocation of R352 million and 115 226 projected jobs.

Mister Speaker, we owe it to our young people to take these reforms forward, both within government and in building our wider economy.

This week, the matric examinations begin for another cohort of school-leavers. I know that the House will join me in wishing them everything of the best.

In a few weeks' time, Minister Nkoana-Mashabane will seek to make progress in a most difficult global coordination challenge: how to invest in a clean-energy future, and how to share the costs of this transition. In wishing her well as chair of the 17th Conference of the Parties we can also take pride in the contribution of the South African scientific community to understanding climate change and its implications. We also wish Minister Molewa well in leading South Africa's delegation to the conference.

Honourable Speaker, allow me to express my appreciation to President Zuma for his wise leadership, and to Deputy President Motlanthe for valued guidance. I am grateful for the support of the Ministers Committee on the Budget, members of the Treasury Committee, Cabinet colleagues, Premiers and provincial finance MECs, during a year of a period of financial challenges.

I would also like to commend Mr Thaba Mufamadi, Mr Mshiyeni Sogoni, and Mr Charel de Beer and Mr Teboho Chaane, who chair the standing

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committees on finance and appropriations, and the select committee on finance.

We are grateful to the Governor of the South African Reserve Bank, Ms Gill Marcus and her team at SARB for their steadfast management of monetary policy at a challenging time.

I know that the House will join me in expressing our admiration and thanks to the Auditor-General, Terence Nombembe, and his staff, for their rigorous scrutiny of the public finances.

Thanks are due to Mr Oupa Magashula and the staff of South African Revenue Service for taking the “Eish out of taxation” and their valiant efforts to give us the revenue we need.

I would like to thank Deputy Minister Nhlanhla Nene for his tireless support and sharing our burden. The National Treasury team have again delivered a set of budget statements during a dynamic and uncertain time when innovation, dedication and hard work, more so than usual, is required. I would like to congratulate the new Director-General, Lungisa Fuzile on his appointment and thank him for his leadership and tireless efforts in steering his first MTBPS.

Mr Speaker, we live in challenging and uncertain times. There, are, however, many opportunities for us to advance to our goal for a better life for all in South Africa. This is a time for united action, for greater urgency, and for an unconditional focus on those programmes which will demonstrate to our people that we care and that we will change their lives for the better.

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Honourable Speaker, I hereby submit the *Medium Term Budget Policy Statement 2011*, and I table the *Adjusted Estimates of National Expenditure*, the *Adjustments Appropriation Bill 2011*, the *Division of Revenue Amendment Bill 2011*, the *Taxation Laws Amendment Bill*, and the *Taxation Laws Second Amendment Bill* for consideration by Parliament.