



Medium Term Budget Policy Statement

2012

Speech

Pravin Gordhan

Minister of Finance

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Honourable Speaker

Mister President

Mister Deputy President

Fellow Cabinet Colleagues and Deputy Ministers

Governor of the Reserve Bank

MEC's of Finance

Mayors

Members of the Diplomatic Corps

Directors-General

Heads of the Finance Family

Honourable Members

Guests, Ladies and Gentlemen

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

A year ago, Mister President, we drew attention to your statement of intent:

"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."

This builds on our Constitution, which commits us to *"Improve the quality of life of all citizens and free the potential of each person..."*

Mister President, twenty years ago, our country was truly in crisis, the CODESA negotiations had broken down and rising conflict threatened to overwhelm the prospect for a peaceful transition. In that bleak hour the ANC's *Ready to Govern* document provided hope, when it said:

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- *The achievement of a genuine sense of national unity depends on all of us working together to overcome the inequalities created by apartheid.*
- *A broad, inclusive approach, free of arrogance or complexes of superiority or inferiority, is fundamental.*
- *We have to rely on the wisdom, life experiences, talents and know-how of all South Africans, women and men. There can be no "apartheid" in finding solutions to the problems created by apartheid.*

In the two decades since those words were written we have made substantial progress in meeting basic needs, in building our economy and in constructing a non-racial democracy. Income per capita has risen by over 30 per cent since 1994, employment has increased by 4 million, access to housing, electricity, water and sanitation has doubled, enrolment in higher education has increased by 400 000. A new and vibrant set of democratic institutions have been established.

But the journey has not been easy and our progress has been uneven. We have been through two economic recessions. Inequality and unemployment are still deeply entrenched. Skills development is not adequately meeting the needs of industry. Service delivery has failed in some communities and local governance has faltered.

In the words of the National Development Plan: "To accelerate progress, deepen democracy and build a more inclusive society, South Africa must translate political emancipation into economic wellbeing for all. It is up to all South Africans to fix the future, starting today."

The events of recent months have highlighted these inadequacies. We have witnessed a crisis of labour relations in the mining sector, with tragic consequences in Marikana. We have seen mismanagement of supplies to schools and hospitals in some provinces. Moody's and Standard and Poor's

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have seen fit to downgrade their ratings of our ability to service debt. Inappropriately, in our view.

These events are a cause for urgent reflection. There are lessons to be learnt, mistakes to be acknowledged, and corrective steps to be taken by all constituencies. Above all, it is time for action. Collective action!

During the past month the President convened a leadership summit in recognition of the depth of the challenge and the need for government, business, labour and community to find joint solutions. There is agreement that greater impetus must be given to the Mining Charter and other sectoral initiatives, as part of an employment-focused economic framework that establishes a shared responsibility for improving the living conditions of working communities.

A conference arranged by the Presidential Infrastructure Coordinating Commission has reviewed details of eighteen proposed strategic infrastructure programmes. These initiatives build on the current R845 billion construction programme that is in progress. They will accelerate energy, transport, water and housing investment, open up mining and industrial opportunities and give greater impetus to building economic linkages across Southern Africa.

Strategic infrastructure programmes represent large and long-term financial commitments. The budget provides for part of the funding required and state enterprises are making substantial investments in their areas of responsibility. We are exploring options for boosting infrastructure funding through enhancing the role of our development finance institutions, and mobilisation of private sector capacity.

In government, we are forthrightly confronting our difficulties. We assure our people that we will repair dysfunctional municipalities, we will try harder to connect book suppliers to schools, and we will work with business and labour

to create decent living conditions in mining communities. We will restore confidence in labour market institutions, and act to combat violence and lawlessness. And, as we have done for the last two decades, we will support inclusive growth and improve access to social services through a transparent, disciplined and sustainable allocation of public resources.

I am sure that all South Africans will identify with this intent and agree that our country is a better place than it was in 1994. Yet we still have to work harder to achieve economic wellbeing for all. This is a long-term project. Every step of the way we will do our utmost to broaden public service delivery and expand participation in our economy.

Honourable Speaker, in crafting this budget policy statement and our fiscal strategy for the next three years, Cabinet, guided by the Ministers' Committee on the Budget, took cognizance of the following:

- The global economy is slowing down. Recovery after deep recessions takes several years. The European situation does not inspire confidence.
- Economic growth in South Africa has slowed to just 2.5 per cent this year, held back by both global uncertainty and disruptions to domestic production.
- Revenue collection is expected to be R5 billion less this year than the February estimate. The budget deficit is projected to be 4.8 per cent of GDP in the current year as a consequence.
- For the MTEF period ahead, public expenditure will remain at the level set in the 2012 Budget, in keeping with sound medium term fiscal guidelines. There will be no additions to the overall spending level.
- Debt will peak at 39 per cent of GDP in 2015/16.

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- Strong measures are being taken to ensure value for money in public spending, including more effective controls over personnel expenditure.
- We have again put every effort into finding savings, eliminating waste and reprioritising spending towards key social and development objectives. Over the MTEF period, R40 billion in spending has been reprioritised.
- Further shifts in the composition of expenditure are being made towards infrastructure investment, economic competitiveness, education and health care.
- Rigorous procurement reforms are being planned across the whole of government, especially in infrastructure project management, to strengthen service delivery, eliminate waste and root out corruption.

We must confront the shortcomings in our systems, but we should not be dismayed by the contradictions and complexity of development. Transformation processes are dynamic. As long as there is a collective and uncompromising political will, buttressed by an equally strong intent and commitment by all of us, we will overcome the challenges before us.

We are in this growth and development project together: business, government, workers, citizens. If we are to reduce poverty, raise investment and create sustainable jobs, then we have to act jointly, on the strength of a shared strategy and common goals.

And so the National Planning Commission rightly identifies a wide range of initiatives and critical actions. It indicates that “development has never been a linear process...” – it requires a multidimensional framework, in which rising living standards are built on a combination of increasing employment, productivity growth, an expanded social wage and good quality public services.

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There are many other initiatives which give practical content to the National Development Plan and are highlighted in the President's Leadership Summit programme:

- Strengthening municipal finances and investing in urban infrastructure
- The industrial policy action plan and promotion of special economic zones for industrial and export opportunities
- Accelerating the creation of youth employment opportunities
- Improving living conditions in informal settlements, including mining communities
- Expanding exports, especially to emerging markets, and realising investment opportunities in Africa
- Agricultural support, investment in rural areas and small business development.

The great challenge of addressing inequality, Honourable Speaker, is about all of these activities, but it is especially about the expansion of work opportunities and the progressive extension of the social wage.

Honourable Speaker, it is instructive to recall that our public infrastructure and administration, our laws, policies and programmes, our schools, hospitals and social services – which we finance through our budget – are the everyday realities of the life we share. And so our budget planning is at the very heart of how we care for this common good.

That is what the Medium Term Budget Policy Statement is about.

Progress in implementing 2012 Budget commitments

Before turning to the framework for the 2013 Budget, Honourable Members, let me outline progress on some of the key initiatives announced previously.

- Tax incentives for large manufacturing projects amounting to R7 billion have been approved since 2010, which will support investment amounting to R28 billion.
- The manufacturing competitiveness enhancement programme was initiated in June this year and 144 applications have been received with a value of R1.8 billion. This is part of the R25 billion economic support package announced in last year's MTBPS, which also includes allocations to strengthen training in agriculture, support for mineral beneficiation technology and a Northern Cape semi-precious gemstone project.
- We have initiated an independent power procurement programme. The required financial concurrence for 28 renewable energy projects approved by the Minister of Energy has now been finalised.
- The Jobs Fund has allocated R1.8 billion to 39 projects in its first round of proposals.
- The Industrial Development Corporation is also actively supporting many projects and investing billions in business aligned to the NGP.
- The Treasury is establishing a chief procurement officer. The preparatory work has been done, drawing on international best practice, and key appointments will be announced shortly.
- The Municipal Infrastructure Support Agency (MISA) has been established and has assessed the capacity requirements of 92 municipalities and deployed 67 technical experts.
- The cities support programme is now underway in Buffalo City, Nelson Mandela Bay, Tshwane and eThekweni.

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- To improve oversight of our financial sector, we will shortly announce plans on implementation of the new “twin peaks” regulatory framework and will table legislation next year.

As we continue to bring plans and programmes to fruition, they will be reflected in the medium term framework, which provides financial resources, gives authority to spend and links appropriations to projects and service delivery targets.

Our budget process has to take into account that we cannot do everything at once, and the economic outlook sets limits to what we can afford over the period ahead.

Economic outlook

Honourable Speaker, the global economy is weak, and seems likely to remain so for at least a few more years. The IMF expects global growth to be around 3.3 per cent in 2012 and highlights uncertainty about growth prospects in Europe and the United States.

- Economic growth in developed countries will remain below 1.5 per cent this year and next, while developing countries will grow between 5 and 6 per cent.
- Economic activity in the euro area, which is South Africa’s most important export destination, is expected to contract by 0.4 per cent this year and grow just 0.2 per cent in 2013.
- Growth has slowed in China and India. This has affected the South African economy through lower commodity prices and slower growth in trade.

While central banks in Europe, the US and Japan have announced measures to expand liquidity and keep interest rates low, this has not fully offset the growth-reducing impact of austerity measures and private-sector deleveraging. Volatility in financial markets has contributed to unpredictability in the value of the rand exchange rate.

But there are still fast growing economies in the world, and especially in Africa. Opportunities in Sub-Saharan Africa have benefitted many South African mining, manufacturing and retail companies. The SADC is currently South Africa's second-largest export market after the EU, and is growing particularly rapidly as a destination for manufactured exports. These include steel, chemical products, machinery and appliances and especially equipment used in mining.

Honourable Speaker, the outlook for the South African economy is as follows:

- We expect growth of about 2.5 per cent this year, down from just over 3 per cent in 2011.
- Gross fixed capital formation will increase by about 5 per cent this year, mainly driven by public sector capital spending. Business confidence remains weak and private sector investment growth is subdued.
- Consumer price inflation for September 2012 was 5.5 per cent. Headline inflation is expected to stay within the 3 to 6 per cent inflation target band over the forecast period.
- Export volumes contracted at an annual rate of 6 per cent in the second quarter of 2012 after falling by 1.5 per cent in the first quarter. Import volumes are now almost 4 per cent above pre-crisis highs, while exports are still well below their peak, contributing to the widening current account deficit.

As the global economy recovers, we expect to see South Africa's growth improve over the next several years. Real GDP growth of 3 per cent is

forecast for 2013, rising to 4.1 per cent in 2015. Factors that will contribute to an improved medium-term performance include expanded public-sector infrastructure investment, new electricity-generation capacity and strong regional growth.

A substantial accumulation of cash in the corporate sector is available to finance stronger investment, once confidence and growth prospects recover.

The macroeconomic and fiscal stability we have achieved since 1994 is a strong foundation on which to build. We need to focus clearly on intensified implementation of the plans and programmes signalled in the New Growth Path and associated sector development strategies.

Fiscal framework

Honourable Speaker, the budget framework Cabinet presents today aims to achieve an appropriate balance between fiscal consolidation over the medium term, and continuing support for the economic recovery. In the uncertain global economic conditions we face, government has taken a number of tough decisions:

- No additional expenditure is proposed above the baseline set out in the 2012 Budget.
- This means that expenditure growth in real terms is limited to a rate of 2.9 per cent a year over the next three years. Additional resources to support the economy will be generated from efficiency gains, savings and reprioritisation.
- As revenue recovers alongside economic growth, the budget deficit will narrow from 4.8 per cent in the current year to 3.1 per cent of GDP in 2015/16.

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- Government debt will be stabilised at about 39 per cent of GDP in 2015/16.

South Africa's fiscal response to the global economic crisis has been amongst the strongest in the world. Government spending expanded from 28 per cent to 34 per cent of GDP in the wake of the recession. Our deficit widened by 6 per cent of GDP between 2007 and 2011. We were able to sustain spending programmes even as revenue fell, partly because our fiscal position before the crisis was so healthy.

We have added more than R1 trillion to government's debt, because of the recession.

Despite the size of the fiscal stimulus, reinforced by accommodative monetary policy, South Africa's economic recovery has been tepid. Investment, trade and employment growth have remained hesitant. Part of the explanation is the weakness of the global recovery. But we also have to look at ourselves: we have to ask what reforms we can implement to give greater impetus to investment, business development and job creation. As COSATU General Secretary Zwelinzima Vavi recently said, *"We want investment opportunities to flow in our direction. We don't want our country to be presented as a chaotic place where there is no rule of law, where dog eats dog, where the mode of operation is survival of the fittest."*

Our deficit will be reduced over the period ahead, but ours will not be a path of fiscal austerity. We will continue to expand infrastructure investment. We will continue to broaden the social wage. We will continue to encourage a revival of investment in productive activity. Expenditure continues to grow in real terms.

We have succeeded in realising savings and reallocating resources amounting to more than R40 billion.

Our fiscal policy stance enhances counter cyclical, sustainability and inter-generational fairness. Because the economic recovery is slower than anticipated, the budget deficit will be reduced more gradually. In this way the fiscus plays its part in ensuring that the recovery gains greater momentum over the period ahead, while ensuring that public debt remains sustainable. To repeat: ours is a sound and sustainable fiscal position.

Revenue issues

Honourable Speaker, this month SARS celebrates its 15th anniversary. Since its establishment as an integrated and independent tax and customs administration in October 1997, SARS has collected R6.1 trillion at an average annual growth of over 11 per cent.

The revenue target has been revised marginally downwards by R5 billion to R821.4 billion for the 2012/13 year due to slower than anticipated growth. To date SARS has collected R402 billion and is on track to meet this revised target.

The consolidated revenue estimate for this year is R901 billion, or 7.6 per cent more than the 2011/12 outcome. Payments to our South African Customs Union partners increased from R22 billion last year to R42 billion this year, and are projected to rise to R44 billion next year.

The consolidated revenue projection for next year is R986 billion, or 27.5 per cent of GDP, of which R901 billion is the tax revenue share. Total revenue is budgeted to rise to R1.2 trillion in 2015/16.

Growth in tax revenue is thanks to steady improvements in compliance of South African taxpayers, which is a cornerstone of the social compact on which our capacity to invest in development and social progress rests. We should never take this commitment for granted.

As part of this commitment to ensure we spend taxpayer money wisely and receive the best value for money, we use tax compliance as a determinant of good standing when deciding whether to award a government tender. Increasingly, it is also being used by private enterprises as a check on business integrity and financial soundness.

Tax clearance requests have increased to more than 600 000 a year. There is also corruption in this process. SARS has developed an electronic mechanism for taxpayers to provide real time, up-to-date and continuous tax status to interested parties. The use of a unique one-time access pin will significantly reduce the scope for fraud and abuse of paper-based tax clearance certificates. These changes will be implemented at the start of the next financial year.

In addition, feedback on successful bidders will give SARS the ability to track those companies' compliance and income from government over the duration of the contract to ensure they meet their tax obligations.

Speaking of tax compliance, allow me to use this opportunity to remind those of you who have not yet submitted your annual income tax returns that you have four weeks left to do so. By yesterday 3.4 million taxpayers had submitted their returns since the start of the Tax Season – a 24 per cent increase over last year. A growing number of taxpayers are submitting their returns using the latest mobile technology. Commissioner Magashula tells me SARS now operates the seventh most popular free download “app” in South Africa.

Adjustments Appropriation

Honourable Speaker, before turning to our spending plans for the 2013 Budget, allow me to comment briefly on the 2011/12 outcome and the revised numbers for 2012/13.

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Spending from the National Revenue Fund last year amounted to R888 billion, or R5.7 billion less than the adjusted estimate.

For the present year, the February budget provided for an appropriation of R969.4 billion. After taking into account the changes proposed in the Adjustments Appropriation Bill, expenditure this year will be R967.5 billion, or 9 per cent more than the 2011/12 outcome. Spending in the first six months amounts to R464.8 billion, or 48 per cent of the revised estimate.

This represents a commendable moderation in spending growth. I acknowledge the support of, and thank, Cabinet colleagues and the provincial executives in ensuring greater expenditure discipline. A total of R3 billion that will not be spent in 2012/13 has been declared as savings by national departments.

The main adjustments that have had to be made this year are for the higher-than-expected salary increases, amounting to R1.4 billion in national departments and R4 billion in provinces. The Adjustments Appropriation also provides for R1.5 billion in rollovers of expenditure commitments from last year, R461 million to contribute to hosting the 2013 Africa Cup of Nations football tournament, an additional R375 million for environmental employment projects, R366 million for infrastructure in the health sector, R81 million to combat rhino poaching in the Kruger National Park and R63 million for anti-piracy operations in the Mozambican Channel.

Details of these and other adjustments are set out in the *Adjusted Estimates of National Expenditure*.

Division of revenue

Honourable Speaker, our Constitution requires an equitable division of revenue between the national, provincial and local spheres of government,

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and sets out the principles that underlie this division. As in the past, the proposed division has benefited from advice of the Financial and Fiscal Commission and from the deliberations of the Budget Council.

The *Medium Term Budget Policy Statement* proposes a national appropriation of R1.05 trillion in 2013/14, R1.14 trillion in 2014/15 and R1.23 trillion in 2015/16, which translates into expenditure growth of about 8.4 per cent a year, or about 3 per cent a year in real terms.

Just under 10 per cent of the total, or R98.6 billion next year, will be spent on debt service costs.

Our budget framework includes a contingency reserve, which is R4 billion next year, R10 billion in 2014/15 and R30 billion in 2015/16. This allows for unforeseeable claims on the fiscus – such as will arise from the recent floods – and future policy considerations.

This leaves R949 billion to be allocated next year, rising to R1.1 trillion in 2015/16. The proposed division of revenue allocates 47 per cent to national departments, 44 per cent to provinces and 9 per cent to local government over the MTEF period. The requirements of education and health as well as the cost of the public service wage bill largely determine the provincial share of additional allocations. Salary costs and infrastructure requirements are the main adjustments to national votes.

The equitable division of funds between provinces and between municipalities is determined in part by population numbers. The results of the 2011 Census will soon be available, and will be taken into account in updating the distribution of resources in the 2013 Budget and beyond.

Local government transfers

Good progress has been made since 1994 in improving access to basic municipal services for the poor. The proposed budget framework provides for

strong growth in national transfers to local government so that development objectives can be met.

Transfers to municipalities will rise from R78 billion this year to over R100 billion in 2015/16. From reprioritisation and drawdowns on the contingency reserve, a total of R12.3 billion is added to the local government budget framework over the next three years, including spending by national departments on behalf of municipalities. In addition, the Development Bank of Southern Africa is being repositioned to play a more focused role in lending to municipalities.

The human settlements and public transport functions are being devolved to urban municipalities, and greater technical support will be provided in rural areas. Increased funding is proposed for the integrated national electrification programme, and projects to improve infrastructure maintenance and stem leakages of water and electricity will be supported.

In line with the National Development Plan, we recognise that cities have to play a key role in growing the economy, creating employment, reducing inequality, promoting social cohesion and fostering integration. Townships and informal settlements have to become centres of economic vitality and opportunity for business and enterprise development. Discussions are currently underway with our metropolitan cities on an intensive support strategy to address spatial patterns that exacerbate social inequality. This will include further investment in public transport systems, development of settlements closer to work opportunities and greater support for small businesses. The challenge to mayors and councils is to ensure that their delivery machinery is ready for the transformation of our towns and cities. Our economic progress and social development will be largely determined by the pattern of urban development over the decades ahead.

Alongside support for cities, we are strengthening allocations to rural municipalities for delivery of water, sanitation and electricity. We also expect

provincial governments, who are key role players in rural development, to accelerate the provision of agricultural services in these municipalities.

Provinces

The total allocation to provinces next year will be R418 billion, rising to R478 billion in 2015/16. The increase to baseline from the contingency reserve and other revisions amounts to R38 billion over three years.

As in previous years, infrastructure investment for schools, clinics, hospitals, and roads is a key priority in provincial spending plans. Provinces are called on to modernise their supply chain management systems to deliver projects on time, at the right price and of the required quality. We will channel more funding to provinces that adopt transparent systems and demonstrate their readiness to implement projects effectively.

In addition to their equitable share allocations, provinces are funded through a variety of conditional grants. Changes proposed to the provincial grant programmes for the period ahead include the following:

- The *further education and training colleges grant* will be increased to cover the costs of the 2012 wage agreement.
- Additional funds will be allocated to the *comprehensive HIV and Aids grant* to compensate for a reduction in donor funding and to allow for rising treatment numbers.
- Funds will be added to the *human settlements development grant* for upgrading informal settlements.
- Spending on provincial roads will continue to increase.
- Increased allocations will be made to the *community library services grant*.

Improving the quality of spending

I would like to share with the House the very decisive view that Cabinet has taken of the need to reinforce expenditure discipline in our present circumstances.

Departments have been instructed to prepare spending plans for 2013 within their existing baselines. New activities have to be funded through savings, reprioritisation and reducing waste.

Honourable Members, we are very aware that increased allocations for infrastructure are not enough. We also need to address the shortcomings in planning, procurement and contract management that undermine the effective use of these funds. There will be changes in the way our infrastructure conditional grants are managed. Cash flows will be linked to actual project delivery, and technical support programmes will be stepped up. We need to see substantial improvements in infrastructure management in many departments and municipalities if we are to succeed in building the capacity required for a faster growing economy and better living conditions for all.

Although we still have much more to do, I am sure this House would want to join me in paying tribute to the many officials in all departments, in the national and provincial treasuries, in municipal finance departments, in the Office of the Auditor-General, in the Revenue Service and in our various oversight and accountability entities, whose daily work contributes to the quality and reliability of the budget documentation and financial reports at our disposal. These are the building blocks of good governance and service delivery, and we will continue to work tirelessly to reinforce the financial disciplines on which this House depends.

The medium-term expenditure framework

Honourable Speaker, in drawing up our medium term expenditure plans we take into account not just the national appropriation, but also the spending of provinces, social security funds and public entities. This is what we call consolidated government expenditure. It amounted to R964 billion in 2011/12 and the revised estimate for the current financial year is R1 057 billion, or just under one-third of GDP.

The largest share of spending is taken up by the compensation of government employees, which has grown faster than other categories of spending over the past four years. The medium-term expenditure framework has to accommodate the carrythrough costs of this year's wage settlement. This has largely been done through drawdowns on the contingency reserve.

But our aim is to achieve a shift in the composition of spending over the period ahead towards infrastructure, investment in economic competitiveness and education and health services. This requires continued discipline in administrative costs and consumption spending. The three-year wage settlement provides for above-inflation increases in salaries. In order to afford this we will need to set specific three-year targets for personnel numbers and remuneration costs. We need to see improvements in productivity and more effective use of existing staff establishments. This is an opportunity not just to achieve a better balance in the structure of spending, but also to strengthen the institutional coherence of government. It is an opportunity to reinforce accountability and build the capacity of the state, as called for in our National Development Plan.

About 65 per cent of consolidated expenditure comprises social services and investment in local government, housing and community amenities – what we sometimes call the “social wage”. Expanding the social wage is one of the significant advances we have made as a society since the dawn of political freedom. This is absolutely crucial for redressing the inequalities and

underdevelopment which most of our people experience daily. Public spending has become substantially more redistributive and pro-poor. In the last decade an expanding fiscal envelope has allowed a doubling of the social wage, rising capital budgets, growing social transfers, increased public employment and improved public sector wages.

The largest share of consolidated expenditure goes to the education function, which will spend R234 billion next year, including allocations for arts and culture, sport and recreation. In order to get our children off to the best possible start in life, we will continue to increase funding for the grade R year, and the school infrastructure backlogs programme will be stepped up.

Health care accounts for about R132 billion in next year's spending plans. Funding will be provided for an improved diagnostic test for TB, additional allocations for the HIV and Aids programme and continued investment in hospitals and health infrastructure. Over the longer term, phasing in National Health Insurance will significantly broaden the social wage, giving effect to government's commitment to improve the country's health indicators through a better-resourced, better managed and fairer health system.

Social protection spending is projected to be R136 billion next year, comprising social assistance grants, unemployment insurance, road accident benefits and various social development and welfare services. The number of grant beneficiaries is expected to rise to 17 million by 2015. The Budget will include funding for increased employment of social workers and improved funding for nongovernmental welfare organisations.

We are also working on proposals for promoting household saving, reform of the retirement landscape and broadening social security. The aim is to provide better incentives for preservation of savings and improved income security. We have received very useful comments from many South Africans on the proposals thus far, and will continue to consult widely in taking these initiatives forward.

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Spending on local government, housing and water services will amount to R133 billion next year, budgeted to grow by 9 per cent a year over the MTEF period. The number of households with access to clean water is now estimated at over 13 million, which is more than double the 1994 number. Over the period ahead, additional funding will continue to be provided for the expanded public works programme and the community work programme, which provide supplementary work opportunities at the local level.

In the economic support functions, investment in transport infrastructure and services is the largest category, accounting for R80 billion next year and rising by 8.4 per cent a year over the MTEF. Spending on rail rolling stock and signalling infrastructure will increase by nearly 20 per cent a year.

Fighting crime remains a budget priority, and will account for R152 billion in spending next year, together with defence, justice and prisons. Over the medium term, funds are reprioritised within Police to support expanded detective and forensic capability.

Our budget plans also include provision for South Africa's leading role in the Square Kilometre Array radio-telescope project, which is an international partnership that will attract some R20 billion in global funding over the long term.

Honourable Speaker, I hereby submit the Medium Term Budget Policy Statement 2012, and I table the Adjusted Estimates of National Expenditure, the Adjustments Appropriation Bill 2012, the Division of Revenue Amendment Bill 2012, the Taxation Laws Amendment Bill, 2012 and the Tax Administration Amendment Bill, 2012 for consideration by Parliament.

Conclusion

Twenty years ago, in *Ready to Govern*, we said that we would honestly face up to the problems confronting our country; we said that they would not be solved overnight, and we recognised that our ultimate goals have to be transformed into effective and realisable programmes in the short and medium term. The global economic slowdown and the domestic stresses we currently confront have presented formidable but not insurmountable challenges to our fiscal and budget framework. Our response to these challenges is set out in the Medium Term Budget Policy Statement. It provides the financial plan for infrastructure investment, broadening of the social wage, investment in education and support for economic competitiveness to be implemented over the period ahead.

Honourable Speaker, I thank President Zuma for his bold leadership, and Deputy President Motlanthe for his 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 an important and challenging time.

My sincere appreciation to the following for their invaluable and constructive contributions:

- Mr Thaba Mufamadi, Mr Mshiyeni Sogoni, and Mr Charel de Beer and Mr Teboho Chaane, who chair the standing committees on finance and appropriations, and the select committee on finance,
- Governor of the South African Reserve Bank, Ms Gill Marcus and her team, for a supportive monetary policy,
- The Auditor-General, Terence Nombembe, and his staff, for their rigorous scrutiny of the public finances,

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- Mr Oupa Magashula and the staff of the South African Revenue Service for their creative and valiant efforts to collect the revenue we need,
- Deputy Minister Nene who has been a pillar of strength and always willing to share the burden in managing the complex issues we have had to deal with,
- Director-General Lungisa Fuzile, who has provided erudite and courageous leadership, and the dedicated and patriotic Treasury team which has consistently done what is in the best interest of all South Africans.

Honourable Speaker, we still live in challenging and uncertain times. A year ago exactly, I said: “There are 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.”

Honourable Speaker, this is our collective message to all South Africans and the world.

The key pillars of the MTBPS are the following:

- The global economy, particularly the developed countries, will be in difficulty for some time to come.
- The South African economy remains resilient in the face of global and domestic challenges.
- We are committed to taking strong measures to ensure value for money, increase savings, eliminate waste and implement more effective controls over personnel expenditure.

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- There will be no additions to the overall spending levels; public expenditure will remain at the level set in 2012 budget.
- As South Africans, we need to dig deep into our reservoir of goodwill, ingenuity and resilience to find new ways of implementing our plans, creating jobs and generating inclusive growth.
- As government, have a sustainable fiscal framework which balances short term support for the economy with long term fiscal consolidation. We have all committed to work within this framework.
- As a country, we face difficulties – but we are not in terminal crisis. Let us set about proving the pessimists wrong, working together to fulfil our vision for a strong, prosperous and united South Africa.

In the words of the National Development Plan, *“South Africa has the means, the goodwill, the people and the resources to eliminate poverty and reduce inequality. It is within our grasp. But it will not happen unless we write (a) new story; a story of people, their relationships, their dreams and their hopes for a better tomorrow. We want our children and young people to have better life chances than we have... The capabilities that the country needs to enable citizens to thrive include a capable state, leadership from all sectors of society, a pact for mutual sacrifice and trust.”*