

**2014**

**Budget Speech**

**Minister of Finance  
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## 2014 Budget Speech

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## 2014 Budget Speech

Honourable Speaker

I have the honour to present the fifth and last budget of President Zuma's first administration.

In just over two months, we will again exercise our most fundamental expression of freedom – our right to vote for a new government.

Political emancipation is just the beginning of our journey towards justice and equality. In exercising the responsibilities that flow from democratic participation, we have the opportunity to create a better future for all. As Madiba wrote on his prison calendar in 1979, "*The purpose of freedom is to create it for others.*"

At the outset, I want to thank all South Africans for your support, cooperation and encouragement. *Ngiyabonga, ndia livhuwa, enkosi, ke a leboga....*

We have achieved much over the past five years, in a very difficult post-recession climate. But there is more to do ahead, more to build, more to put right, more to learn, more to implement. We can only do this together.

Fellow South Africans, let me be frank with you – the world economy is still in difficulty, and global institutions are struggling to find their way.

In South Africa, we stabilised our economy after the 2008 crisis. We have achieved a recovery in growth and jobs. Yet we need to do more, together with labour, business and all stakeholders, to lead our economy in a new, bold direction for higher growth, decent work and greater equality.

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Mister President, as you said in your reply to the State of the Nation debate: *“Twenty years of freedom and democracy have changed the face of our country. The last five years have further advanced change and a better life for all, especially the poor and the working class.”*

### **An agenda for transformation**

Our plans for the period ahead are focused on the transformation imperatives that will accelerate growth, create work opportunities and build a more equal society.

This Budget lays the foundation for the structural reforms envisaged over the next term of this Government. It sets out the resource plan for an intensified implementation of our National Development Plan. It is tabled in the knowledge that all South Africans will gain from our economic transformation, just as we all share a new pride and identity in our Constitutional democracy.

So the new economic order we seek cannot just be a pact amongst elites, a coalition amongst stakeholders with vested interests. Nor can it be built on populist slogans or unrealistic promises. Our history tells us that progress has to be built on a vision and strategy shared by leaders and the people – a vision founded on realism and evidence.

We have to work together to radically change our economy. This means working with our major businesses so that they sparkle across the globe. It means working with black entrepreneurs to grow their companies across South Africa and beyond, working with small and large businesses to build value chain linkages that support dynamic export oriented, competitive enterprises. It means bringing those who are marginalised into the mainstream of opportunity and activity. It means a better standard of living for all.

Whether you are employed or unemployed, a young person caring for a family yet still going to school, someone looking for experience in order to move on to a better job, looking for skills or needing further education opportunities, working in a government employment programme or a temporary construction project, whether you are an unskilled worker or a young professional looking for opportunities to develop specialist experience – we can, together, move forward towards a better life for all.

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It is time for a bold vision of our future as set out in the National Development Plan. It is time for action and implementation. It is time to move South Africa forward to the next stage of our historic journey to more rapid growth, jobs and development – time to leave behind poverty, joblessness and inequality!

### **Overview of the 2014 Budget**

Mister Speaker, allow me to summarise the key features of the 2014 Budget.

#### ***The economy***

- The global economic outlook remains unsteady – some advanced economies have returned to growth, others continue to lag. The slowdown in quantitative easing by the Federal Reserve has caused further uncertainty to financial markets, currency volatility and capital outflows from emerging markets.
- South Africa's economy has continued to grow, but more slowly than projected a year ago. We expect growth of 2.7 per cent this year.
- A weaker exchange rate is a risk to the inflation outlook, but it supports exporters. Sustained improvements in competitiveness require further investment in infrastructure and a range of microeconomic reforms.

#### ***The budget framework***

- Despite slower economic growth, the 2013/14 budget deficit is projected to be 4 per cent of GDP, lower than projected in October.
- The deficit will narrow to 2.8 per cent of GDP over the medium term, and net debt will stabilise at about 45 per cent of GDP in 2016/17.
- Consolidated non-interest spending will amount to R1.1 trillion in 2014/15, growing to R1.3 trillion in 2016/17, increasing by about 2 per cent a year over the medium term.

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- National government departments are allocated approximately 48 per cent of available funds, provinces 43 per cent and municipalities 9 per cent.
- Capital spending is the fastest-growing component of expenditure, and is set to exceed inflation by over 4 per cent a year.

### ***Benefits to households***

- The Budget provides R9.3 billion in income tax relief to households.
- Government will expand its employment programmes over the next three years and continue to support job creation by the private sector.
- We will build 216 000 houses and connect 905 000 households to electricity over the MTEF period.
- The number of children receiving the child support grant will increase to 11.4 million.
- 433 schools will be rebuilt.

### ***Support for businesses***

- Increased support and tax relief for entrepreneurs and small businesses is proposed.
- Incentives for industry are strengthened, including funding for special economic zones.
- Nearly 500 000 subsistence and small-holder farmers will receive training and financial support.

### ***Financial security***

- Further steps will be taken to make sure you have a secure income in retirement. Unnecessary costs in the system will be cut.

## **Global crisis and response**

Your administration started out, Mister President, with an economy that, in rugby terms, might be called a “hospital pass”.

We experienced a once-in-70-year economic earthquake, the aftershocks of which are not yet over. Today we can report to the South African people, on what we have done in the past five years to respond to this crisis.

We began on a firm footing:

- Growth of 5 per cent a year between 2003 and 2008,
- A steady expansion in employment, and
- A budget surplus for the first time in 50 years.

We were set back by the crisis:

- A collapse in commodity prices, sharp declines in international trade and a crisis in financial markets,
- The South African economy contracted by 1.5 per cent in 2009, nearly a million jobs were lost, and
- Government revenue in 2009/10 fell short of the budget target by R61 billion.

We stabilised the economy, and ensured a recovery:

- Our response was to implement an aggressive countercyclical fiscal adjustment.
- When global trade went into reverse, we took steps to improve competitiveness of businesses within the framework of the Industrial Policy Action Plan. We accelerated infrastructure investment and we expanded financial assistance to businesses in distress.
- We expanded the Community Work Programme.
- Unemployment insurance and our expanding social grants programme provided increased income support to the most vulnerable.

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Our response to the global crisis was founded on a collectively agreed framework for working together – government, business, labour and communities – facilitated by the National Economic Development and Labour Council.

And so although the great waves of financial turbulence and the slow growth in developed economies have constrained our economic recovery, we have recorded positive growth since 2010. We have more than recovered the jobs that were lost. And we have initiated a coordinated infrastructure investment programme. It is organised into seventeen Strategic Integrated Projects to catalyse opportunities in mining, industry, agriculture and services across the country. We have saved this country from the worst impact of the Great Recession!

### **What is to be done?**

Mr President, in 1987 ANC President Oliver Tambo said: *“South Africa today is a country of immense inequalities. The bedrock of our perspective is our commitment to the establishment of democracy in a South Africa that belongs to all who live in it, black and white. In keeping with this commitment to our people, our policy positions enshrined in the Freedom Charter have been formulated with the fullest participation of our people.”*

Fellow South Africans, I can share with you that both Government and the ruling party, the ANC, have reviewed the successes of the past 20 years, understanding our weaknesses and strengths, and reflected on how best we can lead this country and all of our people to a better, more dynamic future.

Mister Speaker, no one in this house denies that South Africa is a different country from the one this House and the Government inherited in 1994. The facts speak for themselves! We have made immense strides in rebuilding a fragmented society and in opening opportunities to all South Africans.

Yet we still have an immense set of tasks and challenges facing us. We cannot just muddle through the next decade.

In fulfilling our aspirations in the Freedom Charter, we have a clear and comprehensive vision for South Africa in 2030, a plan for higher growth, decent work and greater equality – the NDP.



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As the first phase of implementing that vision we have a five-year plan and a medium term budget framework, so that step by step we can make a difference in the lives of all South Africans.

On these two foundations, we are able to offer bold and forthright leadership.

The next government will set out the details of its plans to deliver on the NDP after it takes office in May.

Let me explain.

### **The National Development Plan**

As I already indicated, this administration has prepared a National Development Plan, drawing on expertise and advice from South Africans of all walks of life. The NDP reflects the priorities underpinning this budget, and prepares the ground for the next phase of our economic and social transformation.

Central to the NDP, Mister Speaker, is our commitment to partnership – to a social compact to reduce poverty and inequality, and raise employment and investment.

To make more rapid progress in creating jobs and reducing poverty, we have to grow our economy at 5 per cent a year or more.

To achieve this, and to establish a growth path that is inclusive and rapidly promotes black economic development, a wide range of initiatives are under way:

- Accelerated public infrastructure investment,
- New spatial plans for cities, improved public transport and upgrading informal settlements,
- Support for special economic zones and manufacturing incentives in the Industrial Policy Action Plan,
- A tax incentive to encourage youth employment,
- Further expansion of public works programmes,

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- A renewed focus on accountability and quality in education,
- Phasing-in of National Health Insurance,
- Further investment in renewable energy and support for the transition to a low-carbon economy,
- Steps to professionalise the public service and overhaul procurement and supply chain management.

Yet I need to caution that success in implementing these plans depends on discipline, hard work, cooperation and sustained improvements in productivity, both in the public and the private sectors. Our present circumstances oblige us to live and spend modestly and keep a careful balance between social expenditure and support for growth.

And so in framing the 2014 Budget, Mister Speaker, we have reprioritised expenditure within the overall ceiling set in the October *Medium Term Budget Policy Statement*. The budget deficit will steadily decline over the period ahead.

Mister President, the next administration will inherit sound public finances, a platform for implementation of the NDP and a framework for collaboration with all stakeholders in driving social and economic transformation forward.

### **Government expenditure programmes**

Now let me come to some of the programmes that government will implement to further change the lives of our people.

- Government has spent more than R100 billion on employment programmes over the past five years, including municipal and provincial spending. More than 4 million job opportunities were funded over this time. Allocations will continue to grow strongly, and 6 million job opportunities will be created over the next five years.
- We have spent R115 billion on higher education over the past five years, including R18.6 billion on the National Student Financial Aid Scheme. Allocations to the NSFAS amount to R19.4 billion over the next three years, and will assist over 500 000 students a year.

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- We have spent R41 billion on HIV and Aids programmes over the past five years, and R43.5 billion is budgeted over the next three years. We have spent R39 billion on 1 879 hospital and other health facility projects, and R26 billion is allocated over the MTEF period ahead.
- Spending on social assistance has risen from R75 billion in 2008/09 to R118 billion this year. The number of grant recipients has increased from 13.1 million in 2009 to 15.8 million today.
- Spending on Police Services will increase from R74 billion this year to R88 billion by 2016/17. Police services will be more accessible through infrastructure development, rural safety strategy will be implemented and the family child and offences unit will be strengthened.
- Spending on infrastructure amounted to R1 trillion over the past five years and will be R847 billion over the next three years.
- Spending on human settlement programmes amounted to R70 billion over the past five years, contributing to 590 000 houses being built. 850 000 households were connected to electricity over this period.
- Spending on industrial incentives amounted to R22 billion over the past five years. R21.8 billion is budgeted for the MTEF period ahead. 128 projects have been approved under the Automotive Investment Scheme, and more than 460 companies have benefited from the Clothing and Textiles Competitiveness Programme.

The spending plans contained in the 2014 Budget build on this administration's progress since 2009. Reprioritisation of resources aims to give greater impetus to programmes with the greatest developmental impact and proven implementation capacity.

The *Estimates of National Expenditure* provide detailed information on government's spending plans over the year ahead.

### ***Job creation***

Honourable Members, we know that job creation is a central priority of the National Development Plan. *Bantu bakuthi masibambisane sakhe amathuba emisebenzi* (Fellow South Africans, let us work together to create opportunities for employment.)

Since the low-point of the 2009 recession, employment has increased by approximately 1.3 million, as recorded in the Quarterly Labour Force Survey. But unemployment of 24 per cent of the work force is still far too high. And so Tshepo Sechele, a student at the Vaal University of Technology, quite rightly advises that “*government should have clear strategies for youth development and employment for the next 5 to 20 years.*”

We have such a strategy. It includes:

- Stepped up implementation of the expanded public works programme.
- Implementation of the Community Work Programme in every municipality by 2017.
- Introduction this year of the youth employment tax incentive, which in its first month has recorded 56 000 beneficiaries.
- Establishment of special economic zones, industrial incentives, and support for agriculture and labour-intensive sectors.
- Ramping-up of skills development and further education and training programmes.
- Housing investment, support for small and medium enterprises and the Jobs Fund partnerships with private and public sector development agencies.

Billions of rand have been allocated to these programmes.

And to support those who lose their jobs in difficult times, Minister Oliphant has introduced proposals to extend unemployment benefits from 238 to 365 days, on condition that claimants are actively seeking work.

### ***Social assistance grants***

The number of people eligible for grants is due to reach 16.5 million by 2016/17. The recent re-registration of grant recipients and the introduction of a new payment system have lowered the cost of administration. One million invalid beneficiaries were removed from the system. Social grants are meant for those who need them most.

Grant recipients will receive the following increases this year:

- The old age and disability grants will increase in April from R1270 a month to R1350,
- The foster care grant will increase from R800 to R830, and
- The child support grant will increase from R300 to R310 a month in April, and to R320 in October.

### ***National Health Insurance***

This administration has also launched a far-reaching reform to make quality healthcare affordable to all South Africans. The Department of Health's white paper on NHI and a financing paper by the National Treasury have been completed and will be tabled in Cabinet shortly. The unfolding of NHI is premised on two pillars being put in place. Improvements have to be made in public sector health delivery, and the high cost of private health care has to be reduced. This approach is supported by the World Health Organisation.

NHI pilot districts have been established in every province, supported by funding for NHI as a conditional grant. In addition to hospital and clinic building and refurbishment programmes, R1.2 billion has been allocated for piloting general practitioners' contracts. An Office of Health Standards Compliance has been established to ensure that public healthcare provision meets the required standards. A new funding framework for the National Health Laboratory Services and associated research activities has been agreed.

But the improvements to this country's health system over the past five years are best seen in our rising life expectancy, the reduction in infant, child and maternal mortality and the changed lives of 2.5 million people who now have

access to anti-retrovirals. Over the period ahead, enrolment in the HIV treatment programme will expand by about 500 000 a year.

### ***Education***

We have also made strides in improving access to education over the past five years.

- In 2007, 5 million learners had access to free education; this year the number reached 8.8 million.
- Grade R enrolment has increased from 544 000 in 2009 to 779 000 this year.
- The national school nutrition programme now feeds 8.7 million children.
- The Funza Lushaka bursary scheme supported 3 950 graduates qualifying for placement as teachers in 2013.

Through the National Education Collaboration Trust, government, business, labour and civil society will pool resources and work together to restore schools and improve education outcomes in the period ahead.

The allocation to the National Student Financial Aid Scheme increases from R5.1 billion last year to R6.6 billion in 2016/17. This will increase the number of FET college bursaries to 292 000 and will assist over 236 000 students to attend university by 2016/17.

As is emphasised in the NDP, improvements in education are critical. Dashen Shivambu from Polokwane was one of many who wrote to me in support of Minister Nzimande's plans: *"I would like you to put more money on the table for Higher Education as more funding is required."* So the 2014 Budget again gives special priority to education.

### ***Infrastructure investment***

Mister President, under your leadership of the Presidential Infrastructure Coordination Commission, coordinated by Minister Patel's department, we are now making progress in overcoming infrastructure backlogs and investing for more inclusive growth and development. Public infrastructure investment will amount to R847 billion over the next three years.

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- The first unit of the Medupi power station is expected to be completed towards the end of this year.
- Transnet has increased capacity on its coal line. Plans are in place to further expand the coal, iron ore and manganese lines.
- The Passenger Rail Agency of South Africa refurbished 500 metrorail coaches last year, and its new rolling stock procurement programme will get under way this year.
- Spending on social infrastructure – which includes health, education and community facilities – will increase from R30 billion in 2012/13 to R43 billion in 2016/17. Priority will be given to programmes to eradicate school infrastructure backlogs and to refurbish clinics and hospitals.
- A programme to rehabilitate 35 dams has been completed, and work is in progress on the country's five large water transfer schemes.
- In 2014/15, a total of R40 billion in infrastructure grants will be transferred to local governments for their water, sanitation, energy and environmental functions.

The private sector is also making an increasing contribution to infrastructure investment. Contracts for 47 renewable energy projects were concluded in 2012 and 2013, many of which are already under construction. These will add 2 460 MW of power capacity, and investment of R70 billion. A further R45 billion in investment will be contracted this year.

### ***Unlocking city development and municipal service delivery***

Our development plans also focus on overcoming the spatial fragmentation of South Africa's built environment, improved public transport and accelerated investment in human settlements.

An integrated city development grant has been introduced to strengthen long-term city planning and encourage private investment in urban development. It will amount to R814 million over the medium term.

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The assignment this year of the human settlements function to metropolitan municipalities is a vital intervention in accelerating housing investment and integrated urban development.

Over the next three years, national government will allocate R105 billion to municipalities for free basic water, sanitation, electricity and refuse removal services.

In rural districts, Minister Nkwinti's development initiatives are gaining momentum and water supply and sanitation programmes are in progress.

R3.9 billion has been allocated to capacity building programmes over the MTEF, targeted at small towns and rural municipalities. Billions of rands are allocated for Special initiatives include:

- conditional grants to municipalities,
- Municipal Infrastructure Support Agency,
- human settlements Upgrading Support Programme in 53 municipalities,
- managing the human settlements function, and
- settlement upgrading in mining towns.

### ***Measures to promote economic growth***

Mister Speaker, our policy is inclusive growth – in the words of the NDP, to strengthen the *“virtuous cycle of growth and development.”* Over the medium term, several spending plans and tax measures are aimed at addressing structural economic challenges and promoting the stronger, more inclusive growth envisaged in the NDP:

- Manufacturing development incentives are allocated R10.3 billion over the next three years, in addition to tax relief offered through incentive programmes.
- The economic competitiveness and support programme will provide R15.2 billion to businesses to upgrade machinery and increase productivity over the MTEF period.



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- Special economic zones are allocated R3.6 billion to promote value-added exports and generate jobs in economically disadvantaged parts of the country.
- In support of the digital broadcast migration programme, R620 million will be allocated in the adjustments appropriation this year, from funds to be surrendered to the National Revenue Fund by Sentech.
- Government is developing an agricultural policy action plan to support the NDP's target of creating one million jobs in agriculture and land reform by 2030. Over R7 billion will be spent on conditional grants to provinces to support about 435 000 subsistence and 54 500 small holder farmers and to improve extension services.
- To boost domestic food production and reduce reliance on imports, the Fetsa Tlala initiative aims to bring an additional one million hectares into cultivation by 2019, creating 300 000 jobs. Meanwhile, the comprehensive agriculture support programme grant, which receives R1.6 billion per year over the medium term, aims to increase farm output, especially for the beneficiaries of land reform.

### ***Small businesses and entrepreneurship***

Mister President, you have rightly reminded us that employment creation is mainly the responsibility of the private sector.

I have again received many tips on the challenges faced by small and medium-sized businesses. Sharon Bosii, from Pretoria, suggests that government "*must offer incentives ... to help small businesses.*" Sharon, we agree. This budget allocates R6.5 billion over three years to support small and medium enterprises.

We have also accepted two recommendations of the Judge Davis Tax Committee which will ease the compliance burden of small businesses:

- The turnover tax regime will be amended to further reduce the tax burden on micro-enterprises.

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- Consideration is being given to replacing the graduated tax structure for small business corporations with a refundable tax compliance credit.

Amendments will be made to the venture capital company tax regime, and the rules related to access to foreign capital will be eased to enhance support for entrepreneurial development.

Subject to appropriate tax treatment, amendments will be made to the intellectual property rules as part of this reform.

In further support of entrepreneurial development, we propose to provide tax relief to organisations involved in small enterprise development through grant-making. As a complementary measure, grants received by small and medium-sized enterprises will be tax exempt, regardless of the source of funds.

### **Global situation**

Mister Speaker, ultimately it is the state of the global economy and the dynamism and agility of the SA economy that shapes inclusive growth, job creation and development.

The global economy, with which SA is connected, is not yet on a path of sustained recovery. In the words of the G20 communique, “ *the global economy remains far from achieving strong, sustained and balanced growth*”.

Global growth gathered momentum in 2013, led by a recovery in the advanced economies. This recovery is expected to continue into 2014, to an expected 3.9 per cent in 2015.

The recovery in the United States has prompted the US Federal Reserve to taper its quantitative easing programme. We have already seen considerable swings in capital flows in South Africa and other emerging markets. Interest rates are likely to rise. Currencies will be weaker and volatile.

Growth in Europe, which is a major trading partner, remains subdued. Doubts about its banking system remain.

However, China still grows at a dynamic 7.5 per cent and India is expected to record 5.4 per cent this year. Brazil remains flat at 2.3 per cent.

The African continent is expected to grow at around 6 per cent a year over the next two years.

## **The G20, new global turbulence and emerging markets**

The world would be a better place, Mister Speaker, if there were greater understanding of the power of cooperative action. We welcome the constructive tone emerging from the G20 meeting last weekend. We welcome the commitment to increase global output by \$2 trillion and to increase jobs.

Nonetheless, we remain concerned about the self-justifying narrative from certain quarters in the developed world – the idea that emerging markets are the “problem”, that they must “get their houses in order” and that global cooperation for a more humane and sustainable future is a project for another day.

These are voices from precisely those places where huge regulatory failures led to the financial earthquake we have experienced. Geo-political gamesmanship is the order of the day, collaboration in addressing global challenges is deferred and global statesmanship is in retreat.

As Africa rises, building democratic institutions, expanding infrastructure and growing trade and employment, the central priority will remain overcoming poverty and inequality through initiatives that shape our own growth path, and partnerships that create our own destiny.

## **South Africa’s economic outlook**

As global economic growth recovers there will be opportunities and risks for our economy. These developments have the potential to increase our exports.

Among our emerging market partners, growth remains strong but demand for mineral products has moderated and is unlikely to pick up soon. The prices of our largest sources of foreign earnings remain depressed.

However, the rand remains an effective shock absorber against global volatility. Recent movements of the currency have been supportive of export growth while reducing the country’s reliance on capital inflows.

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We must ensure that our fiscal and monetary choices keep inflation low and maintain the recent gains in competitiveness. While we have made significant progress in accumulating reserves, there is scope for further improvement. This will support the stability of the currency.

We project growth to increase from 2.7 per cent this year, to 3.5 per cent in 2016. Investment is forecast to increase by about 5 per cent a year and the current account deficit will average 5.8 per cent of GDP over the medium term, while consumer price inflation will return to levels within the target band between 2015 and 2016.

Potential domestic risks to the outlook include further delays to the introduction of new infrastructure, particularly additional electricity capacity, higher inflation due to the weakness of the rand, and protracted labour disputes which could depress consumer and business confidence.

### **Boosting growth**

The next phase of growth is about the dynamism and agility of the private sector and the synergies created with government. Government will continue to provide an enabling environment for businesses to grow and create employment.

Over the past five years, we supported businesses by relaxing exchange control regulations to support those who wanted to invest in the African continent. We provided tax incentives for manufacturing businesses to expand operations, improve competitiveness and acquire new machinery. We also opened up opportunities for the private sector to build and run our renewable energy plants and introduced the employment tax incentive. The result was an increase in job creation. Now, this effort has to be scaled up to make a bigger impact on growth, jobs and development.

### ***Removing constraints***

Over the medium term we will:

1. Add to electricity supply to improve the balance between available energy and the amounts required by businesses and households to thrive.

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2. Increase investment in economic infrastructure, including rail, water, roads and ports
3. Pursue the exploration of shale gas to provide an additional energy source for our economy.
4. Provide business support programmes and special economic zones that encourage industrialisation and improve local

### ***Regulatory improvements***

Government has been engaging business on specific steps that can be taken to make it easier to do business in our country. Arising out of that process, we will now streamline regulatory and licensing approvals for environmental impact assessments, water licenses and mining licenses. As announced by President Zuma, Parliament is finalising amendments to give effect to this very positive development which will cut the time it takes to start a mine from application to final approval to under 300 days.

There is further work in progress on lowering the cost structure of the economy, for example through improved efficiencies in freight logistics. Minister Carrim has published a new policy on broadband, which will in due course lead to modernisation of our communications capabilities. Several cities are bringing WiFi connectivity to their environs.

SARS is taking further steps to lower the cost of tax compliance in South Africa.

### ***Africa***

Investment into Africa has reached R36 billion a year, in a range of industries. South Africa is the second largest developing country investor on the continent. In 2013, 29 per cent of our exports were destined for Africa. In 2012, 12 per cent of our dividends came from Africa, up from just 2 per cent a decade earlier. Increasing these inflows will be crucial for closing the current account deficit. Foreign assets owned by South African firms are an important source of income, and reduce our vulnerability to future domestic downturns. In addition, 18 large African firms now have debt and equity listings on the JSE.

Today, further steps to simplify trade and investment with Africa are announced. The HoldCo regime for African and offshore operations will be extended to unlisted companies, and the limits for listed companies will be increased. This regime creates a simplified tax and foreign exchange framework for companies that trade with Africa.

South Africa is an important centre for financial services such as fund and asset management. We propose new “Foreign Member Funds”, which will simplify the foreign exposure rules. These funds will support South Africa as a hub for African fund management and provide a domestically-regulated channel for investors to obtain foreign exposure.

### ***Promoting Investment***

Increased investment in the economy by both the private and public sector is at the heart of creating jobs and growth.

Government is committed to providing policy certainty for domestic and foreign investors. Working together with Minister Davies and the Department of Trade and Industry, a holistic framework for investment is being finalised. This framework flows from the National Development Plan, which places investment at the centre of our economic growth plan.

We have a number of incentives in place, which have provided substantial benefits to both foreign and domestic investors. Moreover, under the guidance of Minister Davies, a new Promotion and Protection of Investment Bill has been released for public comment. This entrenches the rights of all investors, ensuring that property rights are protected, in line with the Constitution.

### **The fiscal framework and long-term sustainability**

Mister Speaker, in last year’s *Medium Term Budget Policy Statement* we targeted revenue of 28.6 per cent of GDP, consolidated spending of R1.2 trillion and a deficit of 4.1 per cent in 2014/15.

Since then, the rand has weakened and inflation has picked up. Long-term interest rates have continued to rise moderately, and the Reserve Bank has increased the repo rate by 50 basis points.

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These trends reinforce the need to moderate public expenditure, lower the budget deficit and ensure that public sector debt stabilises relative to GDP.

A key pillar of the current framework remains the main budget expenditure ceiling. Non-interest expenditure plans are unchanged over the medium term, resulting in real expenditure growth of about 2 per cent per annum. Within the expenditure envelope, the composition begins to shift from consumption spending towards infrastructure investment. The unallocated contingency reserve amounts to R3 billion, R6 billion and R18 billion over the medium term.

Over the last decade, government spending has doubled in real terms, funding a large expansion of the social wage which now stands at 57 per cent of consolidated expenditure. This progress must be sustained. Our Constitution requires government to devote increasing resources to a rising floor of social and economic rights.

In a period of weak economic growth, the sustainability of the public finances is inevitably tested. Over the last five years government has borrowed more than R1 trillion. Rising global interest rates make it increasingly costly for government to borrow. Lower commodity prices dampen the growth of revenues. A weak rand raises the price of capital goods that government needs for its investment programme, while inflation raises the amount we must pay for goods, services and wages.

Our debt portfolio is well structured, with foreign currency denominated debt limited to about 10 per cent of the total. Our debt markets remain highly liquid and competitive, which means that the impact of short-term swings in capital markets can be absorbed over time. Our first sukuk (Islamic) bond will be launched this year.

Broader public-sector sustainability is supported by large social security fund surpluses, a fully funded government employee pension system, and the improving balance sheets of state-owned companies.

With these pressures in mind, government has adopted a balanced fiscal stance that continues to provide support for the economy, but charts a stronger course towards fiscal consolidation.

## **Tax policy, savings and small business support**

In 1996, Mister Speaker, the RDP White Paper stated that: *“the expansion of the South African economy will raise state revenues by expanding the tax base.”*

Over the last 20 years we have achieved exactly that. In 1994, tax revenue amounted to R114 billion. Revenue collected next year will exceed one trillion rand. This is nearly a tenfold increase in nominal terms. This was achieved while reducing the tax rate for companies from 40 per cent in 1994 to 28 per cent and the top marginal rate for individuals from 45 per cent in 1995 to 40 per cent.

During this period the contribution of corporate income tax as a proportion to total revenue has nearly doubled.

We have also improved the fairness of the tax system by taxing residents on their worldwide income and taxing capital gains. These changes have brought the South African tax system more in line with international principles and have substantially broadened our tax base.

Despite moderate economic growth, tax revenues have remained buoyant over the past year. In 2013/14, we will collect R899 billion. This is R1 billion more than we projected last February, and R4 billion above the estimate presented at the time of the 2013 Medium Term Budget Policy Statement. For the first time since the recession, corporate income tax revenues will exceed the 2008/09 peak of R165 billion.

The main tax proposals for the 2014 Budget are as follows:

- Personal income tax relief amounts to R9.25 billion. About 40 per cent of the relief goes to South Africans earning below R250 000 per year.
- An increase in the tax-free lump-sum amount paid out of retirement funds from R315 000 to R500 000 is proposed, benefiting especially lower income members who did not benefit from deductible contributions.
- Increases in excise duties on alcoholic beverages and tobacco products are proposed, adding 9 cents to the price of a 340ml can of beer and 68 cents to a packet of 20 cigarettes. Whisky



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goes up by R4.80 a bottle. These increases take effect immediately.

- In recognition of recent increases in the imported cost of fuel, the general fuel levy increase is limited to an inflation-related 12 cents per litre on 2 April 2014, and the road accident fund levy will increase by 8 cents per litre.

Legislation to allow for tax-exempt savings accounts will proceed this year, to encourage household savings.

Complementing this tax reform, a new top-up retail savings bond will be introduced by the Treasury this year, allowing for regular deposits into a government retail bond. It will also be accessible to community savings groups, such as stokvels. Options for introducing a sukuk retail savings bond are also being explored.

The Income Tax Act currently requires philanthropic foundations to distribute 75 per cent of the money they generate within a year. This requirement is unduly restrictive and will be relaxed, while ensuring that accumulated capital is distributed to worthy causes within a reasonable period.

Regulatory and other measures have been put in place to address the environmental consequences of acid mine drainage. To complement current efforts and ensure that the mining sector makes its fair contribution towards continuing acid mine drainage expenses, consultations will be initiated on an appropriate funding mechanism.

Following public consultation, the National Treasury and the Department of Environmental Affairs have agreed that a package of measures is needed to address climate change and to reduce emissions. This will include the proposed carbon tax, environmental regulations, renewable energy projects and other targeted support programmes. To allow for further consultation, implementation of the carbon tax is postponed by a year to 2016.

Reforms to the tax treatment of risk business for long-term insurers are also proposed. Profits from the risk business of a long-term insurer will be taxed in the corporate fund, similar to the way short-term insurers are taxed.

In July last year I appointed a Tax Review Committee, headed by Judge Dennis Davis, with a broad brief to make recommendations for possible reforms.

The Committee's first recommendations relate to small and medium enterprises. These proposals are taken forward in this Budget. The committee has also started working on base erosion and profit shifting – trends that are under scrutiny internationally. During 2014, work will be undertaken on the impact of the tax system on economic growth and job creation, and aspects of VAT, mining taxes and estate duties.

## **Tax administration**

Mister Speaker, there are still great opportunities for the tax system to work for our people.

In the past five years, the tax register of individuals grew from 5.5 million to over 15 million to include all known economically active individuals. Companies on the tax register now stand at more than 2.3 million. The number of employers registered for pay-as-you-earn is nearly 404 000.

In the next fiscal year SARS will implement single registration of taxpayers and traders for the main taxes.

SARS is already working closely with other government agencies to share non-confidential electronic data. Without compromising privacy and confidentiality, this will contribute to reducing identity fraud, lower administration costs and enhance compliance.

New global tax policies are being devised to counter harmful tax practices and treaties are being designed to allow for the automatic exchange of information. SARS currently chairs the 121-country Global Forum for the Exchange of Information for Tax Purposes.

Since the Tax Administration Act came into effect, SARS has recognised 11 bodies to which tax practitioners must belong and 15 000 tax practitioners are now registered with them. Taxpayers are advised to only use tax practitioners that are recognised by SARS.

Over the last two years the Voluntary Disclosure Programme has realised almost R5 billion from income that was not previously declared.

### ***Customs administration***

SARS overhauled its customs management system in August 2013. The new system is fully electronic and significantly reduces the administrative burden on importers and exporters while improving our ability to detect high-risk transactions and goods.

Since its introduction, the system has processed goods valued at more than R1.7 trillion.

Border management cooperation that started during the 2010 World Cup has deepened. For example, one of the South African ports of entry is being prepared as a pilot for seamless border management, which will lead to enhanced border control and trade facilitation. The one-stop border post at Lebombo will become operational shortly, once the remaining formalities have been concluded.

During 2013 about R1 billion worth of tobacco and cigarettes was seized from 15 non-compliant entities. Twelve criminal cases are being pursued.

During the same period, SARS detained 400 containers holding suspected counterfeit clothing, footwear and textiles.

### **Improving the quality of public services and cutting waste**

Mister Speaker, this is a Budget in which circumstances dictate that we cannot add resources to the overall spending envelope. The emphasis falls therefore on ensuring that expenditure is allocated efficiently, enhancing management, cutting waste and eliminating corruption.

A series of initiatives are focused on these concerns:

- Spending reviews are under way to examine programme performance and value-for-money, conducted by the National Treasury and the Department of Performance Monitoring and Evaluation, and by provincial treasuries.
- The Office of the Accountant-General has stepped up efforts to strengthen the financial control environment, and has undertaken 27 forensic reviews over the past 12 months,

leading to both criminal investigations and internal disciplinary action.

- As part of efforts to combat waste, cost-containment instructions were issued in January 2014. Budgets for consultants, travel, accommodation and venue hire have been curtailed, which will contribute to savings over the next three years.
- Forthcoming regulations will strengthen the National Treasury's oversight of public entities by requiring compliance with reporting requirements for expenditure, revenue, borrowing and performance.

Mister Speaker, I referred in 2012 to an initiative to be undertaken jointly with Minister Nxesi and his department to review the validity and cost effectiveness of all government property leases. The exercise has exposed several deficiencies:

- Accommodation that is unoccupied but being paid for;
- Accommodation occupied by non-governmental entities;
- Discrepancies between the size of accommodation occupied and what is paid for;
- Marked divergences from market rates per square metre;
- Procurement through inappropriate non-competitive procedures;
- Missing or invalid lease agreements and unsubstantiated payments to landlords.

The intervention also identified a backlog of more than half of the lease portfolio reviewed. As a result of this initiative, DPW now has a turnaround strategy that will enable it to regularise the lease portfolio, while ensuring continuity of services to client departments.

### ***Procurement reforms***

The Chief Procurement Office has been established, and has made progress on several fronts. It will review high value and strategic contracts to ensure that value for money is derived and that all contracts adhere to the relevant prescripts. The review will contribute to efforts to ensure that government's

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service delivery objectives are supported by the purchases of goods and services. These will include, for example,:

- Review of contracts such as PRASA's rolling stock tender, government leases and infrastructure projects.
- Review SAA's fleet procurement process as part of the drive to streamlining government processes.
- Development of a standard lease agreement to address defects in government property transactions,
- Standardisation of infrastructure procurement processes and documentation,
- Creation of an inspectorate to monitor procurement plans and audit tender documents,
- Enhanced processing of vendors' tax clearance certificates to ensure compliance,
- Centralised procurement of health equipment, drugs and medicines to effect savings, and
- Analysis of the business interests of government employees.

We are also mindful of the importance of government procurement in supporting local industry and black economic development. This requires a database of South African products and black-owned businesses so that the system can foster economic empowerment and dynamically contribute to growth. And further, tougher measures are being considered to enforce the rule that small businesses in particular must be paid within 30 days.

### **Indebtedness, savings and retirement reform**

Mister Speaker, this administration has recognised the need to protect and improve the financial wellbeing of households, to make them less vulnerable to a sudden loss of income in bad times. We recognise that households must be encouraged to invest in their future, including investment in homes or productive assets, and saving for retirement or business purposes.

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South Africa has made good progress towards achieving the NDP's goal of 90 per cent access to financial services by 2030. Some 79 per cent of adult South Africans were using regulated financial services in 2013.

Many more households have access to affordable credit, which is of great benefit when used productively, but bad when used to fund excessive consumption.

Government is concerned about the level of over-indebtedness of households. Cabinet has therefore approved a number of measures to assist such households to reduce their debt burden, and to stamp out abusive and fraudulent activities of reckless lenders and unscrupulous debt collectors. Working jointly with the Ministers of Trade and Industry and Justice, we will shortly commence actions against abusive and unsustainable practices.

With regard to retirement, there will be further reforms over the period ahead. Legislation has already been passed by Parliament to improve governance over pension and provident funds, and to align the rules and tax treatment of pension and provident funds, while at the same time protecting vested rights.

We still seek improved coverage and preservation of retirement funds, and lower costs in the system. We are currently consulting within NEDLAC on measures to cover the 6 million employed South Africans who do not enjoy access to an employer-sponsored retirement plan. We intend to move progressively towards a mandatory system of retirement for all employed workers.

Agreement has been reached with the Association of Savings and Investment of South Africa on a way forward to reduce the level of charges for retirement savings products. Draft regulatory reforms will be published shortly.

## **Conclusion**

Mister President, since 1994, there has been substantial progress in transforming the lives of citizens:

- The average income of South Africans has increased by over 30 per cent, and will continue to rise in the years ahead.
- More than 5.9 million jobs have been created since 1996.

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- Near-universal school enrolment and the steady increase in average years of education for both men and women have improved the life prospects of millions of South Africans.
- Access to basic services has grown rapidly across the country. More people than ever have access to housing, education and services.
- Black participation in the economy has expanded and there has been a transformation of the middle class.

These are considerable achievements. But they are not enough. There are still fault-lines that run deep in the social fabric of our communities and tendencies in the political landscape.

Black economic participation remains incomplete. The economy must provide many more opportunities and the state and the private sector a lot more support to enterprises and entrepreneurs.

The structure of the economy also needs to transform in order to meet the demands of a 21st century global economy and a fast evolving continent.

In some instances, governance has been weak, corruption has taken hold, and service delivery has faltered. *Puso e utlwa dillo tsa maAfrika Borwa! Ons het gehoor! Korrupsie moet gestop word! MaAfrika Borwa deserves better. Re tlile go tokafatsa ditirelo tsa puso.* We have heard your pleas! And we will improve our service delivery mechanisms.

Mister President, in your State of the Nation address you observed that the community protests are a sign that our people want government to quicken the pace of delivery of housing, water, and sanitation.

- More must be done to improve management and accountability at all levels of government.
- The labour relations environment needs more stability.
- The high indebtedness of many vulnerable workers must be addressed.

Going forward, these challenges give us focus. We know what must be changed to meet the expectations of all South Africans. Service delivery must

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be enhanced and supported by the necessary infrastructure. Public servants must be accountable, and effective. Government is committed to tackling these issues in a transparent manner, with a view to building a more rapid and inclusive growth path.

Mister Speaker,

On his inauguration as South Africa's first democratic President, Nelson Mandela said, "*Let there be work, bread, water and salt for all*".

This year, five hundred thousand South Africans will celebrate their twentieth birthday. These are the first of our sons and daughters to have breathed only the clean air of a new nation. These children of our freedom mark the progress we have made. In their diversity; in their dynamism and their enthusiasm; in their non-racialism and in the determination with which they demand the rights of free citizens; in their optimism and fearlessness; in all this they represent the hope that millions struggled for, and for which so many paid the ultimate price. They are a generation whose future is brighter than their parents could have dreamed. They are better educated, better nourished, stronger and more resilient.

But they also bear the burden of the challenges we have yet to resolve. Too many will struggle to find work. Too many live in poverty and want. Like their parents they can see the fault-lines that still divide our society. They can see the gap between rich and poor.

For their future, we have an obligation to begin a new and far-reaching phase of our democratic transition; a phase that calls for bold and decisive steps to place the economy on a qualitatively different path to eliminate poverty and unemployment, create sustainable livelihoods and substantially reduce inequality.

The National Development Plan lays the foundation for fundamental transformation. It is a platform on which we need to mobilise our youth, and bring together all South African citizens. Each of us has a part to play. Each of us has an obligation to meet.

Mr President, thank you for your leadership and for the opportunity to serve government and the people of South Africa. Mr Deputy President, Thank you for your guidance and support.



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My colleagues in the Ministers' Committee on the Budget have provided invaluable counsel and make courageous decision in advising Cabinet on our budget priorities. Thank you!

My appreciation to Cabinet colleagues who collectively own this budget and the programmes that they implement.

Deputy Minister Nene has been an invaluable partner in managing huge responsibilities during a challenging term of office; thank you for your invaluable role.

Governor Marcus and the Deputy Governors of the Reserve Bank have wisely steered monetary policy in a volatile environment.

Our thanks and appreciation also goes to:

- The Provincial MEC's and Municipal mayors who collectively spend 50 per cent of a trillion rand!
- Director-General Lungisa Fuzile and Mrs Fuzile for his dedication to public service, his frank and wise advice, and for continuing to build a very capable Treasury for future generations.
- Senior managers and staff of the National Treasury who have risen to the challenges of a post-recession South Africa and remain committed to excellence in the Public Service.
- The acting Commissioner of SARS, Mr Ivan Pillay, whose leadership and solid commitment to institutional building has served SA well.
- The senior management and staff of SARS who keep millions of taxpayers happy with their service, and a few others compliant with the law!
- The Finance and Fiscal Commission, NEDLAC and its constituencies, for their contributions and constructive engagement with the Treasury.
- The Chairpersons, Boards, CEO's and staff of the DBSA, Land Bank, PIC, Financial Services Board, Financial Intelligence Centre and the Government Pension Administration Agency for their excellent work.

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- The Honourable Mr Mufamadi and Mr de Beer, who chair the Standing and Select Committees of Finance, and, the Honourable Mr Sogoni and Mr Chaane who chair the Appropriation Committees, for their pivotal role in holding us to account and providing a forum in Parliament for vibrant public participation.
- Mr Dondo Mogajane, Ministry staff and advisors whose diligence, professionalism and hard work are invaluable.
- My family for their constant caring and support and their passion for building a better South Africa for all.

I also thank all members of this house and the Presiding Officers of Parliament for their cooperation and support.

Once again, I must convey my gratitude to South Africans for all walks of life, and many friends of South Africa abroad, for the goodwill and encouragement.

Honourable Speaker, I hereby table before the House this afternoon:

1. The Budget Speech
2. The Budget Review 2014
3. The Division of Revenue Bill tabled in terms of section 10(1) of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997);
4. The Appropriation Bill, and
5. The Estimates of National Expenditure.

Honourable Speaker, I table this budget in the hope that as a nation we will be able to rise above our sectional interest, and, as you said Mr President, prevail with greater maturity, pull together and take this country forward.

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Mister President, let us repeat our message to our citizens.

Under your leadership, government has succeeded in steering the country through a difficult period of global turbulence. We have weathered the storm! Employment and incomes have recovered. The value of the social wage has increased. We have laid the foundation for a faster and more inclusive path of growth in the years ahead.

Real public sector investment increased dramatically, in fact doubled. Policy innovations such as the Jobs Fund, the community public works programme, the industrial policy action plan, the Special Economic Zones and employment tax incentive have gained traction. We are now ready to ramp them up.

As South Africa's economy draws strength from the growth on the African continent, the unlocking of infrastructure constraints and continuing social progress, we have a plan to guide our action and unite our people.

The programme of the next administration is not in doubt. Its task will be to implement the first phase of the National Development Plan. The road ahead will not be smooth, and there are difficult decisions and hard trade-offs that must be confronted. But this budget provides the resources to support our programme of change. It aligns public finances with the priorities set out in the NDP. Our task is to transform these resources into a better life for all South Africans. Our challenge is to act together to move South Africa forward.

In the worlds of the indomitable Yusuf Dadoo, *“The hour has struck for serious and hard work. The time has come when on this policy we must go forward. That is the only policy which at the present moment can meet the dangers which face us in this country... We have the strength and power in our hands if we act rightly. It may entail suffering and sacrifice and plenty of hard work... In the present circumstances, either we hang together or we hang separately. That is the question before South Africa.”*

I thank you.