NATIONAL ASSEMBLY
QUESTION FOR ORAL REPLY
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★36. Mr D J Maynier (DA) to ask the Minister of Finance:

Whether there is an effective turnaround plan designed to avoid a ratings downgrade; if not, why not; if so, what are the relevant details? N0486E

REPLY:

South Africa's credit ratings are constrained, in the short term, by low growth, sustainability of the public finances, and the weakened financial health of the state owned companies (SOCs). Therefore, the 2016 Budget highlights clear initiatives, precisely aimed at mitigating these risks. The National Development Plan (NDP), which has remained the center of the national Budgets, continues to be the catalyst for growth, and the 9 Point Plan is the action plan to achieve such. Recently, the President has tabled a report of the Presidential Review Commission on SOCs that outlines interventions aimed at addressing the issues in the SOCs. While the 2016 Budget has been tabled under the difficult economic conditions. The Government's fiscal policy is sticking to its expenditure plan. Details of the turnaround plans are as follows:

<u>Budget mitigation of fiscal consolidation:</u>

- The 2016 Budget reflects government's commitment to fiscal consolidation and reigning on public spending. The expenditure ceiling was cut by R25 billion and taxes will increase by R48 billion relative to the 2015 MTBPS estimates over the next three years to bring the budget deficit to 2.4 per cent of GDP by 2018/19, and to stabilise the debt as a percentage of GDP around 45 per cent.

<u>Turnaround plans to address the weakened financial health of the SOC portfolio:</u>

- Government is addressing the weakened financial health of some of the SOCs. Recently, the President has released a report outlining interventions aimed at addressing the financial difficulties and governance and management deficiencies in the SOCs. Some of the interventions says that:
  - Any recapitalisation of SOCs will be done on a fiscally neutral and co-investment manner.
  - Partial sale of equity stakes in some SOCs.
  - Development roles and profit objectives of SOCs will be clearly defined. This principle embodies the unique nature of SOCs, embracing their need to service social-objectives. The primary and core mandate of entities and their viability will be prioritised.
  - The appointment of the CEOs will be done by the Minister in concurrence with Cabinet, at the recommendation of the Board.
  - The mandates of SOCs will be subject to critical strategic review every five years.
  - Performance of SOCs will be assessed on the basis of efficiency and effectiveness as well as service delivery.

- SOCs to invest in human resources - good enterprises require capable people to run them.
- Number of SOCs will be reduced and streamlined where appropriate.
- Common remuneration principles will apply to ensure competitiveness and optimum retention by improving remuneration policies and practices to ensure alignment and harmonisation across SOCs as well as improving governance and oversight of SOCs remuneration by the executive authority.

Turnaround to address low economic growth

- Government is collaborating with the private sector, labour and the civil society to restore confidence in the economy and address the structural constraints to economic growth. The NDP remains the catalyst for growth and the 9 Point Plan will ensure that the following milestones are achieved:
  - Maintaining public infrastructure investment. Over the medium-term, government and SOCs have committed R865.4 billion for investments in housing, roads, rail, public transport, water and electricity;
  - Partnerships to expand co-investment in economic infrastructure, social facilities, innovation and skills development;
  - Increasing electricity supply and improving reliability by mobilising private-sector co-investment in technologies that promise rapid results;
  - Promoting a stable and cooperative labour relations environment;
  - Encouraging development of energy-efficient, job-creating industries, such as tourism, agriculture and agro-processing, that can benefit from the weaker rand to boost exports;
  - Stimulating economic activity. Public institutions with strong balance sheets, including Development Finance Institutions and social security funds, will be encouraged to make greater use of their resources to back economic stimulus and job creation;
  - Lowering the cost of doing business, removing regulatory constraints – such as easing onerous visa restrictions – and acting swiftly to remove policy uncertainty;
  - Encouraging the growth of small business. The Department of Small Business Development and the National Treasury are working with the private sector to explore establishing small business innovation fund; and
  - Transforming the urban landscape.