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Budget Vote Speech

National Treasury (Vote 7)
and
Statistics South Africa (Vote 11)

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Minister of Finance

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Madam speaker, honourable members, dear friends

Today, I bring you no fireworks and no surprises. My address today is an exercise in accountability. I ask Parliament to approve Vote 7 of the Appropriation Bill, for the National Treasury and Vote 11 for Statistics South Africa and I pledge to meet the commitments set out in the Estimates of National Expenditure. That is the main purpose of today's address and the rest is just an explanatory footnote.

The context within which we are asked to discharge our responsibilities is changing constantly. The economic circumstances we face at present are the most complex since the advent of democracy. To quote today's Business Report, 'the good news is that South Africa is not alone'. Almost every country in the world is going through a similarly challenging experience. Our present circumstance also introduces new terminology. We've all heard of inflation, we've heard of stagflation and now we have agflation – inflation caused by rising prices of food and other agricultural commodities.

Changed circumstances calls for a review of policy and so our responsibility as policymakers is to provide an honest, sober assessment of our environment. Price instability creates hardship and our people are hurting. They feel this hardship at the checkout till in the supermarket and at the petrol pump. This hardship is felt when families cannot stretch their income to cover even the most basic food stuffs. It risks becoming even harder if wage demands drive us into an inflationary spiral that results in distorted prices and consequent job losses.

Our responsibility, yours and mine, is to analyse the situation and communicate on these matters with our people. The budget speech this year drew attention to 'storm clouds gathering'. In analysing the present situation, two fundamental questions must be addressed by policymakers. How do we offer maximum shelter during the storm and where will we be when the storm has passed?

Rising price pressures

Rising food prices have increased the hardships faced by many people, impacting most severely on the poor who spend a disproportionately large share of their income on food. Madam Speaker, the rising cost of food is a global phenomenon with global causes but in saying this, we cannot be blind to the pain and hardship that poor people are experiencing. The price of maize has increased by 69 per cent in the past two years, rice by 131 per cent, wheat by 71 per cent and soybeans by 100 per cent. Most of this increase has occurred in the past six months. Rising oil prices are also a significant contributor to high food prices.

In setting out a response, government has prioritised short term relief through our social grants system, school feeding scheme and transfers to welfare organisations. The Department of Social Development has begun using the social relief of distress grant to provide those in need with short term financial relief. The financial implications of these measures will be accommodated in the adjustments budget and we are working with national and provincial government to ensure that the spending takes place as soon as possible so as to make a meaningful impact on those most affected. The same is true for the relief efforts for people recently displaced by xenophobic violence.

In the medium to longer term, it is agricultural production that has to be the central focus of our food security efforts. Government must increase the support it provides to the agricultural sector, particularly to resettled communities and to emerging farmers. The National Treasury is working under the leadership of the Department of Agriculture to ensure that these short and medium term interventions are funded adequately and that these measures benefit the poor in the shortest possible period.

When I was appointed Minister of Finance, the oil price was about US$20 a barrel and then fell to about US$10 soon thereafter. When we tabled the 2007 Budget, the oil price was US$58 a barrel. When we tabled the 2008 Budget, the price was US$99. Yesterday, the price was US$130 a barrel. The world has not seen an increase of this magnitude since the 1970s. Oil is a major component of our modern economy and affects the prices of almost every other product in some way.

Rising oil prices have pushed our petrol price up to just below R10 a litre and there is no sign that petrol prices are likely to fall anytime soon.

These price changes stress every sinew in our policy framework.

Inflation targeting

Madam Speaker, our introduction of inflation targeting in 2000 was neither accident nor fashion statement. It was introduced against the backdrop of interest rate increases of seven percentage points in 1998, some of which was occasioned by global factors and some by domestic circumstances arising from the absence of an anchor for monetary policy.

To quote the governor of the Reserve Bank, “inflation targeting is a framework, it is not an instrument, it is not a policy and it is not dogma. Take away inflation targeting, and we will still have monetary policy, we will still have the same instruments of monetary policy, and the Bank will still have a constitutional mandate to maintain low inflation”.

I concur fully with these views. Against that backdrop, I know that if our monetary policy was not anchored, interest rate increases would both be considerably higher and less understood.

Keeping inflation low is a policy stance pursued to ensure that, as a country, we remain competitive but more importantly, that inflation does not erode the earnings and savings of the poor, those least able to protect themselves against rising prices. Competitiveness is key if we seek to increase employment, reduce poverty and raise investment.

Inflation is outside the target band and is likely to remain outside the band until the 2nd half of 2009. We expect inflation to average above 9 per cent in calendar year 2008 before falling within the target range next year. But we have to take the steps that are needed to moderate expenditure and reduce inflation, and so it will be some time before interest rates come down again.

Economic policy and outlook

Madam Speaker, in the first quarter of this year, our economic growth slowed to 2.1 per cent, mainly as a result of a substantial drop in mining output due to the electricity crisis. Nevertheless, the slowdown we are experiencing is of a short term nature. The situation has to be managed, yes. But short term turbulences do not detract from the fact that our economy is dynamic and growth is robust. The House should be reminded that the economy has grown by 5 per cent a year since 2003. While consumption is slowing, public and private investment is still strong, our export performance is improving and growth in China and India are supportive of our growth. The large investments in electricity and transport, higher spending on maintenance and higher national savings will improve both growth prospects and economic efficiency. We remain confident that we will grow by about 4 per cent this year and the expansion will continue in 2009 and beyond.

In this context, it is appropriate for me to turn to longer term economic policy issues in general. In the past month, two important pieces of research have been published. The first, to be discussed in the Portfolio Committee on Finance on 18 June, comprises 20 papers produced by the International Growth Advisory Panel (IGAP) chaired by Professor Ricardo Hausmann from Harvard University. The fundamental problem that these papers deal with is that we have just over 13 million people working and we should have about 19 million people in employment. Over 45 per cent of young people are unemployed and most of these people do not have tertiary education. When young people are marginalised and have no hope then their lives lose meaning, we all lose dignity and the basic fabric of social cohesion is at risk of being torn apart. The IGAP report recommends the introduction of a wage subsidy for young people. I plead for engagement on this critical proposal. Let us lower the decibels of the debate and talk about the content - how we are going to get more young people into employment?

The second piece of work, published a week ago by the Commission on Growth and Development, looks at what are the key ingredients of high and sustained, inclusive growth. The report points out that high growth over a long period of time is the surest way to reduce poverty and inequality. To quote from the report, “policymakers have to choose a growth strategy, communicate their goals to the public, and convince people that the future rewards are worth the effort, thrift and economic upheaval. They will succeed only if their promises are credible and inclusive, reassuring people that they or their children will enjoy their full share of the fruits of growth.” The key finding of the report is that high growth is not a miracle; it is the outcome of sound policies sustained over a long period of time.

These two reports form the basis for what I hope will become a lively debate on the future of economic policy in South Africa. Parliament should surely play a key role in facilitating such a discourse. In inviting debate on economic policy, government recognises that we do not have a monopoly on wisdom. Growth is not an end in itself. It is a means to poverty alleviation, job opportunities… and let us add dignity and hope.

Stewardship of the public finances

Madam speaker, in the past few weeks, there have been several individuals who have appeared in front of parliamentary committees arguing that the Treasury is too tough on them and that the Treasury is too tight-fisted with public money or that the Treasury asks too many questions about business plans and procurement practice and performance. I wish to respond to the general thrust of these assertions.

Madam Speaker, I submit that it is easy for officials to come to Parliament to tell a story of what they could have done if they had the money they wished they had. It is an entirely different matter to come to Parliament to tell the Committee what they did do with the money that they do have. It is incumbent upon Parliament to ask these officials to say what they have done, what they have achieved and what the outcomes or impacts of their spending has been. I submit that that story may be much more difficult to tell. The Treasury is not the custodian of public money. Parliament is the key custodian of public money and as head of the National Treasury; I am accountable to Parliament for that stewardship. It is our job to demand sensible, realistic, achievable plans from departments for the billions of rands they seek and to keep a watchful eye on the implementation of these plans. Anything less, would be a dereliction of duty.

Amendment of money bills

It is an opportune time to discuss the topic of Parliament's power to amend money bills. In 1997, I submitted draft legislation to Parliament setting out a process for Parliament to amend money bills. More recently, Parliament has developed firm proposals on the amendment of money bills. I support this reform and I believe the time has come to agree on legislation giving effect to the Constitutional imperative that Parliament should have the power to amend money bills. I have asked the Director General of the National Treasury, Lesetja Kganyago, to work with the responsible parliamentary committee in this process. I hope that such legislation can be finalised speedily so that Parliament can begin to build the capacity required to engage effectively on the budget.

National Treasury

Let me discuss the specific roles and responsibilities of the National Treasury. Members are quite aware that the aim of the National Treasury is to promote economic development, good governance, social progress and rising living standards through the accountable, economical and sustainable management of public finances.

The pillars of improved effectiveness of the public purse have not changed. They entail consistent improvements to the financial management framework, rigorous analysis and targeted spending allocations in line with the priorities of government. Amongst these, fighting poverty and investing for growth remain high on the agenda. Recent global volatility has also demanded that we focus on minimising the effects of this on the lives of ordinary South Africans, as far as is possible.

The National Treasury is organised into nine programmes for the 2008/09 year, as set out in the Estimates of National Expenditure. In addition to the core administrative programme, there are five programmes dedicated to operational and policy responsibilities and three programmes dealing with various transfers.

The Public Finance and Budget Management programme brings together policy-related analysis and advice on fiscal policy, public finances and intergovernmental responsibilities broadly related to producing and monitoring implementation of the annual budget.

There are numerous key focus areas for this programme, ranging from promotion of public and private investment in infrastructure to advising on personnel policy, improved allocation of public resources and ensuring value for money from public spending. Investment in the transport, communications and energy sectors come under scrutiny alongside assessment of ongoing sectoral and industrial development strategies. This programme also provides technical support for programme and project management for the financing, planning and coordination of the 2010 FIFA World Cup. Programmes such as the Siyenza Manje initiative, the infrastructure delivery improvement programme (IDIP), the Neighbourhood Development Partnership grant and technical support to government departments also continue over the medium-term.

The Asset and Liability Management Programme manages government’s financial assets and liabilities. This involves prudent management of government’s financial assets and domestic and foreign debt portfolios. The main debt management objective, of financing borrowing requirements at the lowest cost within acceptable levels of risk, has now shifted towards actively pursuing government’s macroeconomic objectives and in particular, reducing our vulnerability to external events and influences.

Earlier this year, we re-launched the retail savings bond and introduced a new inflation-linked instrument. Retail savings bonds provide an easy-to-use, low cost method of saving and have prompted financial institutions to improve their own savings instruments. Together these steps help to improve our national savings culture.

The review of South Africa’s development finance institutions that we mentioned last year has been completed. It will now be employed as an input in clarifying the role of government lending institutions in our developmental state, in order to extend access to finance and investment in social infrastructure.

The Financial Management and Systems programme includes strategic financial management responsibilities relating to government’s supply-chain processes and procurement arrangements aligned with the broad-based black economic empowerment policy framework and ongoing coordination of the implementation of the Public Finance Management Act of 1999. Progress has been made on the integrated financial management system, with three tenders published and recommendations made to a joint committee for consideration.

The Financial Accounting and Reporting programme aims to promote and enforce transparency and effective financial accountability in departments, public entities, constitutional institutions and local government. In the interests of furthering the ends of good governance, this programme is also geared to assist Parliament in exercising its oversight over public financial management in the public service.

The National Treasury has been accredited by the South African Institute for Chartered Accountants (SAICA) to train chartered accountants through the TOPP Programme, enabling the Treasury to recruit article clerks to train them on various aspects of accounting.

The Economic Policy and International Financial Relations programme focuses on areas of macroeconomics, regulatory reform and microeconomic analysis, tax policy, financial and banking sector policy, and regional integration and international financial relations.

This programme also addresses the need to maintain South Africa’s contribution in international economic forums and institutions such as the International Monetary Fund (IMF), World Bank, African Development Bank and G20. Promotion of African and Southern African economic integration is also coordinated under this programme.

The Treasury vote also includes substantial transfers to provinces and municipalities, in support of both infrastructure investment and institutional capacity-building.

The final programme on the Treasury vote provides for various fiscal transfers including the Development Bank of Southern Africa (for the Siyenza Manje project), the South African Revenue Service, the Financial Intelligence Centre and the Financial and Fiscal Commission. The FFC is directly accountable to Parliament.

Our work on social security and retirement reform is proceeding, and I understand that the Minister of Social Development will shortly table the social assistance regulations that make provision for the revised means tests and changes to the old age grant and child support grant announced earlier this year. I would like to echo Minister Skweyiya's assurance to this House and to all members of pension and provident funds, who may be concerned about the possible loss of accumulated funds or benefits resulting from future changes to the pension and provident fund arrangement. No such loss of benefits is contemplated, the government is not going to expropriate your savings, and the rumours that have been circulated to this effect are both mischievous and opportunistic.

I have been asked, on several occasions, whether the new social security system will be ready for implementation in 2010. The answer is that this reform is a process and not an event. Improvements to the regulation and tax treatment of retirement funds have in fact been in progress over the past several years, there are changes to the social assistance framework that will take effect over the period ahead, and under Minister Mdlalana's guidance both the Unemployment Insurance Fund and the Compensation Fund are implementing much-needed administrative reforms. I would like to congratulate the UIF, in particular, on its successful transfer of all beneficiary payments to an electronic interface - thereby reducing both administrative costs and risks of fraud or theft, while also bringing the convenience and flexibility of bank payments to recipients. There are surely lessons from the UIF's reform of its payments system which we should now extend to other parts of the social security system.

Statistics South Africa

Madam Speaker, Government requires accurate and timely information to plan, to budget, to deliver services and then to measure progress, or the lack thereof. Furthermore, our statistical agency provides key information to economic actors to enable them to plan, budget, invest and strategise on a daily basis in their operations.

Building a credible and efficient statistical agency has been a challenge. We’ve made steady progress in creating sound systems and platforms for the collection and interrogation of data. Stats SA has grown from strength to strength over the past five years. The leadership cadre is growing in skill and experience, key teams have been strengthened and we are interacting much more with academics and the statistical community, mainly through the Statistics Council. We have made mistakes in the transformation of Stats SA and I am sure that we will uncover a few more before my tenure is up. But I can assure you that we have an organisation that is learning from these mistakes, is receptive to change and is committed to bringing the best skills in the world to aid in improving our capabilities.

The key priorities of Statistics South Africa in the year ahead are to improve the measurement of employment data, to provide better measures of price change in the economy and to enhance our understanding of poverty data recognising its multi-dimensional nature. Furthermore, next year Statistics South Africa will host the International Statistical Institute here in South Africa and preparation for this event is well under way.

Madam Speaker, the efforts by Statistics South Africa to conceptualise research methodology on the official poverty line that will inform Government's poverty eradication programmes, are progressing well. Methodological and definitional issues have presented some challenges, but an interdepartmental team is now reviewing the proposed measure. I hope to table a report in Nedlac before the end of June.

Parallel to this process, StatsSA will by November this year start collecting data as part of a national survey to accurately measure the extent of household poverty. An integral part of the survey will be to monitor Government's progress in poverty reduction and the survey will compile data from South African households over a twelve month period. Results are expected during the first quarter of 2010.

One of the key developments in economic statistics in the current financial year is the implementation of new price releases. In both the CPI and PPI a comprehensive overhaul of both surveys includes a number of complex changes: methodological improvements; introducing new products and prices; new weighting criteria; and changes in data collection approaches to various products that make up both CPI and

PPI. This will result in the reweighting of the basket of goods to be published in February 2009.

The pursuit of better quality of our statistical products and services – and for these to remain relevant to the South African context - also extended to the Labour Force Survey; the primary instrument to measure employment. Changes introduced in 2006 have improved the conceptualisation, definitions, a redesigned questionnaire and dissemination methods of research results. The first results of the new quarterly survey will be published in August this year.

SARS

Madam speaker, by the middle of March this year, officials in the South African Revenue Service were beginning to worry about whether they would make the revised revenue target for 2007/08. Under the leadership of Commissioner Gordhan, all 15 000 people in the Revenue Service took the slogan ‘business unusual’ to new heights. They reorganised their offices and schedules, developed a plan which included phoning thousands of individuals and businesses and they implemented this plan with admirable precision. By the end of the 31st March, they collected R571.8 billion, R700 million above the revised target.

Given the deteriorating economic environment, collecting revenue is becoming increasingly difficult. These men and women employed in the public service continue to amaze me with their dedication, commitment and innovation in serving South Africa.

Our approach to revenue collection involves a social contract. Citizens have a voice in the shaping of the tax system and in spending priorities. Government must build the capacity both to collect the taxes and to deliver on the spending priorities as efficiently as possible. The budget and Parliament’s continuing oversight role are all critical parts of making the social contract work. Citizens who have embraced a culture of tax compliance and paid their fair share can legitimately expect us to do our best to ensure that spending is effective and in line with the mandate they have given.

Building the capacity for effective tax collection remains a high priority. In its strategic plan last year SARS announced an ambitious modernisation agenda to be implemented over several years.

This year has seen the refinement of that agenda based on the first year's experience of its implementation. Five focus areas have been identified for the next two years:

- developing an integrated risk management and enforcement system,
- improving customer service, outreach and education,
- enhancing core operations and capabilities,
- strengthening border control, and
- strengthening core support systems.

One focus area impacts on all members of the House and the largest number of taxpayers. It is the reform of the administration of the personal income tax system as part of the enhancement of core operations. The goal here is to streamline the system, bring it up to international best practice and provide a platform for social security reform.

Last year saw the implementation of a new assessment process that simplified returns, did away with attaching supporting documents to returns, automated return processing, and encouraged e-filing. There were challenges for SARS, individuals and practitioners in adopting the new process but the results have been impressive. Over a million returns were electronically filed, 3.8 million returns were processed automatically, and 32 per cent of returns were processed within 48 hours.

This year will see changes that take the lessons learnt and build on them. The role of businesses as employers will be a central focus of the changes to be introduced. The forms employers provide SARS will be simplified and employers will be required (and assisted) to provide more accurate and timely information to SARS. For the first time we are introducing a Filing Season for employers – 1 July to 29 August. We will also be improving the administration of PAYE deductions and payments in order to ensure that all pay their fair share of tax and those not registered are uncovered.

Individual taxpayers will also benefit substantially. They will receive returns that are customised to their specific circumstances and available in several of our official languages. Most significantly, SARS will take the information provided by their employers and fill it in for them before sending out the returns. No more puzzling out where an item on the IRP5 needs to be filled in on the return! Employees will only need to check that the amounts are correctly shown and fill in the other income and deductions that are applicable. One day most employees will not have to fill in amounts on a return at all.

But the reform of the administration of the personal income tax system is only one aspect of the SARS strategic plan. SARS is a revenue and Customs administration, so another focus area is the strengthening of border control. The deployment of X-ray scanners, strengthening of the Customs Border Control Unit and a detailed plan of action for the implementation of the World Customs Organisation's framework of standards and procedures are all elements of this focus area.

These are two highlights in an ambitious agenda that SARS has set itself to meet the challenge of collecting R2.1 trillion over the next three years and, more broadly, of contributing to a growing economy. I expect there will be teething problems to overcome and further refinements to be made. However, with the co-operation of employers, taxpayers, traders and other stakeholders, I believe we will be able to look back and see that the capacity to collect taxes in a fair and efficient way has been substantially increased for the benefit of all.

Financial Intelligence Centre

Madam Speaker, last year I indicated that there was a need for greater coordination and partnership between the relevant supervisory bodies in the financial services sector. There is a clear need for a close relationship between the Banking Supervisor the Financial Services Board, the Financial Intelligence Centre and the South African Revenue Service, and for them to adopt a more aggressive approach to those people who operate outside of the law in the financial services industry.

Those who seek to gain financial power from criminal activity by turning crime into a business are adept at abusing the services of our financial institutions so that their illegal profits remain undetected. When this abuse of our financial institutions is left unchecked, it undermines the integrity of our financial sector and the sector's ability to expose such abuses.

Last week this Assembly passed the Financial Intelligence Centre Act Amendment Bill and I trust that the Financial Services General Laws Amendment Bill will have an equally untroubled passage next week.

The FICA Amendment Bill significantly enhances the regulatory framework for oversight of compliance with our laws which support the detection, investigation and prosecution of the laundering of proceeds of crime. The Financial Services General Laws Amendment Bill seeks to achieve similar results by creating an enforcement committee and introducing administrative sanctions procedures.

This year the Centre, in collaboration with the various supervisory bodies will be developing implementation plans and focussing on the roll out of these new measures. Closer ties should also be developed with the law enforcement authorities so that financial and economic crime can be dealt with effectively. The Criminal Justice sector needs to enhance the skills availability and provide a focus to deal with this form of criminal behaviour. Already the FIC and the SAPS are engaged in a process to map out how the twin areas of administrative and criminal sanctions regimes will be implemented and to increase their levels of cooperation.

The FICA Amendments represent the first step in a process to make the system more efficient. Later this year, South Africa's system to combat money laundering and terror financing system will be assessed by the Financial Action Task Force, which sets the standards for all countries. The system in South Africa is still in its infancy and as a consequence we expect the assessment will assist us by identifying areas for remedial action which will enhance the system further.

Public Investment Corporation

Madam Speaker, the Public Investment Corporation Limited manages assets valued at R786.3 billion as at 31 March 2008, making it the largest investment managers on the African continent. Their clients are public sector entities including the Government Employees Pension Fund. The PIC's role is to invest funds on behalf of these clients, based on investment mandates set by each client and approved by the Financial Services Board (FSB), with which it is registered as a financial services provider. The PIC is wholly owned by the South African government and was established as a corporation on 1 April 2005 in accordance with the Public Investment Corporation Act, 2004.

More than a year ago, the Public Investment Corporation's Corporate Governance Policy was made public. It is based on international best practice and was widely discussed with leaders in this field. It spells out what the PIC's clients expect from companies in which they are invested. The PIC also recently became a signatory to the United Nations Principles of Responsible Investment. These principles are also embraced in the PIC's Corporate Governance Policy.

Current focus areas for the PIC are boards and board committees; directors' commitment and meeting attendance; independence of directors and executive remuneration. In addition to this, the PIC's focus includes a strong commitment to the transformation of the South African economy. As transformation in the boardrooms of companies is also critical to our longer term economic success, this issue will be placed high up on the PIC's corporate governance agenda to ensure that boardrooms become a reflection of the demographics of our country.

Since April this year the PIC has started to publish its voting records at annual general meetings and other meetings of companies. The purpose of publishing these records is not to 'name and shame' companies, but is intended to get companies and other asset managers to focus more on governance issues. The publishing of these records ushers in a new era of transparency in South Africa and it is hoped that other big asset managers will follow suit.

Alongside its role in promoting transformation, the PIC is increasingly investing in new infrastructure projects, companies that creating jobs and businesses that extend opportunities to more South Africans. This is part of our broader responsibility for promoting sustained growth and inclusive development.

Conclusion

In conclusion, Madam Speaker, our economy is going through a difficult period and our people are hurting. We understand their pain and we are doing everything we can to ensure that our economy weathers the storm and the recovery is swift and robust. At the same time, it is important to note that sound macroeconomic policies and fiscal health are necessary but not sufficient conditions for growth and development. Effective implementation of government policies is much more fundamental to reduce our abysmally high levels of poverty and unemployment. Parliament has a critical role to play in ensuring that government delivers on its mandate of a better life for all.

As the executing authority responsible for the National Treasury, the South African Revenue Service, Statistics South Africa, the Public Investment Corporation, the Financial Intelligence Centre and the Financial Services Board, I assure you that we are prepared to engage with Parliament in as robust a fashion as you deem fit. We welcome the greater emphasis on oversight in Parliament and we are excited at the prospect that improved service delivery will follow from greater oversight and accountability.

Thank you.