



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE 8 SPEECH

REMARKS BY THE MINISTER OF FINANCE, ENOCH GONDONGWANA

DATE: 18 MAY 2022

Honourable Speaker/House Chairperson,
Chairperson of Standing Committee of Finance, Honourable Joe Maswanganyi, and the committee members,
Chairperson of Select Committee of Finance, Honourable Yunus Carrim, and the committee members,
Honourable Members,
Thank you for this National Assembly mini-plenary sitting on the Budget Vote debate for the National Treasury.

INTRODUCTION

It is an honour to stand before you, and before the country, to deliver this year's budget vote for the National Treasury.

Honourable Speaker, it is evident that this year will demand of us to face enormous obstacles, some old and many new.

As the pandemic continues to create global uncertainty and devastating economic impact locally, we will need to show great resilience and tenacity in harnessing our efforts to resolutely and consistently overcome the systemic challenges of inequality, poverty and unemployment exacerbated by chronic low growth, rapid climate change and intensification of conflicts, contestations and ambiguity.

For National Treasury, this will require a determined effort in pursuing our ongoing endeavours to accelerate a growth economy including tackling structural constraints, applying measures to restore investor confidence and public trust, safeguarding the fiscal framework, reducing policy uncertainty and lowering the cost of doing business.

We have many hard choices to make. Many more difficult decisions lie ahead of us. We are not out of the woods. We cannot afford to be complacent.

Our policy interventions must reflect the seriousness of the challenges we face and our constitutional responsibility to forge a better today and a prosperous tomorrow for our people.

We must meet doubt and uncertainty with decisiveness!

There are risks and there are opportunities on the path ahead. We must be prepared for both.

NATIONAL TREASURY REMAINS STRATEGICALLY STEADFAST

The unprecedented crises that the country has found ourselves in have called on National Treasury and its wide-spanning programmes, to develop unique responses and this year's ambitious plan will build on the positive results achieved, as we deliver along with government and all other stakeholders on the national reconstruction and recovery plan, supporting economic reform and realising transformation and inclusion.

STRIKING A BALANCE BETWEEN SUPPORTING LIVELIHOODS AND REPAIRING OUR PUBLIC FINANCES.

National Treasury will continue to support government's ability to ensure stable, sustainable growth and equitable and efficient allocation of public resources.

We will continue to pursue a balanced and prudent fiscal strategy in order to stabilise the public finances.

Although public finances remain under some strain, the fiscal position has improved somewhat in comparison to this time last year. We cannot let our guard down as we remain on course to restoring the health of public finances.

To this end the recommendations arising out of the spending reviews will be implemented to improve expenditure efficiency and programme delivery impact over the medium term.

National Treasury is responsive to our changing environment and continuously considers improvements to the budget process to deliver on our national priorities and foresee future needs. In this regard work is being done on climate tagging as well as climate budget tagging, which is a tool for monitoring and tracking of climate-related expenditures in the national budget system. It provides comprehensive data on climate-relevant spending, enabling government to make informed decisions and prioritize climate investments.

DRIVING THE ENGINE OF THE ECONOMY AT THE COALFACE OF SERVICE DELIVERY

National economic growth is anchored in strong local economies which are reliant on an effective local government.

As a country we are faced with the formidable challenge of an increasing number of municipalities which are dysfunctional, either experiencing financial distress or even having deteriorated into crisis.

National Treasury will be harnessing, together in partnership with DCOG, all of our local government support mechanisms to intensify targeting interventions for increased impact from our extensive capacity building under the Accountant General, programmes to improve municipal audit outcomes with a specific target on those with the highest levels of irregular, fruitless and wasteful expenditure to direct intervention in terms of Section 139(7) of the Constitution such as Lekwa and more recently Manugang and Enoch Mgijima.

There are 43 municipalities that meet the criteria to be placed under mandatory intervention. I have already written to the Premiers of all provinces in October last year identifying these municipalities and that the mandatory intervention process must begin in earnest.

Nursing our municipalities back to financial health will boost the quality of life of residents, it will encourage economic activity and investment, and it will encourage tax and ratepayers to pay for services.

ADVANCING INCLUSIVE GROWTH AND REALISING TRANSFORMATION

National Treasury will in partnership with local government, implement 5 township economic development strategies as well as identify and approve 20 catalytic projects in spatially targeted areas within metropolitan cities, secondary cities and rural towns to provide technical support to strengthen infrastructure planning, delivery capacity and to support spatial transformation and inclusive developments.

RENEWING TRUST IN PUBLIC ENTITIES

Government will continue to finance the gross borrowing requirement while minimising refinancing risk, currency risk and overall borrowing costs. To reduce their continuing demands on South Africa's public resources, the National Treasury will outline criteria for government funding of SOCs. Eskom is faced with a large amount of debt that remains a challenge to service without assistance. The National Treasury is working

on a sustainable solution to deal with Eskom's debt in a manner that is equitable and fair to all stakeholders. The work on the review of governance systems of several high risk state-owned entities is underway.

REGULATORY AND STRUCTURAL REFORMS DRIVING FAIRNESS, ACCESSIBILITY AND ACCOUNTABILITY

In order to implement the tax proposals announced in the Budget, National Treasury will propose its annual amendments to tax legislation that seek to meet government's revenue requirements and eliminate tax loopholes.

Work will continue to secure financial stability which supports economic growth, and also ensures better access to the financial sector for all residents and those doing business with South Africa. Regulating the financial sector will continue in order to ensure it is safe and provides enhanced customer services.

The Bounce Bank Support Scheme for businesses signalled in the February 2022 Budget Speech has come into effect. The Bounce-Back Scheme comprises of two mechanisms. The first mechanism is a loan guarantee which facilitates loans guaranteed by government to eligible businesses. The loans will assist eligible businesses in recovering from constraints in accessing finance due to COVID-19 lockdowns, the July 2021 civil unrest as disasters like the floods affecting KZN. The Bounce-Back Scheme will also support economic growth and foster job creation in South Africa. Funds borrowed from this Scheme, through participating banks, Development Finance Institutions (DFIs) and non-bank Small Medium Enterprise (SME) finance providers, can be used for growth and expansion and to foster job creation within South Africa.

Our Twin Peaks regulatory system, established in 2018, is beginning to bear fruit, to not only ensure that our financial institutions are financially healthy at all stages, but also where problems have been identified actions are immediately taken. For this very reason, I have been dealing with the concerns of the Prudential Authority that Ubank's capital adequacy levels have been deteriorating over the last 18 months, and the inability of the Board and its shareholders to adopt and implement an action plan to reverse this decline. While these engagements began under my predecessors they have intensified to weekly meetings since March 2022, and daily meetings over the past week. This intensification was triggered by Ubank's capitalisation falling below minimum regulatory requirements. The PA's engagement with the Board over the last months and weeks has, despite providing them with more time to respond satisfactorily with a credible action plan, resulted in a lack of alignment between the Board and its ownership trustees, and accelerated the need, and timing, of the curatorship.

On the recommendation of the CEO of the Prudential Authority, Deputy Governor Tshazibana, and acting in terms of section 69 of the Banks Act 94 of 1990, I have deemed it to be necessary and in the public interest to approve that UBank be placed under curatorship, effective from Monday 16 May 2022. Curatorship is a mechanism to provide regulators additional tools to save the bank, not to close it, and as such curatorship will assist in preserving depositor funds that are held by the institution, and will allow for its resolution to be done in a controlled and structured manner.

Over the last three years we have seen a steady improvement at SARS, which has contributed to the necessary improvement in our fiscal position by way of improved revenue collections and coordination of cash-flow management in conjunction with the National Treasury resulting in improved public debt management.

In a democratic system, taxation is a critical part of the social contract between the State and the citizens. Tax legitimacy and perceptions of fairness in the distribution of the tax burden are crucial to the willingness of citizens to pay taxes. Therefore, it is of utmost importance to adhere to the principles of a good tax system namely of efficiency, equity, simplicity, transparency and certainty, as well as ensuring a buoyant tax system that responds to the business cycles of the economy.

SARS will continue to expand the tax register, respond to illicit trade by removing illegal imports from circulation, investigate syndicate tax and customs crimes as well as investigate and hand State Capture related cases over to the NPA.

BUILDING ON OUR SUCCESS AND LEARNING FROM CHALLENGES

We are actively advocating coherent economic policy. National Treasury is reviewing the government's macroeconomic policies, from the global financial crisis of 2008 to 2020. The review examines how key indicators have evolved as well as assesses the implementation of policy. Policy recommendations emanating from the review will be engaged with stakeholders and would be communicated through The Budget process.

Through Operation Vulindlela, in partnership with the Presidency, there are decisive interventions to address structural problems cited as contributing towards constraints on economic growth.

In particular, we are supporting government to address inefficiency and the high cost of network services – including electricity, water, transport and telecommunications – that work against our goal of reducing the cost and improving the ease of doing business.

REINFORCING OUR COMMITMENT TO ETHICAL GOVERNMENT

A priority for National Treasury is to strengthen the transparency, efficiency, effectiveness and impact of public procurement by introducing the long awaited Public Procurement Bill, strengthening procurement decision-making responsibility and management at all public departments and institutions, and most importantly, to modernise the procurement system. This will strengthen data collection, enhancing analysis allowing for better reporting and subsequently increasing monitoring both by government and the public parties.

We received over 4000 submissions on the revised Public Procurement Bill and these have all been considered along with the recommendations by the several recent Commissions of Enquiries. Consultations with Nedlac commenced on 6 May 2022 as the Bill progresses towards tabling in Parliament this financial year.

Work is continuing at a pace on the PFMA and MFMA reforms and support measures as well as accelerating the implementation of the government's integrated financial management system with roll out of modules both in pilot departments and provinces this year.

In addition to strengthening legislative frameworks, capacity, capabilities, systems and processes of financial governance and management National Treasury will continue to play our role in fighting corruption and maladministration by conduct forensic audits, special performance audits and review of internal controls.

LEVERAGING INFRASTRUCTURE, GROWING OUR ECONOMY

We are also committed to supporting infrastructure development and the growth of economically integrated cities and communities. Treasury will continue to facilitate conditional grants, providing financial incentives for infrastructure planning and development to municipalities. This will be achieved through the Local Government Financial Management Grant; the Neighbourhood Development Partnership Grant; the Programme and Project Support Grant; and the Infrastructure Skills Development Grant. Transfers to these grants are projected to amount to **R6.9 billion** over the next three years.

REAPING THE REWARDS OF INTERNATIONAL PARTICIPATION

Through the international engagement with Multilateral Development Banks (MDBs) and International Finance Institutions (IFIs), South Africa will continue to foster collaboration, source technical best practice, as well as source competitive financing as part of our borrowing strategy. Five-year Country Partnership Strategies with the

MDBs will focus on fostering competitiveness, fostering investment, supporting SMMEs, creating jobs and economic recovery

NATIONAL TREASURY'S DEPARTMENTAL BUDGET

Madame Speaker, the department's budget over the next three years is **R2.8 trillion**. Close to 60 percent, or **R1.7 trillion**, is for transfers to provincial governments for the provincial equitable share.

A large portion of these funds will be disbursed to the provincial equitable share for adjustments related to compensation of employees in provincial departments, inflationary adjustments for non-governmental organisations within provincial departments of social development, and for the implementation of the presidential employment initiative in provincial departments of education.

Debt-service costs amount to 34.4 percent, or **R1 trillion**, of the department's budget over the MTEF period. With an additional R3 billion, a total of R34.3 billion has been allocated to the South African Revenue Service, to build the capacity of human resources and implement ICT projects.

The South African Special Risk Insurance Association (SASRIA) has been key to our response to the civil unrest in KwaZulu Natal and Gauteng last year, and we have an obligation to ensure that it can honour its financial obligations. The 2021/22 expenditure also includes the R18.1 billion paid to SASRIA as a direct charge from the Revenue Fund. In aggregate, SASRIA has received a total of R22 billion in the 2021/22 financial year.

CONCLUSION

Speaker, allow me to conclude by reiterating that we are at an inflection in our life as a society, and as an economy.

We are at a point of great uncertainty, but also at a moment of great opportunity. We are required to make some tough decisions. The moment demands that we stick to the policy course of balancing support for the most vulnerable households, with the careful rehabilitation of our public finances.

Lastly, I would like to thank my outgoing Director-General, Mr Dondo Mogajane. He has served the National Treasury, and his country, with distinction and integrity. Our democratic project, and the institutions that are the bedrock of a fair and prosperous society, rely on individuals like Mr Mogajane – individuals who are willing to dedicate themselves selflessly to a greater good.

Our continued gratitude goes to the Chairpersons of our oversight committees.
We look forward to your continued support and guidance.

I thank you.