

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 65 [NO192E]

★65. Ms D G Mahlangu (Mpumalanga: ANC) to ask the Minister of Finance:

What actions is the Government taking to (a) reverse the lack of growth despite increased government spending (details furnished) and (b) ensure that expenditure from the fiscus contributes positively towards stimulating growth in the economy?

CO192E

REPLY:

(a) Government is keenly aware of the challenges we face in terms of creating decent employment for all and eradicating poverty and inequality, especially in light of the setback caused by the covid-19 pandemic.

This is why President Ramaphosa unveiled government's Economic Reconstruction and Recovery Plan in October 2020. The plan sets out a range of immediate and short-term measures that will be taken to rebuild confidence, kick-start the economy and continue to mitigate the effects of the

pandemic. These measures are complemented by a set of structural reforms that will enable faster, more inclusive growth and employment over the medium to long term. Many of these reforms are drawn from government's long-term structural reform agenda as outlined in the *Economic Transformation, Inclusive Growth, and Competitiveness: A Contribution Towards a Growth Agenda for the South African Economy* document.

Structural reforms are a set of measures that are intended to alter the underlying structure of an economy. These reforms are meant to address the underlying structural elements that constrain growth, thereby raising a country's potential growth and make growth more sustainable and more inclusive.

Modelling by the National Treasury shows that the successful implementation of this plan can raise growth to over 3 per cent by 2030.

- (b) Fiscal sustainability is critical for supporting the economic recovery. By reducing spending growth over the medium term, Budget 2021 presents an improved debt-to-GDP outlook relative to the 2020 MTBPS. This should reduce the cost of borrowing for households and businesses, improve

sentiment in the economy and support a recovery in private investment.

The budget does, however, provide short-term support to the economy. Funding for crucial health and employment interventions to support economic recovery include:

- Vaccines and rollout (total funding of R10.3 billion)
- Second and third-wave support (R8 billion)
- Presidential Employment Initiative (R11 billion)
- Extension of COVID-19 SRD grant (R6.4 billion)

In terms of composition of spending, the 2021 Budget allows for infrastructure investment growth over the medium term, despite reductions in other areas.

- Over the medium term, payments for capital assets and capital transfers grow at a real annual average of 6 per cent per annum
- Budget 2021 also provides funding for key infrastructure reforms related to the Infrastructure Fund.

Over the next three years, the consolidated budget provides support for growth-promoting areas of expenditure, including:

- Industrialisation and exports (R110 billion)

- Agriculture and rural development (R84 billion)
- Job creation and labour affairs (R82 billion)
- Economic regulation and infrastructure (R307 billion)
- Innovation, science and technology (R53 billion)

To further support economic activity, the government will not implement the additional tax revenue measures announced in the 2020 MTBPS and has proposed a reduction in the corporate income tax rate to 27% alongside a broadening of the corporate income tax base.