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Medium Term Budget Policy Statement 2013

Speech

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Minister of Finance

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Honourable Speaker

Mister President
Deputy President
Fellow Cabinet Colleagues and Deputy Ministers
Governor of the Reserve Bank
MECs of Finance
Mayors
Members of the Diplomatic Corps
Directors-General
Honourable Members
Ladies and Gentlemen

I have the honour to present the fifth Medium Term Budget Policy Statement of President Zuma's administration, the fourth democratic government of the Republic of South Africa.

Over the past 4½ years, this government has steered our country through the worst global recession in 70 years. We have made bold, and correct, decisions which have restored growth, supported our industries, and maintained a sustainable fiscal policy.

This MTBPS outlines government's intent to:

- Pursue a fiscal path that balances the requirements of counter-cyclicality with a commitment to medium term consolidation
- Keep government debt on a sustainable long-term path
- Implement the National Development Plan
- Direct public spending to reignite inclusive growth and complement increased private-sector investment
- Support job creation and skills training, particularly for the unemployed youth
- Create a climate for investment

- Manage the risks emerging from the current and potential global economic turbulence
- Cut waste and extravagance in government
- Support black entrepreneurs as investors and partners in our industrialisation and broadening of economic participation.

Securing inclusive growth

Honourable Speaker, we must be frank with our fellow South Africans. This is a tough period, both globally and for the South African economy – but one with many possibilities and opportunities!

We are developing and implementing solutions to the challenges facing our economy:

- Growth is too slow.
- Unemployment is high and many households are over-indebted.
- Government expenditure substantially exceeds our revenue. Since 2008, we have issued more than R1 trillion in debt.
- Our level of savings is too low to finance the investment we need.
- We import considerably more than we export.

Unless we save and invest more, unless we expand and diversify our economy, unless we accelerate job creation, our aspirations will remain unfulfilled.

Above all, we need faster, inclusive, job-creating growth. Without growth we cannot increase the number of enterprises or create more jobs. Without growth we cannot generate the revenue needed to fund our social programmes, infrastructure investments, and incentives to support important industries.

We have a duty to broaden opportunities for those who do not have secure incomes, formal jobs, solid homes, electricity, water or access to health care. We have to share the benefits of growth, so that those of our people who are most vulnerable and disadvantaged can say *"This economy works for me".*

Faster and more inclusive growth calls for greater cooperation and better alignment between labour, business, government and other actors to get things done – hearing each other out, finding solutions, encouraging innovation, building a "smart" South Africa.

Nineteen years of democracy

Honourable Speaker, it is also appropriate, 19 years into our hard-won democracy, to celebrate our achievements as a young nation.

- Our economy has grown by over 80 per cent since 1993. National income per capita has increased by 40 per cent in real terms.
- Total employment has increased by more than 3.5 million.
- Fixed investment increased from 15 per cent of GDP in 1993 to an average of 20 per cent over the past five years.
- A new tax administration has been established in the South African Revenue Service, and an overhaul of the tax structure has allowed tax rates to be lowered while improving revenue performance.
- Over R600 billion in BEE transactions have been recorded since 1995.
- More than 15 million people are now eligible for social grants.
- We have built more than 3 million homes and have substantially increased the number of households with access to electricity, water and sanitation.

However, our work is far from done. As President Mandela once said, *"After climbing a great hill, one only finds that there are many more hills to climb…".* We must continue our process of transformation against a backdrop of global economic uncertainty. Despite this uncertainty, we must be steadfast, creative and bold.

Implementing the NDP

Honourable Speaker, the central message of the National Development Plan is clear – *To accelerate progress, deepen democracy and build a more inclusive society, South Africa must translate political emancipation into economic wellbeing for all. It is up to all South Africans to fix the future, starting today.* This MTBPS demonstrates government's resolve to implement the NDP through, among other things:

- Expanding electricity, transport and communications capacity
- Promoting industrial competitiveness and job creation
- Addressing challenges in mining and community development
- Supporting growth of our cities and special economic zones
- Broadening rural development and expanding agricultural opportunities, and
- Strengthening public service delivery while combating waste and corruption.

As the President noted in his Budget speech, "We have moved to the implementation of the plan. Going forward, all delivery agreements, sector plans, departmental strategic plans, as well as provincial and municipal plans will be aligned to the National Development Plan."

So we have a plan, and we now have to track progress, year by year, in its implementation.

Let me highlight some of the projects that are in progress :

- Construction of the Medupi and Kusile power stations is well under way.

- Rail capacity is being expanded to support manganese and coal exports.
- Over the next twelve years, we will replace more than 300 trains for the two million people who use Metrorail every day.
- Tax incentives for industrial development projects amounting to R10 billion have been approved over the past 3 years, which will support investment amounting to R35 billion.
- The manufacturing competitiveness enhancement programme has approved 387 applications since mid 2012, with a value of R2.6 billion.
- In support of regional infrastructure development, the Development Bank of Southern Africa has provided almost R1.5 billion for road projects in Angola this year and committed funding of R3 billion to energy projects in Tanzania and the Democratic Republic of Congo.
- The expanded public works programme created 970 000 work opportunities last year. The Jobs Fund has approved allocations of R3.4 billion to more than 60 projects, which will generate 90 000 permanent jobs and about 100 000 training opportunities over the period ahead.
- The President recently launched the Bridge City project, which brings together public and private investment to create a new urban centre linking the communities of Phoenix, Inanda, Ntuzuma and Kwamashu, north of Durban.
- Another excellent example of partnership between the public and private sectors is the Renewable Energy Independent Power Producer Programme. A total of 47 projects have been approved, to be completed between 2014 and 2016. The first 75 megawatt solar plant in the Northern Cape was connected to the Eskom transmission grid last month, three months ahead of schedule. Two wind farms in the Eastern Cape will be connected by May next year.

Honourable Speaker, these are just some ways in which implementation of the National Development Plan is proceeding. In many cases, it builds on initiatives that were already under way. In other areas, new programmes or reform proposals are being introduced.

To support job creation in special economic zones and for young workseekers, a revised Employment Tax Incentive Bill will be formally introduced in parliament tomorrow. This forms part of the multi-pronged approach to expanding work opportunities, especially for young people, envisaged in the national youth accord. The evidence on this is very clear: if young people find work within a reasonable timeframe after leaving school, this greatly improves their lifetime career prospects.

These are steps towards faster, more inclusive growth - and these are all areas in which private sector and civil society involvement is no less important than the role played by government.

The economic outlook

Honourable Speaker, in crafting our fiscal strategy for the next three years, Cabinet has taken careful account of global and local economic circumstances.

- Global economic activity remains subdued. In the euro area, which is our main trading partner, GDP growth of 1 per cent is expected next year, after negative growth during much of 2012 and 2013. The IMF has revised down the 2013 growth outlook for developing countries from 5 per cent to 4.5 per cent.
- Our economic prospects are interconnected with these global trends. As the United States tapers its quantitative easing programme and starts to raise interest rates, this will impact on our debt costs and might cause further volatility of the rand. And so we have emphasised in recent engagements with our international partners that progress towards a better future requires greater global cooperation and greater respect for the interdependence of industrialised and emerging economies.

- We now expect growth of about 2.1 per cent in the South African economy this year, rising to 3.5 per cent by 2016.
- Gross fixed capital formation will increase by about 4 per cent this year, mainly driven by public sector infrastructure projects. Private sector investment growth remains subdued, but should gather momentum over the period ahead.
- Consumer price inflation is expected to average 5.9 per cent in 2013, and to remain within the 3 to 6 per cent target band next year.
- A trade deficit of 2.6 per cent of GDP was recorded in the first half of 2013, contributing to a deterioration in the current account of the balance of payments to about 6½ per cent of GDP.
- Muted economic growth has translated into limited gains in job creation. The quarterly labour force survey indicates an increase in employment of about 275 000 in the year to July, but formal non-agricultural employment growth has been slow.

Boosting confidence and building stability

Over the past year, government has been working with business and labour in several sectors to build a better investment climate. A recent JSE/UBS roadshow in New York brought government ministers and leading South African CEOs together on the same platform, presenting a balanced perspective on South Africa’s economy.

Deputy President Motlanthe and Minister Shabangu responded quickly to allay concerns of investors in the mining industry. Ministers Shabangu and Oliphant have also made progress in resolving labour disputes in this sector.

Minister Davies has engaged with senior executives and labour representatives to improve cooperation and restore confidence in the automotive sector. Constructive cooperation between government, business and organised labour also characterises the work of the task team on infrastructure, which aims to get these crucial projects moving.

Meanwhile, a wide range of measures are in place to give greater impetus to investment:

- Ministers Gigaba and Peters are overseeing substantial improvements in road and rail logistics, including reductions in container handling charges at our ports.
- The special economic zones framework introduced by Minister Davies provides new opportunities for supporting industrial development and exports.
- Under Minister Patel's leadership, action has been taken to ensure that competition is not undermined by collusive practices.
- Improved administration of work permits for skilled foreign workers will be implemented next year by Minister Pandor.
- Reforms are also under way to enhance private-sector participation in the electricity sector and improve the structure of support programme to firms.
- Work is in progress on a new promotion and protection of investment bill and a policy framework to address investor concerns relating to ownership, tax, industrial support measures and exchange controls.

Government remains committed to macroeconomic stability, supported by prudent fiscal management and sound monetary policy. We are aware of the risks posed by the deficit on our current account, which has so far been mitigated by our flexible exchange rate but which over the long term requires fundamental change to the structure of our economy.

These policies ensure that the country's finances are sustainable; that wages, social benefits and savings are not eroded by high inflation; and that the economy can absorb external shocks.

Financial sector reforms are now in the implementation phase, with the Twin Peaks legislation to establish two new regulatory authorities to be submitted to Cabinet shortly. The retirement reform programme is also progressing, with the consultation process on retirement fund costs at its final stage. Draft regulations will soon be released.

Fiscal policy and the budget framework

Allow me to turn, Honourable Speaker, to the fiscal policy framework set out in the MTBPS.

We remain committed to counter-cyclical fiscal management and long-term sustainability. A sustainable expansion of public services is an important developmental goal and cannot be achieved without economic growth. A larger economy means higher revenue.

The 2013 MTBPS balances fiscal consolidation with support to the economy. The proposed fiscal framework will:

- Meet the 2013/14 deficit target, as defined in the new format presented in the 2013 Budget Review
- Narrow the deficit going forward in order to stabilise public debt
- Grow expenditure at 2.2 per cent in real terms within a clear expenditure ceiling
- Contain spending growth on wages and goods and services in order to stabilise debt and begin rebuilding fiscal space.

Expected gross tax revenue for 2013/14 has been revised down marginally by R3 billion to R895 billion. Personal income tax collection remains strong as a result of high wage settlements, and corporate income tax has been robust. Lower revenue growth is expected over the medium term as a result of slower economic growth than we projected in February.

The Tax Review Committee established earlier this year is mandated to inquire into the role of the tax system in promoting inclusive economic growth, employment creation, development and fiscal sustainability. Its first report, on small and medium-sized business, will be submitted before the end of this year.

The budget deficit will narrow from 4.2 per cent in the current year to 3 per cent in 2016/17. This will stabilise debt over the medium term and begin to rebuild fiscal space.

Government's approach to improving provision of public services is therefore focused on better use of existing resources and shifts in the composition of spending, rather than raising overall expenditure.

Division of revenue & medium term expenditure framework

As Members of the House will know, preparation of spending plans for the 2014 Budget is now in progress and will be aligned to the NDP. The MTBPS provides a summary of the expenditure framework which Cabinet has approved, and within which national and provincial budgets are being prepared.

Our Constitution requires an equitable division of revenue between the national, provincial and local spheres of government. Over half of all revenue raised by national government through taxes and borrowing is transferred to provinces and municipalities.

- The MTBPS proposes a national appropriation of R1.1 trillion in 2014/15, R1.2 trillion in 2015/16 and R1.3 trillion in 2016/17.
- Just under 10 per cent of the total, or R110 billion next year, will be spent on debt service costs.
- The budget framework includes a contingency reserve, which is R3 billion next year, R6 billion in 2015/16 and R18 billion in 2016/17. This allows for unforeseeable claims on the fiscus, and future policy considerations.
- This leaves R1 trillion to be allocated next year, rising to R1.2 trillion in 2016/17. The proposed division of revenue allocates R484 billion to national departments, R453 billion to provinces and R93 billion to local government next year.

The provincial share is largely determined by the requirements of education and health services and public service remuneration. Salary costs and infrastructure requirements are the main adjustments to national votes.

New planning requirements were announced in the 2013 Budget for provincial grant allocations for health and education infrastructure. All provinces have submitted the required asset management plans. Incentives to reward value-for-money in infrastructure delivery will take effect in the period ahead. In cooperation with the Department of Performance Monitoring and Evaluation, a programme of expenditure reviews is in progress, focused on housing, broadband access, industrial development zones, in-service training of teachers, amongst others.

The NDP recognises capable municipalities as the bedrock of a capable state. National Treasury will continue to closely monitor and engage – and if need be intervene – in those municipalities that fail to live up to the standards of public service established in the Constitution.

Minister Tsenoli, correctly, emphasises the need for more people who can afford to pay for municipal services to do so. We must also appeal to citizens not to damage public property during protests.

In supporting municipalities over the MTEF period, a strong focus on economic development is proposed. From next year the implementation of the City Support Programme will be accelerated, including incentives to encourage more compact and efficient spatial planning and investment.

The regional bulk infrastructure grant receives an additional R934 million over the spending period to finance bulk water projects. By 2014, responsibility for the housing function will be devolved from provincial to local government in six metropolitan areas.

As a result of these and other additions, allocations for provinces are increased by R11.2 billion over the 2014 MTEF and allocations for local government are increased by just over R1 billion.

Public expenditure growth has remained well within the limits set by government over the past two years. We have again put every effort into finding savings, eliminating waste and reprioritising spending towards key social and development objectives. Over the MTEF period ahead, R10 billion in spending has been reprioritised.

To achieve value for money in these initiatives, Honourable Speaker, we need improvements right across government in financial management. This applies equally to provinces and municipalities, where we have to see much better accountability and discipline in the stewardship of public resources. Wasteful expenditure on expensive cars and overseas trips is unacceptable. I will say more about this shortly.

Rigorous procurement reforms are being initiated, especially in infrastructure project management, to strengthen service delivery, eliminate waste and root out corruption. In reviewing the procurement system, we will also ensure that its contribution to broad-based black economic empowerment and local industrial development is reinforced.

The NDP recognises that we need a better education system to address poverty and build a more capable workforce. Education is the largest single category of government expenditure. It is projected to increase by an annual average rate of 7 per cent over the next three years to R287 billion in 2016/17. The school infrastructure backlogs grant and education infrastructure grant will grow strongly over the spending period.

Employment and social security is the fastest growing function over the MTEF period, increasing by 14 per cent to R75 billion in the outer year. The Community Work Programme will be operational in every municipality by the end of the spending period.

Under the oversight of the Presidential Infrastructure Coordinating Commission, the rate of public investment will gather further momentum next year and beyond, supporting social delivery, industrialisation and skills development. Projects that will get under way soon include a new dam in the Eastern Cape, rehabilitation of the main roadway between Eastern Cape and KwaZulu-Natal, and a new coal-fired power station.

We are reviewing our financing and regulatory procedures to make them more flexible where needed, to provide for multi-year approvals and to shorten decision times. These efforts will need to be accompanied by strengthened technical capacity at municipal level in particular.

The PICC is focussing on maintenance of infrastructure, with proposals to ring-fence budget allocations to ensure that we retain the usability and value of the infrastructure over the planned life-cycle.

The rollout of infrastructure has been accompanied by programmes to support the local manufacture of components, ranging from buses to energy components. These create sustainable, decent jobs and are part of the legacy that the infrastructure rollout plan will leave.

In the past twelve months we have also seen new projects announced by private sector investors in the auto sector, television, film and agro-processing, building on government's investment programme and supported by our development finance institutions.

These initiatives signal our shared commitment to invest today for the expansion of the economy and more inclusive growth.

Adjustments appropriation

Honourable Speaker, allow me to comment briefly on the 2012/13 outcome and the revised numbers for 2013/14.

Both nationally and in provinces, there has been a commendable moderation in spending growth. I would like to acknowledge the support of Cabinet colleagues and the provincial executives in adhering to budget limits.

For the present year, the February budget provided for an appropriation of R1.06 trillion. After taking into account the changes proposed in the Adjustments Appropriation Bill and the Division of Revenue Amendment Bill, expenditure this year will be R1.05 trillion, or 9 per cent more than the 2012/13 outcome.

The budget adjustments this year include

- R2.3 billion for national departments and provinces to cover inflation-related salary increases
- R894 million rolled over from unspent balances in 2012/13
- R500 million for expenditure financed by departmental revenue
- Earmarked amounts for broadband connectivity in schools, troop deployments in the Democratic Republic of Congo and repair of flood-damaged infrastructure.

Details are set out in the Adjusted Estimates of National Expenditure.

Cutting costs and abuse

As government, we acknowledge that we too must provide value for money. Although most government spending is effectively managed, there are many opportunities to cut or minimise costs and stop abuse. In these difficult times, Cabinet has decided to take a number of initiatives which will apply both to members of Cabinet and to officials in national, provincial and local government. This will include state entities and state-owned enterprises.

As the former president of Brazil, Lula da Silva, said, "Poor countries must give an example of honesty, of ethics, so that we truly deserve the solidarity from millions and millions of people who would like to contribute but sometimes are not sure their money will go where it should go."

In respect of the Executive, including provincial and municipal Executives, Cabinet has of its own accord has decided the following:

- Cars:
    - The cost limits for official cars will be standardised
    - Bulk purchasing will be used to reduce costs
    - Security features will be a consideration
    - There will be no compensation for use of personal cars.
- Overseas delegations:
    - Business Class only for Ministers
    - Assistants to Ministers will be limited to two
    - Direct routes will be used
    - Number of officials to be kept to a minimum.

- Housing:
    - Ministers awaiting allocation of houses will be accommodated in rented apartments not hotels
    - New refurbishment guidelines for limiting costs will be developed.
- No new credit cards to be issued and existing ones to be cancelled immediately.

Our approach to reducing costs and eliminating wasteful expenditure in the rest of government will focus on six areas over the period ahead:

1. The largest is consultant services. There are of course necessary engineering and advisory services employed by government departments. However, we need:
    a. Better contract management
    b. Stricter control of consultancy fees
    c. Each government entity to develop a consultancy reduction plan over the course of this financial year.
2. No credit cards.
3. Travel and related costs:
    a. Hiring of cars to be restricted to B Class except for special instances such as rural travel
    b. The number of officials travelling to Cape Town offices will be limited
    c. The Leader of Government Business will engage with Parliament on measures to reduce costs, such as the size of delegations appearing before parliamentary committees, and the cost implications of the current Pretoria-Cape Town arrangements

   d. Business class for overseas travel for DGs and DDGs only

   e. Business class for DGs only on domestic flights.

4. Advertising:

   a. Guidelines to limit non-essential costs and for better use of GCIS facilities will be developed.

5. Catering and event costs:

   a. Guidelines will be developed for reducing event costs, including better use of government facilities rather than outside venues for meetings

   b. No public funds to be used for purchase of alcohol

   c. The entertainment allowance will be limited to R2 000.

6. Following the review of accommodation leases initiated by Minister Nxesi, steps are under way to reduce long term office accommodation and government housing costs and make further savings from electricity demand management measures in government buildings.

Conclusion

Honourable Speaker, I thank President Zuma for his wise and steadfast leadership, and Deputy President Motlanthe for his valued guidance. I am grateful for the support of the Ministers Committee on the Budget, members of the Treasury Committee, Cabinet colleagues, Premiers and provincial finance MECs, during a difficult but hopeful time.

My sincere appreciation to the following for their invaluable and constructive contributions:

- Mr Thaba Mufamadi, Mr Mshiyeni Sogoni, and Mr Charel de Beer and Mr Teboho Chaane, who chair the standing committees on finance and appropriations, and the select committee on finance.

- The chairperson of SCOPA, Themba Godi.

- Parliament for the crucial role it plays in processing and overseeing legislation and we would like to call upon all parties to support government in the implementation of the NDP.
- Governor of the South African Reserve Bank, Ms Gill Marcus and her team, for a supportive monetary policy,
- The Auditor-General, Terence Nombembe, who retires. I would also like to welcome his successor Kimi Makwethu and wish him and his staff well for their future work.
- Mr Ivan Pillay and the staff of the South African Revenue Service for their creative and valiant efforts to collect the revenue we need,
- Deputy Minister Nene for his invaluable support and sharing of duties,
- Director-General Lungisa Fuzile, who has provided erudite and prudent leadership, and the dedicated and patriotic Treasury team which has consistently done what is in the best interest of all South Africans.
- Directors-General of all departments – for the cooperation and help

Honourable Speaker, we are living through turbulent global economic circumstances. Taking the National Development Plan as point of departure, Cabinet has agreed to a budget framework which protects our fiscal position and supports policies and programmes that support inclusive, sustainable growth.

This is a framework that acknowledges that there is hard work ahead – and recognises that a faster growing economy is in everyone's interest. We all gain, when more people have work. We all gain, when our firms can compete on international markets. We all gain, when rising incomes contribute to greater capacity for public service delivery. We all gain, when our divisions and inequality fade into history and we celebrate a shared more prosperous future.

As we head towards two full decades of freedom, let us reaffirm our commitment to the ideals that our leaders have stood for. In the words of former President Nelson Mandela: "Overcoming poverty is not a task of charity, it is an act of justice. Like slavery and Apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. YOU can be that great generation. Let your greatness blossom."

Honourable Speaker, I hereby submit the Medium Term Budget Policy Statement 2013, and I table:

- the Adjusted Estimates of National Expenditure,
- the Adjustments Appropriation Bill 2013,
- the Division of Revenue Amendment Bill 2013,

for consideration by Parliament.

I thank you.