

2017

Medium Term Budget Policy Statement

Speech

Minister of Finance
Malusi Gigaba

25 October 2017

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Honourable Speaker

Mister President
Deputy President
Cabinet Colleagues and Deputy Ministers
Deputy Speaker
MECs for Finance
Leaders of all political parties
Governor of the Reserve Bank
SARS Commissioner
Representatives of organized business and labour
Civil society and faith community leaders
Honourable Members

Fellow South Africans
Molweni! Sanibonani! Dumelang! Goeie middag! Avhusheni!

It is my privilege to present the twentieth *Medium Term Budget Policy Statement* for consideration of the House and all South African

I also table:

- The Adjusted Estimates of National Expenditure, and
- The Adjustments Appropriation Bill
- The Division of Revenue Amendment Bill
- Taxation Laws Amendment Bill
- Tax Administration Laws Amendment Bill
- Rates and Monetary Amounts and Amendment of Revenue Laws Bill

Introduction

As we consider the medium-term outlook, one is reminded of a poem by Ben Okri, entitled ‘Poetic Fight’, which I quote:

“Will you be at the harvest,
Among the gatherers of new fruits?
Then you must begin today to remake
Your mental and spiritual world,
And join the warriors and celebrants of freedom,
Realizers of great dreams.
You can’t remake the world without remaking yourself.”

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With these evocative words, Okri challenges us to remake ourselves in order to remake the world around us.

To become the realizers of great dreams, we must challenge and reimagine ourselves, be prepared to reinvent and create anew.

As part of this mammoth effort, and in one of the most important achievements of the fourth democratic administration, a National Development Plan (NDP) was developed five years ago, constituting a long-term vision for the country.

The NDP was developed through an unprecedented and remarkably inclusive process, canvassing the views of South Africans from all walks of life, and drawing in the best national expertise and minds, as embodied by the distinguished and diverse group of national planning commissioners who developed the plan.

This culminated in the Vision 2030, which spelled out what was required to realize our aspirations for our society, and for all who live in it.

It was absolutely critical for Vision 2030 to use as a starting point the aspirations for our people.

That is what government is about, and that is what development is also about – putting in place the conditions for people to realize their aspirations for themselves.

This is true to Okri's clarion call which exhorts us not merely to be at the harvest or the realization of the dreams, but to be among the gatherers of the fruit and the realizers of the great dreams, to be present at the letsema not merely as the beneficiary of the harvest of great fruit, but as an active participant of the sowing and ultimately one of the harvesters.

The NDP envisages a future in which our people will not be passive beneficiaries of the largesse of democracy, but indeed active builders and midwives of the South Africa we want.

Indeed we must all be prepared to plant the seeds of the harvest.

As Indian Nobel prize laureate and development economist Amartya Sen observed in his book, *Development As Freedom*:

“Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy. Expanding the freedoms that we have reason to value not only makes our lives richer and more unfettered, but also allows us to be fuller social persons, exercising our own volitions and interacting with – and influencing – the world in which we live.”

Our people aspire:

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- to raise their children in conditions of safety, free from threats of sexual assault, drugs and gangsterism;
- to live healthy lives, with access to medical care to prevent and treat illnesses;
- to develop their capabilities through education and training, apprenticeships and employment;
- to build wealth sufficient to live a decent lifestyle now and in their years of retirement, and to leave something to their families after passing on; and,
- perhaps above all, to actualize themselves, to take advantage of all that life has to offer, and pursue their dreams as masters of their own destiny.

At its core, it is this fundamental purpose of enabling people-centred development that is and must be the central objective of government, and the capable and developmental state called for by Vision 2030.

In this regard, the Medium-Term Budget Policy Statement (MTBPS) is an important opportunity to reflect on the country's finances and economic outlook, and to what extent this outlook supports our national development objectives as articulated in Vision 2030.

It is an opportunity to think about how we must remake ourselves, if we are to reach the harvest evoked by Okri.

We are giving an honest view of the challenges facing our country.

It is not in the public interest, nor is it in the interest of government, to sugar-coat the state of our economy and the challenges we are facing.

It is only when we understand these challenges fully and candidly that we will know what to do and can decide what course we must take in addressing them, as well as what trade-offs we must make in the national interest.

The fiscal framework we present to you recognizes this and does exactly this.

The period ahead is not going to be an easy one.

Our resolve is to remain on course and not to deviate irretrievably from the fiscal consolidation agenda we embarked on a few years ago.

We will continue to optimize, squeeze and innovate to improve the quality and efficiency of our spending.

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We will continue to explore options available to us to stretch the rands in our care to address the challenges faced by the majority of the South African people – particularly unemployment, poverty and inequality – and the myriad social problems which emanate from these.

It is tough but we must rise to the occasion.

Improving our economic growth outlook over the period ahead remains our biggest challenge.

Creating jobs and dramatically rolling back the tide of unemployment remains our most urgent priority.

Ukuthuthukisa, nokulingana ngokomnotho, nokwandisa amathuba emisebenzi kubantu bakithi, yikho okumele sikuqhambise kukho konke esikwenzayo.

Government cannot do it alone.

We need business, labour and civil society to come together to forge common solutions to growing the economy inclusively, and on a more radical and sustainable basis.

Together, we must forge not only common dreams and commitments, we must become the architects of the dreams and ideals we share.

Time is of the essence.

Our people want progress; they want tangible improvements in their lives.

Government hears the call for urgency, to act decisively on addressing key problems, and creating tangible outcomes that citizens feel in their daily lives.

Honourable Speaker,

We are proud to say, that even in these difficult times, our nation's budget continues to be a platform for social and economic transformation for all South Africans.

The budget is strongly aligned with constitutional imperatives and is highly progressive.

Two-thirds of spending goes to realizing social rights enshrined in the constitution.

The budget also strengthens the capabilities of working people to meaningfully contribute to national resources.

Among developing countries, our fiscal system is notable for the extent to which it redistributes resources from wealthy to the poor and working families.

In response to spatial inequality, it develops township economies and connects them to economic opportunities, and transfers significant resources from urban to rural communities.

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It cannot be overstated that the budget's ability to advance constitutional and development objectives relies on economic growth as a prerequisite.

Economic Outlook

I turn now to the medium-term economic outlook.

Honourable Speaker, we have had to revise economic growth projections downwards from 1.3 per cent as tabled at the time of the budget to 0.7 per cent for 2017.

Growth is subsequently expected to increase slowly reaching 1.9 per cent in 2020.

This trend assumes that the status quo prevails.

Therefore, we have the power to change our course; the political, social and economic agency to chart a new path.

The global environment may be helpful, as growth is improving, despite persisting risks.

The IMF projects that global growth will average 3.6 per cent in 2017 and reach 3.7 per cent in 2018.

The positive global outlook reflects a recovery in demand and trade in Europe and Asia.

World trade volumes are expected to increase by 4.2 per cent in 2017.

Low interest rates in the United States, Europe and Japan remain supportive of growth.

The US will reach its pre-crisis average growth rate of 2.3 per cent next year, which bodes well for broader global conditions.

The Euro area will continue to benefit from strong domestic demand.

In Japan, better-than-expected growth in net exports is likely to improve its performance in 2017.

Brazil and Russia have returned to growth after lengthy recessions.

Growth in Brazil has been supported by a strong export performance.

In Russia, stabilising oil prices and improved confidence have contributed to improved growth outcomes.

Similarly the outlook for Sub-Saharan Africa is projected to recover to 2.6 per cent in 2017, and climb to 3.4 per cent in 2018, which is however still below the average in the pre-crisis years.

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Growth outcomes vary across the region, but there are many opportunities.

For example, Kenya and Ethiopia are expected to grow at 5.0 and 8.5 per cent respectively in 2017 due to strong domestic demand and infrastructure investment.

Our firms are in a great position to capitalise on renewed growth in Africa.

The development of our region will depend on how we leverage our global relations and the ability to mobilise both domestic and international resources.

A key opportunity in this regard is to improve regional trade by upgrading key ports of entry, especially Beit Bridge which is the gateway to the North-South Corridor.

The Department of Home Affairs, is working on revamping this and other ports of entry through public-private partnerships, which will improve the movement of travellers and trade facilitation.

Regional development requires capacity building in areas of capital markets, tax collection, combatting illicit financial flows, budgeting, infrastructure financing and development and many others.

Together with Germany we will be chairing a working group at the G20 focusing on mobilising financing for infrastructure in the African continent.

As the global and African economy improves we need to better position ourselves to take advantage of the improved global outlook and, in turn, strengthen our medium and long-term growth prospects.

There is no magic bullet to do this; much depends on the policy choices made and the effectiveness of their implementation.

Procrastination and dithering must end, we must demonstrate decisive leadership.

We must plant the seeds of the harvest we want to reap.

Progress on the reform agenda is critical if we are to take advantage of changing global conditions.

We need to increase the pace of reforms.

Government must improve its productivity and decisiveness.

Achieving inclusive growth and economic transformation

Honourable Speaker,

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At the advent of our democracy, the people and their leadership forged a social contract to pursue a better life for all!

The platform for this had already been laid during the course of our long, arduous and gallant struggle for freedom, which sought not only political rights, but fundamental socio-economic transformation which would benefit all the people.

The Freedom Charter articulated our common aspirations for a future in which the people shall govern, enjoy political and socio-economic freedom and live in peace with their neighbours.

During this, the Centenary of OR Tambo, it is fitting to reflect on the prophetic words of the great man, who did as much as anyone to usher in the democratic dispensation we enjoy today.

He predicted that economic transformation would be a core issue of national dialogue in the democratic period, saying that:

“the issues as to how the wealth of the country is redistributed for the benefit of all our people, how the economy is remoulded in order that all South Africans may thrive and prosper, are of prime importance and should find their solutions in the context of democracy. These are matters requiring the participation of the people; issues to be settled by informed debate and discussion in a democratic and sovereign parliament rather than through street battles.”¹

He predicted this very moment, that democratically elected leaders, with the people’s participation, would forge solutions which would ensure the prosperity of all South Africans.

Accordingly, we have set ourselves ambitious but attainable targets in the NDP to alleviate poverty, inequality and unemployment.

We said:

- we would grow the economy by 5.4 per cent per year, and
- we would bring unemployment down to 6 per cent by 2030

Honourable members and fellow South Africans, let us for a moment consider the importance of economic growth.

Why do we need our economy to grow? It is economic growth that:

- creates employment opportunities,
- creates opportunities for large and small businesses to thrive,

¹ *Oliver Tambo Speaks*. ‘Strategic options for international companies’. Address to the Business International Conference. London. 27 May 1987.

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- allows our population to accumulate wealth,
- supports increases in government revenues, and
- facilitates the expansion of social programmes.

Economic growth generates the tax revenue that allows the rollout of housing, water and sanitation, health services, education and many other services the government provides.

Growth is therefore a precondition for our ability to deliver on the promise for a better life for all.

Disappointingly, between 2010 and 2016, the level of economic growth compares very poorly against our NDP ambitions.

Consequently:

- GDP per capita has declined for two consecutive years,
- Millions of South Africans are living in poverty,
- Unemployment is 27.7 per cent – the highest level since September 2003, and is most harshly felt by our youth, and
- Wealth remains highly concentrated – 95 per cent of our wealth is in the hands of 10 per cent of the population.

Honourable members, we have an unenviable TWIN challenge of growing the economy as well as ensuring that it is more inclusive.

Our starting point therefore is that economic growth and transformation are mutually-reinforcing principles.

We cannot allow a repeat of the past where periods of relatively high economic growth were characterised by an uneven accrual of economic benefits.

There should be no doubt that an economy that grows should ensure that all our people live productive, prosperous and dignified lives.

The economic exclusion of a vast section of the population undermines the realisation of the constitutional vision of a more equal society.

This economic exclusion is driven by a range of challenges that have been well-documented over the years:

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- Direct black ownership and management of the economy remains low.
- Employment equity remains a challenge with progress for black people and women participating at top and senior management levels have apparent stalled
- A high degree of market concentration, with low competition and high barriers to entry. In several sectors, a handful of companies dominate, controlling more than 80-90% of the market. Prospective market entrants find it extremely difficult to break in, as dominant companies enjoy seemingly insurmountable advantages.
- Historically segregated and entrenched spatial planning affect travel costs as well as job search and effectively disadvantage many individuals from equal participation in the economy.

These distortions in the economy are unsustainable.

They aggravate social fragmentation and pose a real risk to inclusive economic growth.

The inequality they spawn can generate extremely divergent views, which make compromises difficult.

The resulting stalemate and policy uncertainty can contribute to economic weakness and low confidence.

As a result, South Africans (and citizens across the world) are rightly calling for a change in how the benefits of growth are distributed.

We cannot commit similar mistakes in the next phase of economic growth.

We need to engineer a new growth and transformation model:

- A model that is anchored on a common vision for the economy and its society;
- A model that embraces sharing of economic resources provided by our land. The South Africa that truly should economically belong to all of us that live in it; and
- We need a transformation model that goes beyond mere ‘tick-box’ compliance towards structural change of patterns of ownership, control, management and production.

These conditions for growth and transformation will lay a better foundation for better policy designs, discourse and collaboration.

We need to demonstrate that we can be a country at work, and a country that works:

- We desperately need government to effectively play its role as an enabler for and an active participant in growth and transformation.

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- We desperately need business that invests, thereby creating growth and employment.
- We need labour that is productive, and ever growing its capabilities.
- We need a society that aids progress through constructive dialogue, active citizenship and social tolerance.

In this regard, I would like to highlight the encouraging example of the CEOs Initiative, which brings together various business formations across economic sectors.

I commend them for advancing efforts on:

- A Youth Employment Service (YES) initiative to bring close to a million young South Africans into internship over the next three years.
- Setting up an R1.5 billion Small and Medium-sized Enterprise (SME) fund which will soon be operational.

I highlight these developments to show the power in having a unity of purpose.

This Medium-Term Budget Policy Statement reaffirms our collective commitment to inclusive growth, transformation and competitiveness because these three policy objectives form a virtuous circle.

Our next phase of growth must be characterised by radical economic transformation broadly defined by President Zuma in this year's State of the Nation Address, as

“...fundamental changes to the structures, systems, institutions and patterns of ownership, management and control of the economy, in favour of all South Africans, especially the poor, the majority of whom are African and female.”

Kumele sifinyelelise inqubekela phambili ne ntuthuko kubantu, ikakhulukazi kubantu abantsudu, abesifazane, nentsha.

Broad-based economic transformation opens up the economy to those previously marginalised, generating new businesses and wealth; it is about reforming key sectors of the economy to support globally-competitive production.

Slow progress and poor co-operation has given rise to a lack of trust between stakeholders and policy contestation that has compromised the economy and confidence.

For example, it is critical that we resolve the impasse in the mining sector, which is a critical to the South African economy.

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Government and business must find common ground on a Mining Charter which attracts investment, advances transformation and benefits workers and communities.

Government is eager to get all parties back to the negotiating table to find a solution.

In the immediate term, we need to rebuild confidence as a matter of urgency and also work to engender an economic system that is built on a common vision.

Honourable members, business and consumer confidence are currently at historical lows.

This has direct negative consequences for investment, job creation and household spending.

Confidence indicators can be self-reinforcing and self-fulfilling as they serve as leading indicators to investment and employment growth which is critical for overall economy.

For example, when business is optimistic about prevailing and the prospects of economic conditions, they will set in motion a virtuous cycle of accelerating investment, employment and income growth which will ultimately boost economic activity.

Conversely, heightened economic anxiety and languishing confidence can become entrenched, often making it difficult to reach and sustain growth over the long term, creating a vicious cycle of low growth, low investment, unemployment and thus reduced government revenues and reduced government spending.

We must do the hard things required to move from a vicious cycle to a virtuous one.

We must be decisive, avoid procrastination and work together to forge a social contract for a better life for all.

We must plant the seeds of the harvest we wish in the end to reap.

Demonstrative actions that build business and consumer confidence can encourage global and domestic investment, broaden private-sector activity and boost competitiveness.

Through our interactions with investors, both international and domestic, several key issues came to light about constraints and growth and reasons behind low confidence, that is,

- Policy uncertainty emanating from long outstanding legislations in key sectors,
- Governance challenges and weak balance sheets for State-owned Companies,
- A constrained fiscal framework and rising government debt, and
- Perceived political uncertainty.

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In order to address these and other concerns, in July Cabinet announced, 14 confidence-boosting measures with clear timelines to facilitate faster implementation.

It is commendable that we have been able to deliver on key aspects of the confidence boosting measures in the last few months.

We have proven that when a vision is set out with clear targets, we are able to put our shoulders behind the wheel.

To cite but a few,

- We appointed a new board, permanent Chief Executive Officer, as well as a Chief Restructuring Officer at SAA. The airline now has a strengthened and capable leadership to implement its Long Term Turnaround Strategy, to which we will return later.
- Together with Ministers Zulu and Pandor, we are setting up a fund for Small Business Enterprise development that focuses specifically on start-ups. The Government Technical Advisory Centre is assisting us to operationalise the fund.
- The Council for Scientific and Industrial Research completed a study on spectrum availability and open access on behalf of Minister Cwele and his colleagues at the Department of Telecommunications and Postal Services.
- Minister Patel is driving a process for the Competition Commission to launch a market inquiry to investigate data prices, and it has been actively investigating anti-competitive behaviour. Minister Patel is also finalizing draft legislation to improve our policy and legal framework on competition issues.
- We are finalising Draft legislation to enable the Postbank to receive a banking license.
- Minister Nkwinti is consulting stakeholders on the Regulation of Agricultural Land Holdings Bill.

Colleagues, we have to acknowledge that these efforts alone are not going to see our NDP goals realised.

We need to increase the pace and scale of structural reforms!

To stimulate economic growth, these confidence-boosting measures must be accompanied by a range of other microeconomic reforms.

Broader work on the 9-Point Plan needs to be intensified. Other reforms are outlined in some detail in the National Development Plan.

Some of these microeconomic reforms include:

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- Completing necessary logistics-sector reforms that drive down port and rail prices, improving global competitiveness.
- Energy policy which provides electricity at the lowest possible cost to households and industry.
- We should ensure greater support for the tourism sector, also increasingly referred to as the new gold. We must also expedite necessary reforms to enable ease of travel in and out of the country particularly to support the tourism sector which is a critical source of revenue.

In fact, many of these reforms are already part of the government's existing work programme.

It is not a lack of planning that is letting us down.

Our greatest challenge remains effective implementation and slow pace in many instances.

We cannot expect the economy to slow down to the speed of government; government must speed up to meet the needs of the economy.

Our interactions with various businesses and stakeholders across many sectors have also highlighted several issues that are in line with the vision outlined in the NDP:

- Those in the manufacturing sector are calling for additional measures to support the sector to return to its former glory.
- Those in the mining sector are calling for the resolution of key legislation to enable investments.
- Those in agriculture talk about missed opportunities with regards to the provision of land and government support for farmers.
- There are widespread concerns about the governance and performance of key state-owned companies.
- All are united in condemning corruption in the public and private sector and are calling for renewed efforts to combat it.

Minister Davies and I agree on the importance of the manufacturing sector in supporting sustainable growth in the long-term.

Manufacturing is vital in that it forms the basis of a modern economy by raising productivity levels, innovation and driving structural change.

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Indeed Minister Pandor consistently reminds me, rightly so, that even during our economic difficulties, we must continue to invest in research, development and innovation, as an indispensable driver of social and economic progress.

The manufacturing sector links agricultural production and resource extraction to high value addition, which is critical for our trade balance.

In a nutshell, manufacturing is critical to our aspirations as an economy to grow, create decent and sustainable jobs, transform, and develop into a modern society.

Public procurement, with a strong localisation component, is an important tool of industrial development across the world and has already started delivering results.

The current Preferential Procurement Regulations provide the following:

- targeted procurement through pre-qualifying on the basis of a BEE Status Level, or SMME or designated groups i.e. black youth, women, cooperatives, township and rural enterprises and military veterans..
- compulsory sub-contracting to designated groups in all projects or contracts above R30 million. Nothing prevents organs of state from applying sub-contracting provisions in projects or contracts below R30 million.
- designation of sectors, and industries for localization to support industrial development, localization and job creation.

Further work on procurement reform is advanced. The Public Procurement Bill, which we plan to table in Parliament in 2018, provides for the following, among others,

- set asides in the allocation of contracts for the protection or advancement designated groups, including township and rural enterprises, black, women and youth-owned enterprises, cooperatives and people with disabilities, to name but a few,
- proposes tools for optimizing efficiency and effectiveness and value for money,
- The Bill will consolidate this fragmented procurement legislative landscape and provide for a single overarching national procurement framework for all spheres of government.

However, the government cannot do this alone, as it can only buy so much.

In order for procurement to have a lasting impact on our manufacturing sector we need the private sector to match us in these efforts.

The Proudly South African campaign must be deepened and expanded.

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I would like to challenge Mr Jabu Mabuza, with whom I chair the CEO Initiative, to assist in putting localisation firmly on the agenda of the Initiative.

Further, we remain committed to providing incentives for investment, production and employment in a way that is effective, and provides the state with value for money.

Fiscal framework

Let me now outline the fiscal framework.

In the democratic period, our government has responded to our nation's high social needs with budgets which devote substantial resources to social spending.

In our discussions about fiscal policy, we must not lose of the fact that the majority of South Africans rely on the services provided by government in order to live a decent life.

These services are largely sustained by the greater part of consolidated government expenditure which goes to social services, on education and training, healthcare, water, housing, public transport and social protection.

The fiscal framework which supports these services is threatened by the low growth we have experienced in recent years, in an environment where there are new social pressures.

Over the past four years, government has followed a path of measured fiscal consolidation, aiming to stabilise the debt-to-GDP ratio by reducing spending and introducing tax increases.

This strategy met with some success, reflected in a narrowing primary deficit. But debt has continued to rise as a share of GDP as economic growth rates have declined.

This year, sluggish economic growth has caused a significant reduction in the tax revenue outlook which has significantly eroded government's fiscal position.

Tax revenue is projected to fall short of the 2017 Budget estimate by R50.8 billion in the current year, the largest downward revision since the 2009 recession.

At the same time, additional appropriations of R13.7 billion to recapitalise South African Airways (SAA) and the South African Post Office (SAPO).

These have been partially offset by use of the contingency reserve.

A shortfall of R3.9 billion remains.

To ensure the expenditure ceiling is not breached, we have decided to dispose of a portion of government's Telkom shares. We do not take this decision lightly, but we have had to in order to maintain the credibility of the expenditure ceiling.

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As a result of these developments, the consolidated budget deficit will widen to 4.3 per cent of GDP in 2017/18, against a 2017 Budget target of 3.1 per cent of GDP.

We have been carefully deliberating on the best fiscal strategy to ensure the programme of measured fiscal consolidation is not derailed. None of the options are free of pain.

Some would argue for the imposition of more austere measures to aggressively rein in the growth of public debt.

Others might argue that to reduce spending levels would further damage the economy.

Government's short-term options to reverse this situation are limited.

Given that per capita income is falling, the economic impact of further expenditure cuts or tax hikes could be counter-productive.

Following several years of expenditure restraint, further budget cuts will involve hard choices and difficult compromises. Sudden or deep additional cuts that are not well-targeted could put severe pressure on already stressed departmental budgets.

At the same time, government is acutely aware of the dangers of unchecked debt accumulation.

Debt-service costs are the fastest-growing category of expenditure, crowding out social and economic spending.

By 2020/21, nearly 15 per cent of main budget revenue will be spent servicing debt.

To confront these challenges, government has agreed on at least four elements.

Firstly, to offset revenue shortfalls and reduce borrowing, the contingency reserve has been pared down to R16 billion over the next three years.

Secondly, to consider fiscal efforts – a mix of expenditure cuts and revenue increases – to address some of the revenue shortfall over the MTEF.

Announcements will be made on these fiscal efforts at the time of the 2018 Budget.

Thirdly, over the medium term, government will maintain the ceiling on non-interest expenditure.

New spending priorities will have to be met by funds reallocated from within existing limits.

Any adjustments to the ceiling itself would need to be matched by revenue increases.

Fourthly, government recognizes that the best way to ensure the sustainability of public finances is to achieve higher economic growth.

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We aim to kick-start inclusive growth by implementing the 14 measures to improve confidence, and accelerating progress on structural and microeconomic reforms.

Delivery on these commitments will be complemented by a stimulus package, options for which are being considered.

Summary of the MTBPS

To summarize key points about the economic outlook and the fiscal framework in this MTBPS:

- Conditions in the global economy continue to improve, but the risks of financial turbulence remains high, and the long-term outlook for growth and commodity prices remains muted.
- The 2017 Budget projected GDP growth of 1.3 per cent in 2017. Our growth forecast for this year has been revised downward to 0.7 per cent. We forecast growth of 1.1 per cent in 2018, and 1.5 per cent in 2019.
- Due to lower than expected economic growth this year, gross tax revenue for 2017/18 is projected to be R50.8 billion rand lower than projected in the Budget.
- The consolidated budget deficit will widen to 4.3 per cent of GDP in 2017/18, against a 2017 Budget target of 3.1 per cent of GDP.
- Gross national debt is projected to reach 61 per cent of GDP by 2022, with debt-service costs approaching 15 per cent of main budget revenue by 2020/21
- Government aims to resolve the setback in fiscal consolidation by: paring down the contingency reserve over the MTEF; cutting into the deficit with fiscal efforts to be announced in the 2018 Budget; kick-starting higher economic growth by implementing confidence-boosting measures and implementing reforms; and maintaining the expenditure ceiling.
- The expenditure ceiling is threatened in the current year, as a result of government's recapitalization of South African Airways and the South African Post Office. Government is disposing of a portion of its Telkom shares to avoid a breach, with an option to buy them back at a later stage.
- Infrastructure investment will amount to R948 billion over the next three years
- Efforts to improve supply chain management and achieve value for money in government spending will continue.

Spending priorities

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To ensure that the budget process is aligned to the NDP, the Department of Planning, Monitoring and Evaluation has prepared a mandate paper which:

- contributes to better alignment between planning and budgeting by providing a clear link between the NDP, the MTSF and budget choices,
- recognises that resources are finite and thus hard choices will need to be made about which government programmes should continue and which should be postponed or shut down, as well as the need for more efficiency in the way departments deliver their programmes, and
- Improves alignment between all spheres of government and include inputs from other stakeholders like provinces and local government on the budget before Cabinet approves the final version.

Despite fiscal pressures, government will continue to protect spending on core social programmes that benefit poor South Africans.

Over the next three years, consolidated spending will increase by an annual average of 7.3 per cent, from R1.6 trillion in 2017/18 to R1.9 trillion in 2020/21.

Community development, learning and culture as well as health are the fastest-growing functions.

The student movement has correctly put the issue of higher education at the centre of our transformation agenda.

We cannot hope to grow and develop without the skills and intellectual capabilities that our universities and technical training colleges produce.

The budget already makes an enormous contribution.

The sector's budget is the fastest growing element of expenditure over the medium term, rising from R77 billion this year, to R97 billion in 2020/21.

This includes the provision of financial assistance to subsidize the education of more than 450 000 students every year.

But clearly more needs to be done.

The Heher commission of inquiry into higher education and training has delivered its final report to the President and we await the President's determination and announcement in this regard.

Although the fiscal constraints we face are real and binding, we must make every effort to ensure that no academically deserving student is excluded due to financial constraints.

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Further announcements will be made in this regard in the 2018 Budget.

The Adjustments Appropriation Bill allows for the revision to the budget tabled in February, as prescribed in the PFMA.

Provincial and local government

With respect to the division of revenue between the three spheres of government.

MTBPS sets out revenue projections and the proposed MTEF for the three-year period ahead.

The division of revenue takes account of the respective functions and own revenue raising potential of each sphere.

Over the next three years the proposed division of revenue allocates 43.2 per cent of non-interest spending to provinces, mainly for health, education and social services, and 9.2 per cent to municipalities to support the cost of delivering basic services to the poor.

The Finance MECs for the nine provinces share my commitment to eliminating wasteful spending across government and ensuring that our public funds are used for the benefit of our citizens.

Provinces have already made good progress in reducing spending on non-priority items and in managing the growth of their wage bills.

They are now making strides towards also using their procurement budgets to drive local economic development and transformation.

Government is continuing to review the formula used to allocate the provincial equitable share among the nine provinces to ensure that it remains impartial and fair, while responding to the needs of provinces.

The priority government places on the social services that provinces deliver - including health, basic education and social development services that account for nearly 80 per cent of provincial spending – is reflected in the growth of provincial allocations by an average of 7.2 per cent a year over the MTEF, well above projected inflation.

South Africa is an urbanizing country; over 70 per cent of households will live in urban areas by 2030.

All over the world, urbanization has been associated with a reduction in absolute levels of poverty and rising prosperity.

But due to the massive inequalities and social legacy of Apartheid, South Africa is at risk of missing the benefits of this urban revolution.

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Government is on course to position cities and towns as the engines of future economic growth.

But to do so, it has embarked on the programme to radically transform the spatial footprint of our urban areas, and rid ourselves of the distorted, inefficient and highly unequal spatial legacy of apartheid as clearly set out in the NDP.

Recently, Cabinet approved the Integrated Urban Development Framework that will guide our response to urbanization, across all its dimensions.

Already, the Cities Support Programme is under implementation in metropolitan municipalities, and will be scaled up from 2018.

A complementary programme for secondary cities has also been prepared, and will begin to rollout in Polokwane and uMhlatuze from next year.

Similar initiatives are under development for regeneration of small towns.

Infrastructure investment

The estimated infrastructure expenditure of R948 billion over the MTEF constitutes some 5,9 per cent of GDP over the same period, an important contributor to growth and employment.

The lion's share of economic infrastructure is provided by SOCs which are projected to spend a total of R402,9 billion over the MTEF.

Municipal spending is projected to be R197 billion whilst the provinces are anticipated to spend R208 billion over the METF.

The Education sector is expected to spend R44 billion on building new schools and refurbishing existing schools, libraries and laboratories.

Government is embarking on a number of new initiatives in infrastructure in order to improve the quality of our infrastructure spending.

This includes maintenance of existing infrastructure, improved procurement of infrastructure projects, better conditional grant terms to eliminate inefficiencies and underspending.

Cabinet has approved a Budget Facility for Infrastructure which aims to overcome shortcomings in planning and execution of large infrastructure projects.

It has begun considering proposals in, amongst others, water, rail development, broadband, magistrate and high court construction and refurbishment.

Tax legislation

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In addition tabling of tax legislation for the 2017 Budget, I am also happy to announce that Cabinet has approved the release of the carbon tax bill to Parliament for formal consideration and adoption.

Tax revenue and administration

The fairness and integrity of the tax system is critical for the deep social contract between government and the people, and shapes the willingness of the people to pay their just dues to the state which governs on their behalf.

In this respect, it is important that we continually strengthen tax morality and deal with any underlying causes that may undermine it, such as public concern about government corruption, poor governance or those undermining or abusing the fairness of the tax system.

Whilst most of our taxpayers remain responsible, we are noting slippage in compliance.

SARS has enforcement powers, which are in the main punitive and this will be applied to taxpayers, who wilfully and cynically avoid paying their taxes.

However, SARS also remains sensitive to taxpayers, who are facing challenges.

SARS is also aware of the major problem of illicit financial flows.

To this end, SARS is working closely with FIC and SARB to close gaps, which are currently arbitrated.

The capacity of these institutions to combat cyber-crime must be enhanced.

From an international perspective, the first exchanges of information under the global Common Reporting Standards took place at the end of September 2017.

This information will give SARS insights into South Africans' foreign financial accounts.

Data verification without treaty partners is currently under way.

Country-by-country reporting, which will give SARS insights into risk areas of multi-national enterprises (MNEs), will begin at the end of this year (31 December 2017).

The first exchanges will begin next year.

Government is aware of the concerns raised by taxpayers regarding delays in refunds, and with regard to the capacity of SARS to deal with transfer pricing, increasing VAT fraud and aggressive tax structuring.

The Office of the Tax Ombud and the Davis Tax Committee have also commented on such challenges, and made recommendations.

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I am engaging with the Commissioner of SARS on the recommendations, to take concrete and practical steps to help improve taxpayer confidence.

Financial sector transformation

The financial services sector is at the heart of the South African economy and touches the life of all citizens.

Financial services allow people to make daily economic transactions, save and preserve wealth to meet future aspirations and retirement needs, and insure against the loss of income, personal disaster or vulnerability.

At the macro level, the financial sector enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people.

The new Twin Peaks system of financial regulation represents a significant reform.

It will create a new regulator for market conduct, which will substantially improve the way financial institutions treat their customers.

For too long, consumers have been sold inappropriate products, and face high costs and a wall of opaqueness.

For example, one of the furniture chains sold retrenchment insurance to retired people.

I will shortly be releasing for public comment, draft transitional regulations to begin the process of implementing the Twin Peaks system.

We are on track to create the two new authorities in the 2018/19 financial year.

Honourable Speaker, we also need a transformative financial sector – a sector that is not only transformed, but is transformative to the economy.

The Finance and Trade and Industry Portfolio Committees in Parliament have done excellent work over the past few months holding hearings on all aspects of financial sector transformation.

There is consensus that more can be done in transforming the sector.

Their draft report carefully balances the competing interests of the nation as a whole, foreign investors, borrowers, lenders and ordinary South Africans.

This report will assist in preparing for the Financial Sector Summit that we hope NEDLAC will convene early next year, so that we can take stronger steps in developing appropriate targets for the Financial Sector Charter which accelerate broader transformation.

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In the interim, Minister Davies and I support the latest version of the financial sector charter all stakeholders have developed in the last two years, to comply with the latest BEE codes.

The development of Sector codes is an integral and strategic vehicle to advance transformation in the economy at sectoral level.

Sector codes provide sector stakeholders an opportunity to develop a common vision for the growth and transformation of their sector.

The new financial sector code, supported by all stakeholders, sees transformation as being about not only ownership, but also skills development, targets for empowerment finance, access to credit, management control, and the provision of services to previously underserved areas.

Supply Chain Management efficiencies and Cost Containment

Government is also working diligently on achieving efficiencies in Supply Chain Management.

Since the introduction of expenditure ceilings and the implementation of specific cost containment measures in 2013 spending on consultants, travel, accommodation, catering, advertising and conferences has declined by R2 billion.

The Office of the Chief Procurement Officer (OCPO) has managed to expose corrupt activities in certain government institutions and state-owned enterprises through the review of contracts above R10 million.

The fight against corruption is being accelerated and National Treasury is currently working with law enforcement agencies to investigate contracts which are alleged to be irregularly procured in certain state-owned enterprises.

The fight against fraud, corruption and abuse of supply chain management system is being extended to cover both public and private sector corruption.

This includes restricting companies found to have contravened competition laws through collusive practices which rob government and citizens of billions of rands.

OCPO has strengthened the initiatives to modernize public procurement through the use of technology to automate procurement processes to simplify and reduce the costs of doing business with government, generate savings through centrally arranged contracts and implementation of a differentiated procurement approach through strategic procurement initiatives.

The National Treasury and provincial treasuries are working with relevant government departments in identifying sectors and commodities for potential investment by black industrialists to promote local industrialization and local economic development for job creation.

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The payment of legitimate invoices to suppliers within the prescribed 30 days is critical for SMEs. Failure to do so is devastating for small businesses, and is a financial misconduct in terms of the PFMA and MFMA.

Therefore, accounting officers and accounting authorities who fail to do so should be charged for financial misconduct.

There must be consequence management in this regard.

Further, performance agreements of accounting officers and accounting authorities must include timeous payment of suppliers as one of the key performance areas.

Stabilizing and revitalizing state-owned companies

Recent years have seen several worrying developments with regard to state-owned companies, with worrying trends of governance failures, corruption, operational inefficiency and the need for government bailouts.

In this way, state-owned companies (SOCs) are developing a poor reputation with the public at large, and have become a major fiscal risk to the country due to government guarantees of their debt.

SOCs, some of which are among the biggest companies in the country, are powerful levers for the state to directly drive economic transformation.

They have played a leading role in the development of world class infrastructure which sustains the South African economy.

South Korean development economist Ha-Joon Chang points out that many advanced countries relied on state-owned companies to industrialize.

They provide services to historically neglected communities, invest heavily in skills development and support the development and transformation of upstream suppliers and downstream customers.

State-owned companies have played a critical role in the advancement of black professionals, managers and skilled workers, many of whom have gone on to play leading roles in the private sector.

SOCs like Eskom, Transnet and SAA, are multi-billion rand companies by revenue, with enormous value chains.

We have increasingly begun to use these strategically, incorporating localization and preferential procurement into their operation philosophy and investment plans.

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Thus, for example, at Transnet we established a trend of appointing black accounting firms as external and internal auditors, contracts worth tens of millions of rands annually.

In addition to the revenue flowing to these companies, it helps advance their growth in making it more difficult for large private-sector companies to exclude them on the basis that they have not proven their ability to service large, complex enterprises.

This is an illustration of the developmental impact of SOCs, if leveraged strategically.

The current challenges at some of our SOCs obscure the success and progress evident at stable and self-sustaining SOCs such as:

- DBSA which is a leading institution on the continent in infrastructure provision, particularly at local government level;
- ACSA, which has rolled out world class airport infrastructure which has helped position our country as a dynamic regional business and tourism hub;
- and the Land Bank, which plays a key role in supporting emerging farmers, and agricultural development more broadly.

Government can manage SOCs well, and will act decisively to stabilize those which are experiencing challenges.

Executives of SOCs are paid competitive salaries for their professional expertise as business managers.

The public, and indeed government as a Shareholder, are correct to expect a lot of them.

As the Shareholder, we are tired of being dragged into crises by those we employ to govern and manage state-owned companies.

This must end.

The trend of SOCs seeking bailouts to finance operational expenditure, inefficiency and waste must also be brought to an end.

In due course, National Treasury will make proposals to make our government guarantee framework more stringent.

It is imperative that government ensures that the Boards of Directors in the SOCs are properly qualified, ethical and provide the requisite skill sets that will ensure that the SOCs are soundly and profitably run, to properly serve their mandates.

This needs to be done without delay.

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If board members do not exercise the leadership, good governance and financial management expected of them, government must act quickly and decisively.

Last week, government appointed a new board at the SABC, and overhauled the board of South African Airways.

These entities now have trusted, capable boards which will be supported and expected to guide their institutions back to healthy and sustainable operating states.

I would like to take this opportunity to thank the lenders to SAA, especially our local banks, for the understanding and patriotism they have shown, and the constructive role they continue to play in SAA's turnaround.

After we meet the new board of SAA, we will pronounce on our plans to consolidate aviation assets and bring in a strategic equity partner.

We believe a strategic equity partner can play an important role in SAA's turnaround, as well as unlocking value for the fiscus which has invested significantly in the airline over the years.

Despite its current challenges, government remains convinced that retaining a national carrier, is in the public interest.

It is in our national interest, to have influence over our connectivity to all parts of the world, and not have to rely exclusively on the profit and scheduling considerations of global airlines.

SAA sells South Africa's economy, tourism and culture to every one of its passengers.

Global airlines do not, and will not, perform this priceless marketing and branding role for us.

So let us not ignore the contribution SAA is making to our nation's development, even as we insist on dramatic improvements in its governance, strategy and operations.

Similarly, Eskom is critical to our development, with the link between electricity infrastructure and economic growth being well established.

Over the last decade, our economic growth was effectively capped by our electricity supply constraints, which we have now resolved.

Of course, we now have the problem of surplus capacity, but that is a better problem to have.

Eskom is addressing this by working with its intensive users to grow demand, as well as increasing exports to our neighbouring countries.

The energy mix going forward, and sequencing of adding new generation capacity, will be informed by the updated Integrated Resource Plan.

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During the Presidency Budget Vote on 31 May 2017, President Zuma re-affirmed the view that: “With regard to nuclear energy, we reiterate that the programme will be implemented at a pace and scale that the country can afford.”

This will necessarily take the economic climate and electricity demand into consideration.

It is Eskom’s governance issues which are of major concern to government.

The failures of governance, leadership and financial management Eskom are of grave concern.

As government is guarantor over a significant portion of Eskom’s debt, it has become a significant risk to the entire economy.

Eskom is simply too important to the country to fail, and we will not allow it to.

A team from National Treasury with the necessary expertise will work closely with the Department of Public Enterprises to address the governance, management and financial management challenges at Eskom and report back periodically.

Government commits to the following urgent steps.

We will appoint a new board at Eskom before the end of November this year.

Working with the new board, we will ensure a credible executive management team is in place.

We will ensure its financial management complies with the Public Financial Management Act (PFMA), and that irregular expenditure is accounted for.

Conclusion

In conclusion...

Five years on from the adoption of the NDP Vision 2030, the fast growth that will enable us to make substantial progress in eliminating unemployment, poverty and inequality remains elusive.

We must find the wisdom, the humility and the perspective to ask how must we remake ourselves in order to build the South Africa we want?

The global economy is growing again after the turbulence of the financial crisis and ensuing recovery. While not without risks, global conditions are favourable for South African growth.

To take advantage of this, we must get out of our own way and forge a working coalition for inclusive growth and economic transformation.

Restoring confidence is the cheapest form of stimulus we can inject.

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Delivering on the 14 confidence-boosting measures announced in July is a start.

It must be followed up with structural and microeconomic reforms.

Government must move at the pace required by society and the economy, not expect it to slow down and wait on our behalf.

We were once one of the world's great mining countries; we can be that again, this time with the benefits shared across our entire society.

We can reindustrialise our economy with manufacturing as a platform.

We have one of the world's most beautiful countries, with warm people and rich culture and history. We can grow our tourism sector even more, creating sustainable jobs.

Let us view tourism as an export growth sector.

Government recognizes that action must be taken to stabilize gross public debt, requiring tough decisions on expenditure, even as we acknowledge that growth is the essential prerequisite for restoring the health of the nation's finances.

Honourable Members, the challenge is clear.

We must drive inclusive growth and economic transformation.

We must deliver on our commitments to regain the confidence of citizens and the business community.

We must work with business, labour and civil society to forge consensus on structural reforms and growth programmes.

We must bridge divides, make difficult decisions, and transcend special interests in the nation's interest.

We must remake ourselves, and in so doing, remake our society.

We must plant the seeds of the harvest we hope to reap.

In that way, we can build the South Africa we want.

We can bring forth the harvest and the realisation of our dreams.

In the Preface to his book, *Development as Freedom*, Amartya Sen says right at the onset:

“We live in a world of unprecedented opulence, of a kind that would have been hard even to imagine a century or two ago. There have also been changes beyond the economic

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sphere... And yet we also live in a world with remarkable deprivation, destitution and oppression. There are many new problems as well as old ones, ... Overcoming these problems is a central part of the exercise of development.”

He proceeds to say:

“Indeed, individual agency is, ultimately, central to addressing these deprivations. On the other hand, the freedom of agency that we individually have is inescapably qualified and constrained by the social, political and economic opportunities that are available to us. There is a deep complementarity between individual agency and social arrangements... Expansion of freedom is viewed, in this approach, both as the primary end and as the principal means of development.”

This is what we must pursue – the expansion of the frontiers of political, social and economic opportunity of our people in order to enhance their freedom of agency.

If the masses of our people must sow the seeds of the fruit they must harvest, then we must do all we can to uplift the growth by implementing the structural and SOC reforms required to get us out of the slow growth zone.

As I have repeatedly said throughout this speech, it is in our hands, we must shake the complacency off, accept the urgent challenges we have and increase the pace and scale of the implementation of the reforms.

This MTBPS is a collective policy statement of Cabinet.

President Zuma, thank you for your guidance and leadership.

Deputy President Ramaphosa, thank you for your encouragement.

I would also like to thank my Cabinet colleagues, members of the Ministers’ Committee on the Budget and the Presidential Fiscal Committee for their cooperation and support.

I wish to thank Provincial Premiers and Finance MECs, and Municipal Mayors for their commitment, cooperation and ideas in confronting our shared fiscal and financial responsibilities.

Deputy Minister Buthelezi and Director-General Mogajane have given invaluable support throughout the budget process.

I know that Members of the House will join me in expressing appreciation to:

- Staff of the National Treasury,
- The South African Reserve Bank,

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- The South African Revenue Service, and
- The finance family institutions.

My sincere thanks to the finance and appropriation committees, who are responsible for processing the Division of Revenue Amendment Bill, the Adjustments Appropriation Bill, the Finance Bill and the Taxation bills.

I thank you.