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MTBPS SPEECH

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REPUBLIC OF SOUTH AFRICA

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MEDIUM TERM BUDGET POLICY STATEMENT

Check against delivery

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SPEECH

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Honourable Speaker, Nosiviwe Mapisa-Nqakula
His Excellency, President Cyril Ramaphosa
His Excellency, the Deputy President Paul Mashatile
Cabinet Colleagues
Members of the Executive Committees for Finance
Honourable Members
The Governor of the South African Reserve Bank
The Commissioner of the South African Revenue Service
Fellow South Africans

I have the honour to table the following documents before this House:

- The Division of Revenue Amendment Bill;
- The Adjustments Appropriation Bill;
- The Rates and Monetary Amounts and Amendment of Revenue Laws Bill;
- The Taxation Laws Amendment Bill;
- The Tax Administration Laws Amendment Bill;
- The Revenue Laws Amendment Bill;
- The Eskom Debt Relief Amendment Bill;
- The Revised 2023/24 Fiscal Framework;
- The 2023 Adjusted Estimates of National Expenditure; and
- The Medium-Term Budget Policy Statement.

INTRODUCTION

Madam speaker, allow me to join the President and the nation in congratulating the Springboks on winning the 2023 Rugby World Cup for a record fourth time.

This is a proud moment that has unified and brought joy to South Africans. Thank you *Mabhokobhoko* for reminding us that with preparation, commitment, unity and resilience, you can conquer any adversity!

In the same spirit, I am honoured to present the Medium-Term Budget Policy Statement.

This Policy Statement outlines our resolve to:

- Stabilise public finances while maintaining support for the most vulnerable and protecting front line services;
- Fast track growth-enhancing reforms. This includes a new financing mechanism for large infrastructure projects; and
- Reconfiguring the structure and size of the state, while strengthening its capacity to deliver quality public services.

These priorities echo the message delivered by His Excellency, the President during his address on Monday. Thank you for your commitment to staying the course of growth and sound public finances.

ECONOMIC AND FISCAL CONTEXT

Madam speaker, the economic outlook over the medium term remains weak, reflecting the cumulative effect of power cuts, the poor performance of the logistics sector, high inflation, rising borrowing costs, and a weaker global environment.

GLOBAL OUTLOOK

The International Monetary Fund forecasts global growth to slow from 3.5 per cent in 2022 to 3 per cent in 2023 and 2.9 per cent in 2024.

The weaker growth outlook for China, South Africa's largest trading partner; the lower commodity prices; and the risk that the US interest rates will remain higher for longer, means the global economic environment is less supportive of South Africa's growth prospects.

DOMESTIC OUTLOOK

Domestically, we forecast a 0.8 per cent growth in real GDP in 2023. This is 0.1 percentage points lower than the growth projection at the time of the 2023 Budget. Growth is projected to average 1.4 per cent from 2024 to 2026.

These growth rates are not sufficient to achieve our desired levels of development.

However, our economy has shown signs of resilience.

- Real Gross Domestic Product, a measure of economic performance, is now above pre-pandemic levels.

In the first half of the year, the economy grew by 0.9 per cent despite record levels of loadshedding.

The tourism sector grew more than 70 per cent in the period, driven by the arrival of more than 5 million international tourists.

Agriculture expanded by 7.8 per cent in the period compared to 2022, while the construction, transport and communications sectors also achieved strong growth.

In the words of the President, these are the reasons for hope.

Unfortunately, since February, the risks to the economy that we warned about, including the decline in global commodity prices that granted us substantial revenue last year, elevated inflation and the Rand depreciation, have materialised.

As a result, our public finances are significantly weaker.

The main budget deficit has increased by R54.7 billion compared with the 2023 Budget estimates. This reflects lower revenue performance, higher wage bill costs and higher projected debt-service costs.

The main reasons for this are a sharp fall in corporate income tax, particularly from the mining sector, although personal income tax collection was better than forecast.

The result of the shortfall is a substantial worsening in the main budget deficit in the current fiscal year. We are now projecting a deficit of 4.9 per cent of GDP compared to our previous estimate of 4.0 percent.

Under these circumstances, measures to stabilise public finances and reform the economy to generate higher growth are essential.

We recognise that alongside these measures, our most effective way of funding government is through an efficient tax administration and by broadening the tax base.

SARS will continue its focus on enforcing compliance in areas such as debt collection, fraud prevention, curbing illicit trade, voluntary disclosures, and encouraging honest taxpayers to comply voluntarily.

Every additional Rand of revenue collected is one Rand less which we have to borrow.

FISCAL OUTLOOK

Madam speaker, allow me to frame our fiscal challenges as follows:

Government spending has exceeded revenue since the 2008 global financial crisis.

These rising annual budget deficits have reached an extent where the government will borrow an average of R553 billion per year over the medium term.

As a result, gross debt rises from R4.8 trillion in 2023/24 to R5.2 trillion in the next financial year. By 2025/26, it will exceed the R6 trillion mark.

We now expect gross government debt to stabilise at 77 per cent of GDP by 2025/26. This is higher than the level we forecast in February.

Over the next three years, debt-service costs as a share of revenue will increase from 20.7 per cent in 2023/24 to 22.1 per cent in 2026/27.

The cost, or interest of this debt, for next year alone, amounts to around R385.9 billion. Over the MTEF, interest costs amount to R1.3 trillion.

It is important, however, to point out that our debt levels and rising debt service costs are not problems in and of themselves.

Our challenge is that rising debt services costs are crowding out important social spending, and our economy has not grown fast enough to support increasing expenditure or our current debt levels.

Therefore, this policy statement sets out our strategy for avoiding a fiscal crisis and preventing the build-up of systemic risks to the economy.

The decisions we have taken include spending reductions and reprioritisation, while also taking concrete steps to support growth.

None of these decisions are taken lightly. They are taken with the short- and long-term viability of public finances in mind, and in the interests of balanced and inclusive growth.

Madam speaker, limited public sector capabilities erode public trust in public institutions and waste scarce public resources, affecting service delivery and economic growth.

In this regard, the MTBPS also announces that action is being taken to review and reconfigure the structure and size of the state, in line with the President's commitment in the 2023 State of the Nation Address.

A joint plan to review government departments, entities and programmes over the next three years is being prepared.

This plan will address overlapping mandates and functions, including in public entities, and ensure that we create standards for more sustainable remuneration of executives that serve public entities receiving transfers from the fiscus.

We also intend to leverage this plan to better direct our scarce resources to priority areas.

The President will make further announcements in this regard in due course.

FISCAL CONSOLIDATION

We understand that lowering debt and the budget deficit alone is not enough. It is for this reason that our fiscal strategy in this MTBPS prioritises reforms aimed at strengthening GDP growth.

To this end, excluding interest, funding for capital projects remains the fastest-growing item by economic classification.

Furthermore, we are introducing a new mechanism for improving the pace of delivery of capital projects.

The MTBPS also recognises that government must respect the budget constraint, to preserve sustainability of government services that are being crowded out by debt-service costs.

We propose a strategy of spending adjustments based on policy priorities, and a reconfiguration and rationalisation of the state, which includes closing or merging ineffective entities and programmes, and enhancing the complementarity of its functions.

We also consider that additional measures to anchor fiscal policy and maintain confidence need to be investigated. Work is underway in this regard and an update will be provided at the time of the Budget Review.

Madam speaker, the poor revenue performance requires an adjustment to spending both in-year and over the medium term.

EXPENDITURE

In the current financial year, spending has been revised down by R21 billion. Further reductions of R64 billion in 2024/25 and R69 billion in 2025/26 are proposed.

The implications of these adjustments will be partially offset by departments implementing the cost containment guidelines issued by the National Treasury. It will also be offset by implementing control measures on payroll systems in line with the directive issued by the Department of Public Service and Administration, as well as implementing the recommendations from the spending reviews conducted in the past two fiscal years.

Government has made a strategic decision to allocate funds to sectors that are personnel heavy, such as Health, Education and Police Services.

- Additional funding of R24 billion this year and R74 billion over the medium term will be used to fund the 2023/24 wage increase and the associated carry-through costs in these sectors.

- R34 billion is allocated to extend the Covid-19 Social Relief of Distress grant by another year. Over the medium term, a provisional allocation is retained while a comprehensive review of the entire social grant system is finalised.

- The presidential employment initiative will be extended for another year through repurposing of a portion of funds from existing public employment programmes such as the Expanded Public Works Programme and the Community Works Programme. A comprehensive review of public employment programmes is underway.

Finally, I wish to inform the house that we are making additional allocations in the current year for unforeseeable and unavoidable events. R1.6 billion is being made available for disaster relief, including to repair flood damage in various provinces.

DIVISION OF REVENUE

Honourable members, the Division of Revenue is an important tool for the equitable allocation of funds to provinces and municipalities.

Over the next three years, government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces, and 9.9 per cent to local government.

We acknowledge the pivotal role of local government in delivering effective services to communities. We also recognise that the provincial and municipal spheres are under pressure to meet increasing infrastructure service demands.

The government remains dedicated to supporting the sustainability and financial stability of our municipalities. Let there be no doubt, effective local governance is the bedrock of service delivery.

Equally, financially stable municipalities are the foundation of our nation’s economic prosperity.

With this mind I want to briefly address one of the most pressing issues facing our nation – water provision, management and the state of our wastewater systems.

Over the years, we have seen the impact of poor water management leading to polluted water sources and limited access to clean water for our citizens.

To address this challenge, the government is making changes to conditional grants, starting with the urban settlement development grant, the integrated urban development grant, and the municipal infrastructure grant.

These changes include reconfiguring of grants and revising the grant conditions to align them with the Green Drop, Blue Drop, and No Drop assessments relaunched by the President in as part of efforts to ramp up the performance of water service authorities.

In addition, we will be working with local governments and the Department of Cooperative Governance and Traditional Affairs to develop new funding models, so that municipalities can continue to earn revenue through the transition to more self-generation of electricity by firms and households.

To cater for the growing pressures imposed by climate change on infrastructure, especially at the local level, we have created a resource pool to specifically respond to future disasters.

In this regard, R372 million has been added to the municipal disaster response grant, while R1.2 billion has been added to the municipal disaster recovery grant, to cover the repair and rehabilitation of infrastructure damaged by flooding in February and March 2023.

Madam Speaker, mitigating the environmental risks posed by climate change must go hand-in-hand with addressing the financial and economic risks posed by climate change.

The National Treasury is making progress towards developing a disaster risk financing strategy, which will among others, enhance existing risk financing instruments.

MUNICIPAL DEBT RELIEF

Honourable members, in light of these difficult financial conditions faced by municipalities, addressing the Eskom problem without dealing with the municipal non-payment and uptake of debt relief programme, would have been counterproductive.

The debt-relief arrangement for Eskom outlined in the 2023 Budget noted that a large proportion of outstanding municipal debt is owed to Eskom. National government has introduced support to relieve municipalities of debt to Eskom.

On application by municipality, the debt to Eskom up to 31 March 2023 will be written off over a three-year period, in equal annual tranches. This is provided the municipality complies with set conditions.

These conditions include enforcing strict credit controls, enhanced revenue collection, up-to-date payment of Eskom monthly current account.

By October 2023, 67 applications had been submitted, totalling R56.8 billion or 97 per cent of total municipal debt owed to Eskom at end-March 2023.

Twenty-eight applications have been approved; the remainder are being assessed and verified with provincial treasuries.

The ultimate goal is the profound transformation of these municipalities, by empowering them to build financial resilience, amplify their capacity to generate sustainable revenue, and rekindle a culture of paying for services rendered.

RAISING ECONOMIC GROWTH PROSPECTS

Madam speaker, the President, stated in his address on Monday that ‘More rapid and inclusive growth is the only solution to unemployment, poverty and inequality. Growth is also necessary for sustainability of public finances.’ Mr President, I could not agree with you more.

This MTBPS supports measures to lift our growth prospects over the medium term and restructures the state to become more effective.

In its approach, the government is intentional about leveraging the collective wisdom of all stakeholders to realise the vision set out in the National Development Plan to create a better life for all.

ELECTRICITY

On electricity supply, we have experienced more power cuts in the year to September 2023 than in the whole of 2022.

However, over the medium term, additional generation capacity from renewable energy investments combined with the return of Eskom's units that are out of service, should curtail power cuts.

Our electricity system is undergoing an enormously positive transformation. We are reaping the fruits of our efforts to reform the electricity sector, including the easing of restrictions on self-generation and encouraging private investment in the area.

At the same time, we recognise the potential loss of revenue due to private electricity generation, and the fact that traditional revenue models relied on by public entities like Eskom, face serious disruption.

It is for these reasons that our electricity reforms are holistic, evidenced-based, and geared to find a balanced solution to our electricity supply challenges. They take into account not just a particular entity but the transformation of the sector as a whole.

As part of this approach, the review of Eskom's coal-fired power stations commissioned by the National Treasury, is complete.

Effective implementation of the recommendations will help transform the electricity sector. It will also inform revisions to Eskom's corporate plan to bolster accountability and effective, informed oversight.

The government will shortly share the findings of the report.

Madam speaker, as part of the 2023 Budget, we announced the Eskom debt relief amounting to R254 billion from 2023/24 to 2025/26.

The partial take-over of Eskom's debt announced in February was done for two main reasons:

- The first was to ease pressure on the company's balance sheet and free it to invest in transmission and distribution infrastructure.

- The second reason was that more than R330 billion of Eskom's debt was already government guaranteed. Explicitly taking on this debt would reduce fiscal risk and enhance long term fiscal sustainability.

As we said in February, the allocations to Eskom would be accompanied by strict conditions to ensure public funds were used for their intended purpose.

One key condition we set back then was that should Eskom defy any of the conditions, the loan would not be converted to equity.

The Eskom Debt Relief Amendment Bill which we are tabling today seeks to enhance the enforceability of the conditions agreed under the debt relief agreement.

It provides for the payment of interest by Eskom on amounts advanced as part of the debt relief loan;

The Amendment also provides for the reduction of the amount of debt relief available to Eskom, in the event that the entity does not comply with the National Treasury conditions.

These principles and strict conditionalities, greatly enhanced by the Amendment, are a key part of how we will deal with Eskom and all other state-owned entities, to avoid a repeat of the mistakes of previous bailouts.

ENERGY TRANSITION

Madam Speaker, the transition to a low-carbon economy should be integrated into a comprehensive green growth strategy and industrialisation plans.

This involves assessing policy conditions, challenges, and opportunities for diversification and investing in new industries.

South Africa's traditional trading partners are intensifying their decarbonisation plans. Many countries introduce carbon pricing mechanisms to make emissions more expensive and incentivise emissions reductions.

In automotives, a major export and source of employment, the transition to New Energy Vehicles (NEVs) poses an existential threat to South African vehicle production.

This transition will require balancing domestic market demand, establishing renewable energy-based charging infrastructure, and supporting production.

The goal is to make sure the sector remains a major contributor to the industrial development of the domestic economy.

As such, the government plans to implement tax and expenditure measures to support the automotive sector during this transition. Details will be provided in the 2024 Budget Review.

Part of the broader strategy includes collaborating with other African countries to develop battery production capacity on the continent, by pooling the critical-mineral resource base that Africa is endowed with.

LOGISTICS

South Africa’s logistics system faces significant challenges, such as deteriorating rail performance and inefficient ports. Rail underperformance is estimated to have cost up to 5 per cent of GDP in 2022, with losses in the region of R50 billion in the minerals sector alone.

Given the scale of the challenges, the National Logistics Crisis Committee was instituted to broaden reforms in the sector and prioritise reforms aimed at resolving the immediate crisis, while also addressing the structural aspects hampering the sector.

This approach is consistent with the key lesson from our reform of the electricity sector, that resolving these challenges must be based on transforming the sector, and not trying to save an entity.

Madam Speaker, we acknowledge Transnet's central role in moving goods and commodities to local and international markets, and the implications to business, people's lives, the economy and our global competitiveness when Transnet is dysfunctional.

No modern economy can thrive and grow new industries if rail lines are beset by delays, and ports are unable to efficiently handle incoming and outgoing cargo.

Transnet's performance in this regard has been underwhelming and its operations have been strained by a worsening financial state.

Recognising the seriousness of the situation, the National Treasury is working with Transnet and the Department of Public Enterprises to ensure that Transnet can meet its immediate debt obligations.

Broader reforms of the logistics sector will be guided by the Freight Logistics Roadmap.

The Roadmap sets out a clear path for enhancing efficiencies, facilitating the introduction of competition and leveraging the financial and technical support of the private sector.

Only once these three objectives are reflected in Transnet's corporate and operational plans, will there be a conversation about whether and how government can provide financial support to transform the logistics sector.

SUPPORTING INFRASTRUCTURE INVESTMENT

Investment in infrastructure is central to supporting higher economic growth and expansion of access to basic services.

We are seeking to facilitate a quantum shift in the quantity and quality of delivery by mobilising private sector financing and technical expertise at scale.

However, the infrastructure ecosystem is plagued by challenges that undermine our efforts to fast-track delivery.

Among the challenges is the lack of a credible pipeline that can attract funding, lack of sustainable financing arrangements to crowd-in private finances, and poor contract and project management to manage cost and schedule overruns.

In this regard, we are amending Treasury Regulations and key elements of municipal legislation in line with the recommendations of the completed review of the Public-Private Partnerships (PPP) framework. The new regulations will be published by the time of the Budget 2024.

We are also establishing an Infrastructure Finance and Implementation Support Agency that will systematically address the need to crowd-in private sector finance and expertise into the public infrastructure programme.

Government will also widen the scope for concessional borrowing by creating new mechanisms through which private-sector investors and multilateral institutions can co-invest with government for selected infrastructure projects.

This will include the use of build-operate-transfer (BOT) structures, PPPs and concessions, and application of the frontloading mechanism which provincial conditional grants now allows for.

The outcome will be clearer institutional arrangements for the private sector to invest in public infrastructure, an increased pipeline of credible infrastructure projects, and greater access to various forms of financing underpinned by effective delivery mechanisms.
These measures will unlock social infrastructure projects, blended finance and PPPs including the electricity transmission infrastructure and upgrades to railway lines, amongst other projects that will be fast tracked.

The 2024 Budget will provide further details on these measures.

STRENGTHENING PROCUREMENT

Madam speaker, we have tabled the Public Procurement Bill in this house. The Bill seeks to create a single regulatory public procurement framework that strengthens the integrity of the procurement system, enhances transparency and promotes transformation.

The Bill empowers procuring institutions to make their procurement system based on uniform norms and standards that the Bill prescribes. The all-in-one approach has not worked.

The Bill went through an extensive consultation process in government and with social partners. It considered the recommendations of the Zondo Commission and the President's response to Parliament thereto.

We are supporting the Parliamentary processes that are considering the Bill and we look forward to the outcomes.

Madame speaker, the Bill will not solve all our procurement challenges, but it will make it easier for honest officials to procure and for the corrupt, make it difficult to prevail.

We are also working with the Organisation for Economic Cooperation and Development (OECD), the World Bank, and the African Development Bank on modernising the procurement system.

An assessment of our procurement system using an objective international tool is also underway.

Sixteen public procuring institutions are involved, together with civil society organisations, the private sector and labour. The findings and recommendations will be widely consulted, validated and used to inform future reforms.

To support the well-functioning of our public institutions, we have reviewed all the National Treasury Supply Chain Management Instructions to identify which ones are applicable to Schedule 2 entities.

The review is complete, and I will soon publish the relaxation from most SCM Instructions for Schedule 2 state-owned entities.

We do this to support these entities to enhance their operations, enable them to deliver infrastructure speedily and liberate them to maintain competitive edge.

FIGHTING CRIME AND CORRUPTION

Madam Speaker, crime is a safety, economic and a social issue. A safe environment, for our people to fully participate in economic and social life, is non-negotiable. Fighting crime is a key ingredient of enhancing economic growth.

This fiscal framework notes this policy priority and protects personnel-intensive functions, such as the police while supporting a range of other crime fighting efforts.

We are also working hard to address deficiencies in our fight against organised crimes and illegal financial flows.

Since February, when South Africa was greylisted by the Financial Action Task Force (FATF), a large number of government departments and agencies – including the police the Hawks, NPA, SIU, SSA, the Reserve Bank, FSCA, and SARS – have been working hard to address these deficiencies.

The FATF noted at its plenary meeting last week that such work is showing positive results, with South Africa having addressed 15 of the 20 technical deficiencies in our legal framework, and making good progress on 17 of the 22 effectiveness action items, including 2 that are now deemed to be largely addressed.

However, there is also a significant amount of work that must still be done, particularly with regard to the investigation and prosecution of complex money laundering cases and terror financing, the identification of informal mechanisms for remitting money around the world, and the recovery of the proceeds from crime and corruption.

Government expects to address all the deficiencies identified by FATF by early 2025.

We are also devising ways to make better and more targeted use of the Criminal Asset Recovery Account (CARA) to address crime.

Among these efforts, and emanating from the Presidential project on illicit mining strategy, a recommendation has been made for Cabinet to consider using money from the fund to combat illegal mining.

The South African Police Service, The Defense Force, the Financial Intelligence Centre, the Department of Home Affairs and the Border Management Authority have all received allocations from this fund.

FINANCIAL MANAGEMENT AND GOVERNANCE REFORMS

We are also improving the legislative environment in areas such as financial management and financial governance. These reforms will respond to the recommendations of the Zondo Commission, the Mpati Commission, and the Nugent Commission.

I will shortly table an Omnibus Bill for public consultation, which will include key amendments to various pieces of legislation, including the Public Finance Management Act of 1999 (PFMA), Municipal Finance Management Act of 2003 (MFMA) and South African Revenue Service Act (SARS Act).

CONCLUSION

Madam speaker, the lived experiences of many South Africans do not reflect our development ideals.

The expectation of a vibrant, inclusive and sustainable economy that works for all South Africans is not a quest to aspire to, it is a reasonable and achievable endeavour.

For its part, this MTBPS expresses government commitment to stabilise the foundation upon which this economy lies.

In summary, the Medium-Term Budget Policy Statement commits government to continue to support the economy, stabilise public finances and protect the social wage.

We do this by:

- Fast tracking the implementation of structural reforms, key being in the electricity and logistics sectors, to lift our growth prospects.

- Adopting a prudent fiscal stance that supports growth, promotes investment and prevents the build-up of systemic risks to the economy.

- Directing scarce fiscal resources towards key priority areas including frontline services and social protection while reducing inefficiencies and wastage.

Drawing inspiration from the Springboks, I am convinced that if we are united and remain committed to this trajectory that will lift up our growth prospects, we leverage the power of the collective, and persevere in this difficult environment, we will come out victorious.

I am grateful to the President and Deputy President for their continued support and leadership.

Thank you to the Deputy Minister of Finance and the National Treasury team led by the new Director-General, Dr Duncan Pieterse.

I would like to thank Mr Ismail Momoniat for his sterling contribution during his 29-years of service in the National Treasury in many roles, most recently as Acting Director-General.

His commitment to sustainable, transparent and accountable public finances, and the values of our Constitution, is an example for us all.

Thank you to the Commissioner of the South African Revenue Service and the Governor of the South African Reserve Bank.

Thank you to my colleagues in the Ministers' Committee on the Budget and in the Budget Council who share the heavy load of the tough decisions that we make to maintain sustainable public finances.

To Parliamentary Committees of Finance, Appropriations and Public Accounts, I express my sincere appreciation.

To my wife and family, thank you so very much for your support.
Lastly, thank you to each and every South African.
Let us move forward, together!
Thank You.

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