

Minister Tito Mboweni: 2020 Budget Speech

26 Feb 2020

Madam Speaker
Mr President
Mr Deputy President
Cabinet Colleagues
Governor of the South African Reserve Bank
Honourable Members
Members of the Executive Committees for Finance
Fellow South Africans

Good afternoon

It is my honour to introduce the first Budget of the Sixth Administration. Today I table:

1. The Division of Revenue Bill
2. The Appropriation Bill
3. The 2020 Budget Review
4. The 2020 Estimates of National Expenditure
5. The 2020 Tax Proposals

1. Introduction

Madam Speaker,

The Aloe Ferox survives and thrives when times are tough. It actually prefers less water. It wins even when it seems the odds are against it.

Mr President, in your State of the Nation Address two weeks ago you reminded us that our capacity to win is not diminished. We have it within ourselves to be the best in the world. Congratulations to Miss Universe Zozibini Tunzi, the Springboks, and the Proteas, who won while we were preparing this Budget.

Our economy has won before, and it will win again.

Before democracy our growth was pedestrian. Indeed, between 1990 and 1992, the economy contracted for three years in a row.

In the fifteen years following democracy, economic growth averaged 3.6 per cent a year. The gross debt-to-GDP ratio declined from 46 per cent to 26 per cent.

In the five years from 2003 to 2008, growth averaged around 5 per cent, and South Africa was amongst the fastest-growing major economies. The unemployment rate improved by 5 percentage points.

Now, even after a decade of weak economic performance, South Africa still boasts deep and liquid capital markets, strong institutions, the most diversified economy on the continent, and a young population.

We are part of the most vibrant continent in the world. As Pliny the Elder said: “Ex Africa semper aliquid novi

Winning requires hard work, focus, time, patience and resilience.

Achieving economic growth and higher employment levels requires a plan. To quote First Corinthians chapter 9 verse 24: “Do you not know that those who run in a race all run, but only one receives the prize? Run in such a way that you may win.”

2. Economic Context

What are the conditions under which we must implement our plan to win?

In 2020, global economic growth is expected to strengthen to 3.3 per cent. Global inflation remains contained. Global monetary policy is supportive, and we are benefiting from demand for emerging market assets.

Asia (excluding Japan) is expected to grow by 5.8 per cent in 2020. The Coronavirus is a source of uncertainty to this forecast.

With growth of 3.5 per cent, sub-Saharan Africa is forecast to be the second-fastest growing region in the world.

Against this backdrop we forecast that the South African economy will grow by 0.9 per cent and inflation will average 4.5 per cent in 2020.

Over the next eighteen months, the economy should get a number of jump starts.

These include, amongst others:

1. The fruits of the reform agenda led by the President
2. Lower inflation
3. The interest rate reduction earlier this year
4. The recent gains in platinum group metals prices
5. The impending change to the electricity regulatory framework
6. The tax proposals we are setting out today

Persistent electricity problems will, however, hold back growth. Over the next three years, we expect growth to average just over 1 per cent.

Therefore, a stable supply of electricity will be our number one task.

3. Towards an economic strategy

Last year, the Government embraced the ideas contained in the document Towards an Economic Strategy for South Africa. This is our plan, and it contains the basic and fundamental pillars of our approach:

1. Strengthening the macroeconomic framework to deliver certainty, transparency and lower borrowing costs
2. Focusing spending on education, health and social development

3. Modernising “network industries” and restructuring our state-owned enterprises
4. Opening markets to trade with the rest of the continent
5. Implementing a re-imagined industrial strategy
6. Lowering the cost of doing business
7. Focusing on job-creating sectors, such as agriculture and tourism

Underpinning all of this is the need for an efficient and capable state. We must also leverage the private sector as far as possible.

Today, we report on our progress. “We are moving forward!”

3.1. Prudent Fiscal Policy

3.1.1. Outline of the Budget for 2020/21

A sound macroeconomic framework always lays the foundation for growth. Budgets are complex, but the numbers are simple. The numbers show that we have work to do.

For 2020/21, revenue is projected to be R1.58 trillion, or 29.2 per cent of GDP.

Expenditure is projected at R1.95 trillion, or 36 per cent of GDP.

This means a consolidated budget deficit of R370.5 billion, or 6.8 per cent of GDP in 2020/21.

2020 Budget Speech Gross national debt is projected to be R3.56 trillion, or 65.6 per cent of GDP by the end of 2020/21.

3.1.2. Tax Adjustments

To support growth, we propose no major tax increases. Indeed, there is some real personal income tax relief. This Budget means that a teacher who earns on average R460 000 a year, will see their taxes reduced by nearly R3 400 a year.

Hard-working tax payers, who earn on average R265 000 a year, will see their income tax reduced by over R1 500 a year.

Our income tax system is progressive, and the adjustments reflect this. Someone earning R10 000 a month will pay 10 per cent less in tax. Someone earning R100 000 a month will pay about 1.5 per cent less.

We are also proposing broadening the corporate income tax base. This additional revenue will be used to reduce the corporate tax rate in the near future to help our businesses grow.

Start-ups will ignite the economy. The tax system supports them in a number of ways, including the preferential small business tax regime, the VAT registration threshold and the turnover tax. We will review these to improve their effectiveness while at the same time reducing the scope for fraud and abuse.

To support the property market, the threshold for transfer duties is adjusted. Property costing R1 million or less will no longer be subject to transfer duty.

There will be a renewed focus on illicit and criminal activity, including non-compliance by some religious public benefit organisations. Religious bodies must operate within the strict

boundaries of the law if they are to enjoy tax exempt status. The annual tax free savings account contribution limit rises to R36 000.

We have increased excise duties to keep pace with inflation. From today:

- A 340ml can of beer or cider will cost only an extra 8c
- A 750ml bottle of wine will cost an extra 14c
- A 750ml bottle of sparkling wine an extra 61c
- A bottle of 750 ml spirits, including whisky, gin or vodka, will rise by R2.89
- A packet of 20 cigarettes will be an extra 74c
- A 25 gram of piped tobacco will cost 40c more
- A 23 gram cigar will cost an extra R6.73

I am again happy to report that there is no increase in the price of sorghum beer.

In line with Department of Health policy, we will start taxing heated tobacco products, for example hubbly bubbly. The rate will be set at 75 per cent of the rate of cigarettes. Electronic cigarettes, or so-called vapes, will be taxed from 2021.

To adjust for inflation, the fuel levy goes up by 25 cents per litre, of which 16 cents is for the general fuel levy and 9 cents is for the Road Accident Fund levy.

Despite this increase, the liabilities of the RAF are forecast to exceed R600 billion by 2022/23. We need to take urgent steps to reduce this risk to the fiscus and bring about a more equitable way of sharing these costs. One option is to introduce compulsory third-party insurance.

The carbon tax and other measures will help green the economy, and will bring in R1.75 billion over the next few months. This will be complemented by more focussed spending on climate change mitigation. We remain extremely concerned about plastic bags throughout the length and breadth of our country. In this regard, we have increased the plastic bag levy to 25 cents.

3.1.3. Reducing structurally high spending

Madam Speaker, our measures will support growth.
But fiscal sustainability must be uppermost in our mind.

Our Aloe Ferox can withstand the long dry season because it is unsentimental. It sheds dead weight, in order to direct increasingly scarce resources to what is young and vital.

Total consolidated government spending is expected to grow at an average annual rate of 5.1 per cent, from R1.95 trillion in 2020/21 to R2.14 trillion in 2022/23. This is mainly due to mounting debt-service costs. Non-interest spending declines on average over the MTEF in real terms.

As a major step towards fiscal sustainability, today we announce a net downward adjustment to main budget non-interest expenditure of R156.1 billion over the next three years relative to the 2019 Budget projections.

The total reduction is mainly the result of lowering programme baselines and the wage bill by R261 billion. These are partially offset by additions and reallocations of R111 billion. Of this, more than half, or R60 billion, is for Eskom and South African Airways.

3.1.4. Programme Spending Adjustments

Let me unpack the R261 billion in baseline spending reductions.

The first part is adjustments on programme spending of about R100 billion. Some of these were announced in the MTBPS.

Adjustments are mainly in conditional grants for provinces and municipalities. For human settlements, adjustments amount to R14.6 billion over the MTEF.

There are also adjustments of R2.8 billion to the municipal infrastructure grant.

Over the three years, public transport spending is adjusted by R13.2 billion, mainly on allocations to the Passenger Rail Agency of South Africa and the public transport network grant. The planning and implementation of integrated public transport networks will consequently be suspended in the Buffalo City, Mbombela and Msunduzi municipalities.

Education infrastructure allocations are adjusted by R5.2 billion over the medium term, while health is adjusted by R3.9 billion over the same period.

While some of these savings are good for the fiscus, in many cases we are also making difficult and painful sacrifices. It is therefore important that we direct our constrained resources to areas that have a high social impact and have the largest economic multipliers.

We shall undertake spending reviews to ensure that we achieve this objective.

3.1.5. The wage bill

The second part is adjustments on the wage bill by about R160 billion over the medium term.

Public servants do crucial work for our country, often in trying conditions. The governing party is a firm believer in the critical role of the state in development. For this reason, we need qualified, motivated and effective staff.

Working with the public sector unions, we have over the past 15 years sought to improve the lot of public servants, and we have committed significant resources for compensating them every year even as we have tried to increase their numbers in recognition of their demanding workloads.

Between 2006/07 and 2011/12, we were able to add about 190 000 employees. However, at the same time government wages also increased significantly.

To balance the books, we slowed hiring, and since 2011/12 the number of government employees has declined.

Madam Speaker, we cannot go on like this. Classroom sizes are growing, hospitals are getting fuller and our communities are becoming increasingly unsafe.

Once we get wage growth, corruption and wasteful expenditure under control, we will focus our attention on hiring in important areas such as education, police, and health care. We can hire strategically, and better match skills with opportunities.

The employer has tabled an agenda item on the management of the public service wage bill at the Public Service Coordinating Bargaining Council, the focus is to discuss containment of costs in the final phase of implementation of the current wage agreement.

We aim to save R37.8 billion in the next financial year.

There is more than one way in which this goal can be achieved.

Organised labour understands where we are. They have made constructive proposals on a range of issues.

3.1.6. Wasteful expenditure and corruption

Mr President you have directed your government to deal with wasteful expenditure. This is a vital step in restoring the confidence of the public in the government. We must get more value for our money.

The President's instruction requires a dynamic and appropriate mix of quantity, quality, capacity and capability in the administration of the state.

We are moving forward with reforms to the procurement system with a focus on value for money and maximising the quality and quantity of services. Cabinet approved the publication of a new Public Procurement Bill.

We will accelerate merging and consolidating public entities.

We will propose a new law to stop excessive salaries in these public entities. We must also deal decisively with the excessive high cost of leasing government buildings.

We are already acting on fruitless and wasteful expenditure. Last year, this House amended the Public Audit Act to empower the Auditor General to:

To show the determination of the executive to deal with runaway costs, we will implement a number of steps.

These include:

1. Abolishing the current wasteful subsistence and travel system
2. Replacing the cell phone policy
3. Requiring economy class travel for all domestic flights, except for exceptional circumstances

Minister Pandor, the Minister of International Relations and Cooperation, is providing phenomenal leadership in building A Better Africa and a Better World. Her work is unlocking massive value for money from South Africa's overseas missions by amongst other things:

1. Closing and merging some missions
2. Downgrading the level of representation
3. Reducing the number of officials
4. Establishing a fully-fledged Diplomatic Academy

3.2. Appropriate monetary policy

The twin of our fiscal framework is appropriate monetary policy.

Regular consultation on fiscal and monetary policy is critical to the sustainability of our fiscal accounts, to the balanced growth of the economy, and to protecting the welfare of our people. We would like to re-iterate the current inflation target band of 6 to 3 per cent as the most appropriate monetary policy framework for a country like ours.

In line with that target, the moderate inflation outcomes for 2019 of 4.1 per cent and the forecast for inflation to be about 4.5 per cent over the next few years, has helped to lower the cost of capital to firms, households and the public sector. The South African Reserve Bank will continue to undertake its duties in line with section 224 of the Constitution which is to perform its functions independently without fear, favour or prejudice in the interest of balanced and sustainable growth in the Republic.

4. Aligning spending priorities to the economic growth plan

For our Aloe Ferox to grow to its full potential, we need to do things that will help it in the medium to long-run – for example, augmenting the soil with the right amount of organic manure, providing the right amount of sun and the correct amount of water. For a fast-growing economy we need to make sure our children are well educated, our people are healthy and our money is invested properly.

4.1. Learning, health and social development

Consequently, the largest spending areas will be learning and culture, which receives R396 billion followed by health R230 billion, and social development with R310 billion.

In the education sector, investment goes to new schools, replacing schools constructed with inappropriate materials, and providing them with water, electricity and sanitation. In 2020/21 the maths, science and technology grant will introduce coding and robotics to learners in grades R to 3 as announced by the President.

Transfers to provinces support schooling for 13 million children and healthcare for 49.1 million South Africans. It is in this context that taking forward consultation on the NHI is important.

President Ramaphosa has been elected Chairperson of the African Union. We shall commence work on the Pan African University for Space Sciences Institute at the Cape Peninsula University of Technology. Funding can come from the Africa Renaissance Fund.

The Department of Higher Education and Training will reallocate existing funds to undertake a feasibility study for the establishment of a new university of science and innovation in Ekurhuleni. Over the next three years, 48.2 per cent of nationally-raised funds are allocated to national government, 43 per cent to provincial government and 8.8 per cent to local government.

R500 million has been provisionally set aside for disaster management to respond to the impact of recent floods and the ongoing drought.

4.1.1. The Infrastructure Fund

Honourable members, Funanani Sikhwivhilu from Limpopo told us “Infrastructure development should be a priority for the government” and we agree.

In fact, capital spending is the fastest growing component of non-interest spending. This spending is complemented by the Infrastructure Fund. Over the next three years the Development Bank of Southern Africa will package blended finance mega-projects of least R200 billion. Government has committed R10 billion over the next three years.

The public can now find information on infrastructure projects on the VulekaMali internet portal.

4.1.2. Youth Employment

8.2 million young people between the ages of 15 and 34 are not in education, employment or training. Government is committed to helping them. Raising skills and improving the matching of young people and jobs is an important focus of the Presidential Youth Employment Intervention.

To date, Jobs Fund projects have created more than 175 000 permanent jobs, and helped 21 000 people into internships and created 59 900 short term jobs. Of these, 65 per cent went to youth.

As the President announced, we will reprioritise resources to raise spending on this critical area. We will start work immediately! I will provide more details in the 2020 Medium Term Budget Policy Statement.

We intend to make this intervention a resounding success.

4.1.3 Social grants

We are a caring society. We are a caring government. More than 18 million people receive a grant, which is a lifeline for many.

Grants reduce inequality and protect the most vulnerable in society. I am happy to announce that grants are adjusted as follows:

1. R80 increase for the old age, disability and care dependency grants to R1860 per month
2. R80 increase in the war veterans grant to R1880
3. R40 increase for the foster care grant to R1040 per month
4. The child support grant will increase by R20 to R445 per month

Changing the way we provide social grants has generated about R1 billion per annum in efficiency savings, which will be partly used to raise the daily subsidy per child.

4.2. Modernising network industries and restructuring the SOEs

Madam Speaker, the next component of our plan is to modernise network industries and to restructure the state-owned enterprises.

4.2.1. Electricity

Government will do “whatever it takes” to ensure a stable electricity supply. As I said, it is our number one task. We have allocated R230 billion over ten years to achieve the restructuring of the electricity sector.

The current electricity shortfall will ease as Eskom finishes critical maintenance. Bid Window 4 of

the renewable energy programme is being accelerated. The rapid decline in renewable energy prices will give new momentum to Bid Window 5.

Determinations to implement the Integrated Resource Plan of 2019 are finalised and await the concurrence of the National Energy Regulator.

It will shortly be possible for municipalities in financially good standing to purchase electricity from independent power producers.

4.2.2. South African Airways

The SAA Sword of Damocles has now fallen on us.

SAA has been placed under business rescue which will lead to a radically restructured airline. Over the medium term, Government has allocated R16.4 billion to settle guaranteed debt and interest. The associated restructuring costs will be reprioritised within the Budget.

It is the very sincere hope of many that this intervention will lead to a sustainable airline that is not a burden to the fiscus.

4.2.3. Rail

Cabinet approved the economic regulation of transport bill in November, which takes us toward a fairer process for third party access into the rail network.

4.3. Opening up our markets to trade with the rest of the continent

In 2019, South Africa signed the African Continental Free Trade Agreement, which comes into effect on 1 July 2020. This agreement will open up new markets, promote regional integration and contribute to economic growth. Today we announce complementary measures to make it easier to do cross-border financial transactions, which will support trade and investment.

We want to encourage South Africans abroad to keep their ties with the country. We will raise the exempt amount for foreign remuneration to R1.25 million. We will phase out the administratively burdensome process of emigration through the South Africa Reserve Bank.

4.4. Re-imagining our industrial strategy

To implement the reimagined industrial strategy:

1. An Innovation Fund will be capitalised with R1.2 billion over the next three years
2. Industrial business incentives worth R18.5 billion will create and retain approximately 56 500 jobs
3. An additional R107 million is reprioritised for the refurbishment of 27 industrial parks in townships and rural economies
4. R6.5 billion is allocated for small business incentive programmes of which R2.2 billion will be transferred to the Small Enterprise Development Agency

Together with the Department of Trade, Industry and Competition, we are considering various proposals from ITAC related to scrap steel and poultry.

4.5. Lowering the cost of doing business

Madam

Speaker,

Steps are being taken to address South Africa's lagging productivity growth and reduce the cost of doing business.

For example, the BIZPortal will provide a streamlined way to register a new business with the CIPC, SARS, the UIF and the Compensation Fund in one day.

The Competition Amendment Act came into force on July 2019, strengthening the Competition Commission's powers. The Commission has conducted inquiries into a number of sectors to strengthen competition.

South Africa is moving with the fourth industrial revolution. We are determined not to be left behind. We are relaxing regulations to help our flourishing FinTech sector.

The spectrum licensing plan was released in November, preparing the way for auctioning high demand spectrum. ICASA will be appropriately capacitated for this. A voucher system will be introduced to allow households to acquire digital devices.

4.6. Supporting agriculture and tourism

Over the medium term we will support Agriculture and Tourism. Government has allocated R495.1 million to the Department of Agriculture, Land Reform and Rural Development to improve compliance with biosecurity and support exports.

An additional R500 million is reprioritised over the medium term for the department to finalise land claims.

To support tourism, we will engage with the tourism industry on formalising the tourism levy.

4.7. Enforcing justice

Madam Speaker, fighting corruption is a priority of this Administration.

The NPA, Special Investigating Unit and Directorate for Priority Crime Investigation get an additional R2.4 billion in this Budget.

This will enable the appointment of approximately 800 investigators and 277 prosecutors who will assist with, among other things, the clearing the backlog of cases such as those emanating from the Zondo commission.

The disruptive actions of those who storm construction sites or mines harm growth and lead to job losses. Communities should expose such people to allow Ministers Cele and Lamola to ensure that the law takes its course. I hope all South Africans join me in condemning this.

4.8. Off-budget initiatives to grow the economy

4.8.1. Supporting lending

Working with the financial sector, a pilot of the Help to Buy scheme has supported over 2 000 families to buy their own homes. For every R1 subsidy provided by government, the scheme crowds in R8 from the private sector. In a single year, the Help to Buy scheme has supported nearly R1 billion in new lending.

4.8.2. State Bank

Last year, this House passed legislation which will allow state-owned enterprises to apply for banking licences. In July 2019, I tasked the Deputy Minister of Finance with the responsibility to undertake the state bank project. Madam Speaker, I am pleased to inform the House that preferred options for the establishment of a bank are now ready.

The architecture will be that of a retail bank operating on commercial principles. The state bank will be subject to the Banks Act, and will have an appropriate capital structure and performance parameters on investments and loan impairments. It will be regulated by the Prudential Authority on its own merits.

We will also consolidate the currently fragmented system of national and provincial Development Finance Institutions.

4.8.3. Sovereign Wealth Fund

Mr President, a Sovereign Wealth Fund is an important long-term tool for saving and investment for future generations. It can also contribute to strengthening the fiscal framework. We must learn to save during the good times, and a Fund can play an important role as a counter-cyclical fiscal tool.

Today we announce the formation of the South African Sovereign Wealth Fund with a target capital amount of about R30 billion, which converts to about US\$2 billion or so. Given the legal, administrative and procedural issues involved, a relevant bill will be submitted during the course of this Parliament. There are a variety of possible funding sources, such as the proceeds of spectrum allocation, petroleum, gas or minerals rights royalties, the sale of non-core state assets, future fiscal surpluses and money we set aside. This will ensure that we continue to invest in the future generations of this country in a fiscally-prudent manner.

4.9. An efficient and capable state

The National Development Plan calls for a capable and efficient state that creates the right environment for the private sector to flourish.

Taxpayers deserve to feel that their money is going to a government that is efficient and capable. We thank all South Africans for paying their taxes.

SARS is an integral part of the capable state. We are focused on re-establishing institutional integrity and fighting criminal activity. Just this past week two individuals were convicted for up to 168 years' imprisonment for tax fraud.

4.9.1. Strengthening Municipalities

For all South Africans, the "state" is their municipality.

Allocations to local government help municipalities provide basic services and are a powerful redistribution tool.

Mr President, the National Treasury asked members of the public to provide tips to guide our thinking as we shaped this Budget. Today we are joined by Ms Akhona Mgwele from Gauteng who advised us to "support greater local economic development in municipalities." We agree with her!

I am therefore pleased to announce that local government is allocated R426 billion from nationally-raised funds over the MTEF.

The Minister of Cooperative Governance and Traditional Affairs and I have agreed that our officials will find ways to use the allocations made through the Municipal Infrastructure Grant to ensure that municipalities not only build new infrastructure but also maintain the infrastructure they already have.

The O.R. Tambo aerotropolis in Ekurhuleni is at an advanced stage of implementation and King Shaka airport in eThekweni is progressing in that direction. Cape Town shall join them soon. Meanwhile Lanseria has been identified as a potential smart city.

4.9.2. Strengthening Provinces

Provinces provide health care and education and are at the frontline of service delivery. I wish to thank my colleagues in the provinces, the MECs for Finance, for the work they are doing and inputs they have shared with me on fiscal consolidation and economic growth. All these steps build a capable state.

4.9.3. Strengthening Regulatory Oversight

Madam Speaker, there are a number of entities that report to the Ministry of Finance. The report into the Public Investment Corporation highlights important lessons, including the need to implement and adhere to governance and financial controls, and to reduce risk appetite.

This House has passed legislation to strengthen the Independent Regulatory Board for Auditors, and further legislation is planned. We will shortly appoint an independent panel of experts to review practices in the auditing profession.

The country's money laundering system is currently undergoing a peer review, which will help strengthen the fight against illegitimate and illegal flows. The South African Reserve Bank will in future play a more integral part in this fight.

The Financial Sector Conduct Authority has repositioned itself as a market conduct regulator, and we will shortly appoint a new Commissioner.

The National Treasury will take steps to strengthen the budget process.

5. Conclusion

Madam Speaker Winning is not easy.

Less than two years before winning the World Cup, the Springboks lost 57-nil to the All Blacks. Miss Universe did not win her first attempt at Miss South Africa.

Winning takes patience, prudence and perseverance. As Saint Paul tells us we must run in such a way that we may win.

To paraphrase Charles Dickens, who I quoted in my first address as Minister of Finance, we will make these the best of times.

Mr President and Deputy President, thank you for your leadership.

A word of appreciation to the Deputy Minister of Finance, The National Treasury Director General and his team.

My thanks to the SARS Commissioner, to the Governor of the South African Reserve Bank, to colleagues in the Cabinet and in the Minister's Committee on the Budget.

My gratitude for the Parliamentary Committees who work tirelessly to process the legislation accompanying the Speech.

I close by reflecting on the words of Comrade Bram Fischer from the dock:

“With confidence we lay our case before the whole world, whether we win or die, freedom will rise in Africa, like the sun from the morning clouds”.

Mudzimu fhatutshedza Afurika

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