



# 2020 MTBPS

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Speech



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**REPUBLIC OF SOUTH AFRICA**



**2020**

**MEDIUM TERM BUDGET POLICY STATEMENT**

*Check against delivery*

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**Minister of Finance**

**SPEECH**

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Honourable Speaker

Mr President

Mr Deputy President

Cabinet Colleagues

Governor of the South African Reserve Bank

Members of the Executive Committees for Finance

Honourable Members

I hereby table –

1. The Division of Revenue Second Amendment Bill
2. The Second Adjustments Appropriation Bill
3. The 2020 Rates and Monetary Amounts and Amendment of Revenue Laws Bill
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5. The 2020 Tax Administration Laws Amendment Bill
6. The 2020 Second Adjusted Estimates of National Expenditure
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## INTRODUCTION

Honourable members

Twenty-six years ago, President Nelson Mandela stood at this very spot to weave the tapestry of our newly democratic country.

Freedom was only two weeks old.

Madiba challenged us to:

*Meet despair with hope*

*and death with a reaffirmation of the beauty of life.*

His plan for the country's first democratic administration committed us to fiscal rehabilitation after the devastation wrought to our public finances by the previous regime.

Most of us sitting in this House, I amongst them, did not know it then but Madiba was ushering in a period of unmatched social progress in our history.

Over the next 15 years, the economy began to re-emerge. Real GDP rose by 61 per cent and 5.3 million jobs were created.

We are fiscally at a moment not unlike that in 1994. We must rebuild our economy, rehabilitate our public finances and recover from the devastation wrought upon us by COVID-19.

As we rose to that fiscal challenge, so we will rise to this one.

Two weeks ago, President Matamela Cyril Ramaphosa laid out the government's consensus-driven and action-oriented Economic Reconstruction and Recovery plan. This particular plan is urgent and all of us should do everything in our power to implement it.

## **SUMMARY OF THE MEDIUM-TERM FISCAL STRATEGY**

Honourable members,

The June 2020 Special Adjustments Budget was prepared in an environment of extreme uncertainty. Given the economic situation then, government proposed a three-year fiscal consolidation.

Since June, more data has become available. The economy is now expected to contract by 7.8 per cent this year, and the 2021 outlook is more uncertain. Job losses have been particularly severe.

But we cannot allow our recent fiscal weakness and the pandemic to turn into a sovereign debt crisis.

Therefore, today government sets out active measures to avoid this risk.

We table a five-year fiscal consolidation pathway that promotes economic growth while bringing debt under control.

The fiscal measures realign the composition of our spending from consumption towards investment and support efforts to lower the cost of capital.

Our revised fiscal framework puts us on a course to stabilise the ratio of debt-to-GDP at around 95 per cent within the next five years. The stock of gross debt will rise from roughly R4 trillion this year to R5.5 trillion in 2023/24.

The medium-term fiscal strategy narrows the main budget primary deficit from an expected R266 billion in 2021/22 to R84 billion in 2023/24 and we achieve a surplus by 2025/26.

We propose consolidated spending of R6.2 trillion over the 2021 Medium Term Expenditure Framework, of which R1.2 trillion goes to learning and culture, R978 billion to social development and R724 billion to health.

We forecast the South African economy to grow by 3.3 per cent in 2021, 1.7 per cent in 2022 and 1.5 per cent in 2023.

Mr President, by putting all our efforts into implementing the Economic Reconstruction and Recovery Plan, we can accelerate growth to 3 per cent or more. This will secure fiscal sustainability and build this economy better than before.

## **THE ECONOMIC CONTEXT**

Turning now to the economic context.

A sharp - and hopefully short - global recession is underway. The International Monetary Fund expects global output to contract by 4.4 per cent in 2020, before rebounding to 5.2 per cent in 2021 in their October World Economic Outlook.

Growth in advanced economies is strengthening. Next year, emerging market countries are set to grow by 6 per cent.

Sub-Saharan Africa is expected to rebound to growth of 3.1 per cent in 2021. As always, Africa has been at the forefront of innovative solutions to the crisis, including delivering social assistance using digital technology.

Madam Speaker, you are now well aware that the country's Aloe Ferox is drought resistant, it can survive the harshest of circumstances and can certainly withstand a pandemic.

Our little Aloe Ferox has survived! It is recovering!

In South Africa, the high frequency data that we collect suggests that green shoots are emerging. At this stage, it looks like there will be a strong rebound in the next quarter.

These will be supported by government's Economic Reconstruction and Recovery plan.

Already there is progress on implementing the plan.



Honourable Members, improving the supply of electricity is urgent. In line with our plan, there is progress in allowing municipalities to buy electricity from different sources.

In addition, the way has been opened for the procurement of almost 12 000 MW of new electricity capacity to be provided by independent power producers.

The ongoing implementation of the Eskom Roadmap and unbundling continues. Divisional managing directors and boards of directors have been appointed.

Infrastructure is at the centre of the plan.

Mr President, our government, under your wise leadership, has championed the Infrastructure Fund to implementation. And we are starting to see results!

Subsidies of R2.2 billion will support the Social Housing Programme aimed at poor, working South Africans. A further R6.7 billion has been contractually committed to this programme. We expect that the total investment from this programme will be R20 billion over the next 10 years.

As a consequence of the Fund, the Student Housing Programme worth an estimated R96 billion is underway. It will service nearly 300 000 students a year when complete.

The Budget Facility for Infrastructure will support new projects, including through blended finance in partnership with the private sector. These include hospital projects in KwaZulu-Natal, such as the extension of Chief Albert Luthuli, and the Western Cape, like Tygerberg and Klipfontein. There are exciting new proposals for the development of more than 12 harbours in the Eastern Cape, KwaZulu-Natal, Northern Cape and Western Cape.

Finally, we will review our existing public finance regulatory framework to unblock infrastructure investment by the broader government.

Over and above this, the Independent Communications Authority of South Africa has issued an invitation to apply for the auction of additional spectrum.

Government has initiated a process to review Regulation 28 to make it easier for retirement funds to increase investment in infrastructure -should their

board of trustees opt to do so. At all times, trustees are expected to put the interests of retirement fund members first. A draft gazette will be released in due course for public comment.

Notwithstanding this encouraging progress, there are priority structural reforms that require acceleration.

Operation Vulindlela is a critical coordination tool to unlock and fast track implementation of the structural economic reform agenda. Deputy Minister David Masondo is leading this initiative, and a technical team, headed by Dr Sean Phillips, will draw on expertise and capacity from the public and private sectors. This will ensure that implementation is well coordinated, sequenced and timeous.

Parliament plays an important role in this reform agenda. We thank this House for fast-tracking the Economic Regulation of Transport Bill.

Under the leadership of the Minister of Health, government is exploring greater participation in the COVAX facility, a global initiative to ensure equitable access to future vaccines.

In the area of social protection, we are happy to announce a historic agreement with all NEDLAC constituencies for the annuitisation of provident funds beginning in March 2021, which will enable all workers to continue to enjoy tax deductions on their contributions. We thank the labour constituency for identifying appropriate annuity products for low income workers.

The NEDLAC constituencies also agree to accelerate the introduction of auto-enrolment for all employed workers, and the establishment of a fund to cater for workers currently excluded from pension coverage, as an urgent intervention towards a comprehensive social security system. Government will present legislation next year to allow for limited pre-retirement withdrawals under certain circumstances linked to mandatory preservation requirements.

Today, we announce further steps to make cross-border business easier, including inward listings, loop structures and corporate foreign borrowings.

Work is well advanced to modernise the cross-border flows management regime to support South Africa's growth as an investment and financial hub for Africa.

### **UPDATE ON THE FISCAL RELIEF PACKAGE**

In April this year, government announced a major fiscal relief package of around R500 billion or 10 percent of GDP, including:

1. More than R30 billion for health and other frontline services
2. Support vulnerable households which is now in excess of R50 billion
3. More than R40 billion for wage protection through the UIF
4. Around R100 billion for job creation initiatives, which will now be spread over the MTEF
5. R200 billion for a credit guarantee scheme
6. R20 billion towards municipalities to assist them with COVID-19 related activities
7. R70 billion towards emergency tax measures

As the pandemic has unfolded, some shifts in resources could be implemented. The resources for the relief package came from a variety of places, including drawing down on Unemployment Insurance Fund reserves, the issuing of new guarantees and projected revenue losses.

During the lockdown, cash grants were paid to over 22 million people, nearly half of the population.

To reach the poorest South African households, we expanded social protection. Seven million people accessed the Temporary Employment Relief Scheme through the Unemployment Insurance Fund. The Special COVID-19 Social Relief of Distress grant reached six million people.

The Cabinet has decided to extend the Social Relief of Distress grant to the end of January 2021. Because this grant is so effective in reaching the unemployed, we propose to redirect R6.8 billion from the public employment programme allocation.

The temporary increases in other grants will unfortunately have to come to an end.

This adjustments appropriation also adds R1 billion for food relief to fight hunger.

Honourable members,

We are happy to announce today that we are allocating R12.6 billion in this financial year to the game-changing employment initiatives championed by the President.

The Provincial Equitable Share is augmented by R7 billion to support jobs at fee-paying public schools and government-subsidised independent schools.

R600 million goes to employ early childhood development and social workers.

R2 billion is allocated to *Working for Fire, Working for Water and Working for Forests*.

The rest of the allocation from the employment initiative is divided between the transport, arts, sports and culture, health and agricultural sectors.

The District Development Model will fast-track infrastructure and general socio-economic development. The revised Division of Revenue for 2020/21 proposes allocations of R806.7 billion to national departments, R628.3 billion to provinces and R139.9 billion to local government.

After extensive consultations between the Banking Association, the National Treasury and the South African Reserve Bank, work is underway to review the Loan Guarantee Scheme to improve take-up. I will also be working with my colleagues in the Cabinet to boost business restart efforts.

### **NET IN-YEAR SPENDING ADJUSTMENT**

In summary: non-interest spending in 2020/21 is unchanged relative to the Special Adjustments Budget at R1.6 trillion.

All additional pressures have been accommodated through adjustments elsewhere.

## NET IN-YEAR REVENUE REVISION

Gross tax revenue is revised down but this is offset by other receipts into the National Revenue Fund.

Main budget revenue is now projected to be R1.6 billion less compared to the Special Adjustment Budget.

## DEBT SERVICE COSTS

Debt service costs are revised down by R3.4 billion, in part because borrowing costs are lower than expected.

## REVISED MAIN BUDGET DEFICIT

Altogether, the in-year revised main budget deficit is now expected to be R707.8 billion, a little better than the Special Adjustments Budget. As ratio of GDP, it is unchanged at 14.6 per cent of GDP. The consolidated deficit is also marginally better in rand terms, but unchanged at as proportion of GDP at 15.7 per cent.

Government has broadened its financing strategy to include drawing down on sterilisation and foreign currency deposits. We are also borrowing at favourable rates from international finance institutions. The MTBPS Review and Adjusted Estimates of National Expenditure provide greater detail on our fiscal and borrowing plans.

I now turn to the medium-term fiscal strategy.

## THE MEDIUM-TERM FISCAL STRATEGY

As we chart our way forward, we are reminded of the grizzly sea captain in Samuel Coleridge's poem, *the Rime of the Ancient Mariner*, who is hit by a great tempest that throws his ship off course.

To quote:

*"And now the STORM-BLAST came, and he*

*Was tyrannous and strong:*

*He struck with his o'ertaking wings,*

*And chased us south along."*

Our job is not to tremble in fear at the storm blast, neither at plagues nor at the wide-open mouth of the hippopotamus.

Armed with a strong sense of direction, steadfastness, resolution and determination, we face these perils head-on. Our compass points towards fiscal sustainability and we must all face the same way.

In June, we published the medium-term spending plans and long-term debt projections to spark robust debate on our fiscal path – here in this House, within government, with community activists, with civil society, with the trades union movement, with our provincial and municipal colleagues, on Twitter, with small and big business, and in opinions expressed through media platforms.

We are grateful for the constructive discussions.

South Africans love a debate – even about garlic! This is the glorious, loud and rambunctious democracy that we fought so hard for.

Mr President, you summarised the consensus two weeks ago:

*We cannot sustain the current levels of debt; particularly as increasing borrowing costs are diverting resources that should be going to economic and social development.*

We must now rally behind fiscal rehabilitation and growth.

Right now, government is borrowing at a rate of R2.1 billion per day.

Madam Speaker, we must be careful to avoid the fate of countries like Argentina and Ecuador that defaulted on their debt this year.

Countries that find themselves in default see sharp GDP contractions and currency depreciations. On current trends, more of our taxes are being transferred to bondholders, rather than to critical services for our people.

An uncontrolled increase in borrowing costs would harm small businesses, ordinary South Africans and the poor the most.

The Cabinet remains resolute and will walk through the narrow gate towards fiscal sustainability. Before today, the economy languished in a trap of paralysis - as the Rime of the Ancient Mariner says "*As idle as a painted ship, Upon a painted ocean*". Today we break free from this trap.

Some might ask: can we not just spend our way out of the present crisis?

Certainly in 2009, when we had debt of 31.5 per cent of GDP and the real yield on government debt was about 3 per cent, every rand of government spending got us R1.60 in GDP.

Now, however, at such elevated real interest rates, every additional rand gets us less than a rand of GDP. It may even subtract GDP, leaving us poorer and more indebted than before.

And it is easy to see why. As we borrow more, we pay even more. We also have not been spending on infrastructure, which creates long-term growth.

We act to instil confidence amongst discouraged work seekers, businesses bruised by lockdown and facing uncertainty, farmers and farm workers who

produce the food for the country, and our international partners who know that South Africa is a great place to invest.

Amongst other things, we will:

1. Make it easier to do business. We must remove the needlessly complex red tape that increases the cost of doing business
2. Create stable and predictable policies. As we rebuild, there must be universal understanding of the policy trajectory of our government. It is not only investors that need confidence, but also the average South African
3. We must use our ingenuity and adapt after the ravages of the pandemic
4. Embrace a sustainable future, and work towards a green and just transition

The future of work is now different in the post COVID-19 world. The public service must adapt to the new world after the pandemic. The crisis has highlighted and unfortunately widened inequality. We must continue to protect the most vulnerable.

## COMPENSATION ADJUSTMENTS

Now, as we go forward together, as part of our post-pandemic rehabilitation, we need to come together to forge a new consensus on public-sector employee compensation.

Our compatriots in the private sector have made sacrifices and even negotiated salary cuts to keep businesses afloat.

Over the past five years, public sector employee compensation grew by 7.2 per cent a year on average – well above inflation. Over the next five years, it will need to grow much, much slower.

The Minister for the Public Service and Administration and the leadership of the public service unions are meeting to discuss how best we adapt to the reality that we must do more with less, and that we are all in this together.



We wish to thank them all for the seriousness with which they approach this matter. I must stress that our public servants do important work for South Africa. They are patriots. They too wish to unburden our country of debt. They want to bequeath assets, not liabilities, to the next generation.

Still we cannot expect our civil service to carry the burden of nation building alone. Consideration should be given to the proposal for across-the-board compensation pay reductions to management-level positions, across national, provincial and municipal governments, state-owned entities all other senior public representatives.

### **PROGRESS ON ZERO-BASED BUDGETING AND SPENDING REVIEWS**

Zero-based budgeting will be piloted at the Department of Public Enterprises and National Treasury next year. It will be fully integrated into the budget system by the 2023 Budget. In practice, it will mean programme-by-programme and project-by-project analysis. We must discard those things that we no longer need to do and scale up those that are essential for progress.

### **STATE-OWNED ENTERPRISES**

Madam Speaker, R3 billion was allocated to the Land Bank in June. The Bank will require an additional R7 billion over the medium-term to support its restructuring.

R10.5 billion is allocated to SAA to implement its business rescue plan. This allocation is funded through reductions to the baselines of national departments, public entities and conditional grants. This allocation is in addition to the R16.4 billion allocated over the 2020 MTEF in the February Budget for settling guaranteed debt and interest.

Our approach is in line with the principle that funding to state-owned companies must come from within the current framework and reprioritised from elsewhere.

We cannot break the fiscal framework.

## **DEALING WITH CORRUPTION**

The final part of our duties as captains through the storm is to strengthen the ship.

The COVID-19 pandemic has given rise to shameful and exploitative acts of corruption. This has overshadowed our collective achievements in saving lives and supporting livelihoods.

It is not true that the R500 billion relief package has been entirely lost to corruption. As pointed out above, it is being used to cushion the impact of the pandemic and aspects will continue to be rolled out over the medium term, particularly the Presidential Employment Programmes.

We must continue to defeat the corrupt and plug the loopholes. Efforts to support a rapid response to COVID-19 underline the need for comprehensive procurement reforms. The National Treasury has withdrawn the emergency procurement instruction note and required all state bodies to revert to normal procurement processes. Procurement is now slowed down due to a few scoundrels who put themselves ahead of the country, and we must all suffer.

The details of all COVID-19 related procurement, including the names of companies awarded contracts, have been published. The majority of health spending takes place at provincial level. Provinces are taking actions against those found to have been involved in corrupt practices.

The South African Revenue Services is working with other law enforcement agencies to evaluate R3.5 billion worth of tenders to awarded to entities not registered for VAT.

In addition, the State Capture Commission of Inquiry is allocated an additional R63 million from the Department of Justice and Constitutional Development to finalise investigations and produce a close-out report.

## CONCLUSION

Honourable Speaker,

Members of the House,

Today we set out a course back to prosperity.

Growth is slowly returning.

Things are looking better.

The 2020 MTBPS sets out our course forward.

1. We intend to run primary surpluses on the main budget by 2025/26 by constraining non-interest spending growth
2. We shift spending from consumption to investment. Over the MTEF, the fastest-growing item, other than debt service costs, is spending on capital goods, i.e. investment, which is projected to grow at 7.8 per cent a year
3. We allocate resources for the Economic Reconstruction and Recovery Programme

The Gospel according to John chapter 12 verse 35 warns us:

*“You are going to have the light just a little while longer. Walk while you have the light, before darkness overtakes you. Whoever walks in the dark does not know where they are going.”*

Madam Speaker,

Honourable Members,

Today we embrace our higher purpose as citizens and leaders to take forward the vision of nation-building. Together we can shape a new destiny for our great, vibrant, beautiful country.

Our thanks go to the President and the Deputy President for their support, Cabinet colleagues, the members of Ministers’ Committee on the Budget, the MECs of Finance (Team Finance).

Thanks also to the chairpersons of the Standing Committee on Finance and Appropriations Committee, Mr Joe Maswanganyi and Mr Sfiso Buthelezi respectively, and members of the respective parliamentary committees.

The Medium-Term Budget Policy Statement coincides today with another important process, the tabling of the tax Bills. I am grateful to the Standing and Select Committees on Appropriations and Finance. They have the responsibility for steering the consideration of the tax bills, giving effect to the revenue proposals as announced in the 2020 Annual Budget in February and related tax administration matters. They will also consider the 2020 Division of Revenue Second Amendment Bill and the 2020 Second Adjustments Appropriation Bill.

We also wish to thank the Governor of the South African Reserve Bank, Mr Lesetja Kganyago and his staff for their cooperation with us.

A special word of thanks goes to the Deputy Minister of Finance, Dr David Masondo, and the Director-General of the National Treasury, Mr Dondo Mogajane, and the team for their courage, hard work and commitment.

Finally, we express our appreciation to the people of South Africa who continue to walk with us as we chart the way to a promising destination.

I thank you.