

# Minister Enoch Godongwana: 2021 Medium-Term Budget Policy Statement

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11 Nov 2021

## **Introduction**

Madam Speaker;

His Excellency, President Cyril Ramaphosa

The Deputy President David Mabuza

Cabinet Colleagues

Members of the Executive Committees for Finance in the various provinces

The Governor of the South African Reserve Bank

The Commissioner of the South African Revenue Service

Honourable Members

The People of South Africa:

I am honoured to table the following documents before this House:

- The 2021 Division of Revenue Amendment Bill;
- The 2021 Adjustments Appropriation Bill;
- The 2021 Rates and Monetary Amounts and Amendment of Revenue Laws Bill;
- The 2021 Taxation Laws Amendment Bill;
- The 2021 Tax Administration Laws Amendment Bill;
- The Revised Fiscal Framework
- The 2021 Adjusted Estimates of National Expenditure; and
- The 2021 Medium Term Budget Policy Statement.

## **Introduction**

Madam Speaker, we are tabling the 2021 MTBPS under unprecedented conditions.

The COVID–19 crisis has caused severe disruptions to economies the world over.

It has forced governments to pay even greater attention to the tasks of saving lives and preserving livelihoods.

In addition to the high cost to human life, the crisis is likely to leave deep and longlasting scars on the global economy.

The scarring impact of the crisis is evident in increased debt levels, income vulnerabilities; while unemployment, poverty and inequality are deepening.

This is a crisis like no other!

Almost four months ago, in certain parts of our country, we witnessed disturbing incidents of violence and destruction of property never seen in post-apartheid South Africa.

Once again, lives were lost and people's livelihoods were taken away.

Infrastructure was destroyed, investor confidence was battered and our economic prospects were dealt a severe blow.

These incidents exposed the fragility of South Africa's social, economic and political compact.

They reminded us of the ease with which the plight of the poor and unemployed can be exploited to achieve political ends.

I wish to take this moment, Madam Speaker and Honorable Members, to pay tribute to the resilience of the people of South Africa during these hard and trying times.

We are a resilient and dynamic people!

On many occasions, when faced with extreme difficulties, we have always managed to emerge even stronger.

On the 1st of this month, our country held its sixth democratic local government elections.

Once again, our people responded to the Freedom Charter's clarion call that; "The People shall govern."

They understood that; as the Freedom Charter declared; "No government can justly claim authority unless it is based on the will of the People."

## **The economic environment**

### **Global outlook**

Madam Speaker, amid the COVID-19 pandemic, global economic recovery is continuing.

However, higher and more persistent inflation as well as the outlook for commodity prices have brought with them uncertainty about medium-term global economic growth.

The global economy is projected to grow 5.9 per cent in 2021 and 4.9 per cent in 2022.

Advanced economies are expected to return to pre-pandemic expectations for growth in 2022, while emerging markets and developing economies, are expected to remain below pre-pandemic projections.

Notably, growth has recovered faster than employment.

### **Domestic outlook**

In the first half of 2021, the South African economy recovered more quickly than expected, reflecting less stringent COVID-19 restrictions, along with lower interest rates, support from strong international demand and higher commodity prices.

We now expect the South African economy to grow by 5.1 per cent in 2021, from a 6.4 per cent contraction in 2020.

Over the next three years the growth of the local economy is expected to average 1.7 per cent, reflecting some structural weaknesses such as inadequate electricity supply.

Madam Speaker, the strength of South Africa's economic recovery will also depend on the roll out of vaccines.

A higher take up of vaccines will reduce the risks of future waves of the pandemic and associated disruptions to economic activity.

The speed and scale of vaccination, therefore, is of the essence – there should be no room for hesitancy.

### **The 2021 MTBPS core message**

Madam Speaker, this year marks the 25th MTBPS to be tabled in this house.

We have indeed come a long way in improving transparency and credibility of our budgeting processes.

The 2021 Medium-Term Budget Policy Statement is about navigating South Africa's path to economic and social recovery, drawing on the resilience of her people as well as restoring the sustainability of our public finances and the dignity of our people in the face of a once-in-a-lifetime pandemic.

The MTBPS charts a course that demonstrates government's unflinching commitment to fiscal sustainability, enabling long-term growth by narrowing the budget deficit and stabilizing debt.

Critical to the fiscal path we have chosen is the need to be clear and unambiguous on the trade-offs we are willing to make as a nation.

We cannot do everything we want at the same time.

Equally important is the faster implementation of structural reforms to unlock greater private sector investment, economic growth and job creation.

A fast-growing economy will allow for greater revenue collection, making it possible for more comprehensive responses to the challenges we face.

### **Igniting growth**

Madam Speaker, considering the economic outlook and the risks associated with it, it is critical that we accelerate economic reforms for long-run growth.

These reforms should focus on improving competitiveness, productivity, investment and employment.

Our first and immediate task, in this regard, must be to ensure stable energy supply, reduce the risk of load-shedding and accelerate the transition to renewable energy sources.

All of our efforts over the past 13 years have been to fix Eskom, instead of addressing security of supply by adding additional capacity to the grid.

We have already made significant progress in correcting this: the amendment of Schedule 2 of the Electricity Regulation Act of 2006, has raised the licensing threshold from 1 to 100 megawatts.

It has also made it possible for private power generators to sell directly to customers.

This will alleviate the risk of power cuts.

The amended regulations will further enable municipalities to self-generate or procure power directly from independent power producers.

We have also begun to reduce our reliance on Eskom by diversifying our primary energy sources.

The gains from this diversification are demonstrated by the outcome of the most recent round of the Renewable Energy Independent Power Producer (REIPP) programme.

The 25 projects that are part of the latest round of Bid Window 5, will generate more than 2 500 megawatts of power at a weighted average price of 47.3 cents per kilo watt hour.

This is the cheapest rate achieved in the history of the programme and is among the lowest rates achieved worldwide.

Over the longer term, creating a competitive energy market will help contain the costs of generating electricity and support GDP growth.

The second set of reforms we must continue to focus on are about improving the efficiency of South Africa's logistics infrastructure to support export growth.

In this regard, government has announced the corporatisation of Transnet's National Ports Authority as an independent subsidiary of Transnet and appointed an interim board.

This will create incentives for efficiency and competitiveness between port service providers – reducing delays, improving services and introducing cost discipline.

Transnet Freight Rail will allow third-party access to the freight rail network by the end of 2022.

Allowing private rail operators to use the freight rail network will bolster system volume and capacity.

The third area is the speedy resolution of issues blocking the release of high demand spectrum and making affordable data available to firms and households.

I am aware that a lot of work is being done to overcome obstacles to the release of spectrum.

Madam Speaker, we must ensure the completion of digital migration by March 2022.

This is crucial to enable the full use of additional spectrum that will be auctioned.

Fourthly, to boost tourism and attract skills, the now completed e-Visa system will be rolled out to 15 countries by March 2022.

Fifthly, in the water sector, legislative drafting and financial modelling have been done to establish a National Water Resources Infrastructure Agency, responsible for improving the management of bulk water resources.

The Department of Water and Sanitation is fast-tracking its application process to ensure that the 90-day target for issuing single-use water licenses will be implemented by March 2022, as part of improving ease of doing business.

Madam Speaker, this package of reforms, demonstrate government's commitment to create a conducive environment for the growth and development of our economy.

In addition, we must remove the regulatory burden on SMMEs and cooperatives. In this regard, we will investigate different forms of support for township, inner city and rural enterprises.

Also, of importance is a need to strive for policy coherence and policy certainty across government.

We must also continue to strengthen the capacity of the state to implement policy and intervene in the economy in a manner that enhances and not inhibits growth.

Madam Speaker, the Economic Reconstruction and Recovery Plan identifies infrastructure development as a critical component of changing our economic fortunes.

In total, 62 priority infrastructure projects were gazetted last year.

An additional 55 new projects from various sectors valued at around R 595 billion, with a funding gap of around R 441 billion, were recently unveiled. Therefore, we will need partnerships with the private sector to fill this funding gap.

The Infrastructure Fund is an important intervention towards our strategic goal of ensuring that total investment in public infrastructure is nearly 30 per cent of gross fixed capital formation by 2030, as envisioned in the National Development Plan.

We will maintain our commitment to the Fund, including allocating R100 billion over a decade from 2019/20, as committed to in the previous budget

Further work is being done to unlock more infrastructure projects for execution.

There is strong collaboration with government departments and other institutions such as

Infrastructure South Africa and the Development Bank of Southern Africa to prepare 4 projects with an investment value of R84.5 billion in the telecommunications, water and sanitation as well as the transport sectors.

Madam Speaker, the facilitation of trade across our borders is an important enabler of economic activity, especially as we are implementing the African Continental Free Trade Agreement.

Across our continent, infrastructure is underdeveloped, and systems are outdated, resulting in inefficiencies and long delays. This also breeds criminality.

Last week, I visited the Beitbridge border post with the SARS Commissioner Kieswetter and DG Mogajane to assess first-hand the operational challenges at that port of entry.

Beitbridge typically processes around 900 commercial vehicles and 25 000 travelers during peak periods per day. It simply cannot cope.

It is estimated that the economic cost of the inefficiencies at Beitbridge, just to South Africa, amount to several billions of rands per year.

We must act with speed to improve the infrastructure and modernise the customs systems at all our ports.

This will contribute significantly towards greater revenue collection, trade facilitation and border protection.

Let me reiterate, madam Speaker, that government cannot drive economic recovery and growth alone because most areas of economic activity are dominated by the private sector, including investment, employment and innovation. In this, we strongly call on a greater social compact to raise growth and improve livelihoods.

### **Fiscal Policy Considerations**

Madam Speaker, following the global financial crisis of 2008, South Africa adopted a counter-cyclical fiscal policy. This means that as the economy under-performed, government increased its deficit to counter the impact of the crisis.

We spent more than we were receiving in tax revenues on a consistent basis. This, together with the composition of spending, did not meaningfully increase growth.

Instead of getting higher growth from fiscal expansion, our debt continued to rise.

The R4 trillion in debt that we now owe is incurring debt service costs that will become the largest portion of spending, compared to individual functions, from next year.

These debt service costs are non-discretionary – in other words, we cannot avoid paying them. Their effect, therefore, is to crowd-out other spending priorities.

Debt-service costs are expected to rise from R269.2 billion in 2021/22 to R365.8 billion in 2024/25. This is higher than the health and police services budgets.

Nevertheless, there have been some positive developments on the fiscal side. Tax collections have exceeded expectations in the short-term.

Revenue for 2021/22 is now estimated to reach R1.5 trillion, compared to R1.4 trillion at the time of the 2021 Budget in February. This is an upward revision of R120.3 billion.

The consolidated budget deficit is expected to be 7.8 percent of GDP in 2021/22, gradually lowering to 4.9 percent in 2024/25.

Taxes paid by the mining sector have been strong, due to the commodity price rally which continued through the first half of 2021.

Notably, however, precious metal prices have started to soften. This means the revenue gains from the commodity price rally are expected to be temporary. Therefore, we should be careful about our spending commitments.

We should not make permanent spending commitments from short-term revenue benefits. This approach is embedded in our fiscal framework.

We are of the view that revenue can be increased with a more effective and efficient revenue collection authority.

In this regard, SARS has already started to utilise the additional funding that was provided to them in the 2021 Budget, by hiring skilled tax and customs auditors and data scientists to boost compliance and collections as well as accelerate modernisation.

Madam Speaker, the additional revenue due to the commodity price rally, created space for government to provide additional support for poverty and employment programmes this year, without negatively impacting the fiscal position. Following on from the fiscal response last year, government has provided an additional R48.9 billion in fiscal support due to the unrest that took place in July and the impact of the COVID19 lockdown.

This includes R37.9 billion in direct fiscal support. We are now making an additional R11 billion available to the South African Special Risk Insurance Association (SASRIA) to enable them to continue settling legitimate claims from businesses damaged during the unrest.

The criminal activity we witnessed during the recent unrest reminds us that crime continues to be a blight on our society. It undermines confidence in our recovery and hinders our long-term economic development.

To strengthen the fight against crime, we have allocated additional funding to the South African National Defense Force and the Police Services.

All South Africans deserve to be safe. We must not fail in this.

### **In-year adjustments**

Madam Speaker, this MTBPS is also about continuing our country's response to COVID-19 and its resultant economic and social impacts, by providing additional short-term support where needed.

This year, we are increasing non-interest spending by R59.4 billion.

The revised 2021/22 fiscal framework includes R3 billion in the contingency reserve for additional vaccine purchases and R11 billion as a provisional allocation to SASRIA for risk coverage in the wake of the unrest in July.

Aside from allocations in the Special Appropriation Bill I tabled in August, most of the adjustments – R20.5 billion - are to cater for the higher-than-budgeted public sector wage agreement.

### **Medium-Term spending plans**

Madam Speaker and Honorable Members, our budget over the next three years is focused on service delivery and is highly redistributive.

Consolidated government spending is expected to increase from R2.1 trillion to R2.24 trillion over three years.

Put differently, government will spend more than R6.4 trillion over the next three years!

A key concern of government is the huge unemployment challenge we face as a country.

South Africa continues to grapple with long-run unemployment and in the current conditions, unemployment is lagging the economic recovery.

Government recognises that we need more private sector jobs, driven by a strong and growing investment climate.

At the same time the state must play a role in mitigating the impact of this crisis.

Accordingly, the 2022 Budget will allocate almost R74 billion towards public employment programmes over the MTEF.

In addition, further opportunities will be explored for supporting employment through other means.

Government will also maintain its commitment to supporting fee-free higher education. In this regard, funding for fee-free higher education and training has been increased.

In 2020/21 government spent R44.7 billion in this function. This has been increased to R56.8 billion in the current year. Over the 2022 MTEF, funding for higher education will total R158.8 billion.

### **The Social Relief of Distress Grant**

Honourable Members as you are aware, the current social relief of distress (SRD) grant is coming to an end in March 2022.

The grant has benefitted about 9.5 million South Africans. This is over and above the existing

social security grants.

Today, 27.8 million South Africans are social grant recipients. This accounts for about 46 percent of our population.

At the same time, the number of people working has declined, further underlining the critical flaws in our economy.

Our total spending on the social wage is also very high. This amount has grown from R860 billion in 2018/19 to R1.1 trillion in 2021/22.

Around 60 per cent of total non-interest spending annually goes towards housing development, free basic services, employment programmes, health, education and social grants, among other things.

Overall, the South African government is acknowledged as having one of the most comprehensive and expansive social security systems in the world, and there are ongoing discussions about the social safety net.

Details on our interventions with regards to the social security net will be provided in the February 2022 Budget.

Let me however reiterate that a permanent solution in responding to these challenges is to achieve high and sustained levels of economic growth.

### **Restructuring of State-Owned Companies**

Madam Speaker, state-owned companies are intended to be important enablers of economic development.

Many SOCs, however, have been badly managed and have failed to deliver.

In many instances they have also been devastated by state capture, making them increasingly reliant on government support.

Since 2013, government directed more than R290 billion to bailout state-owned companies, at the expense of important social expenditure.

Going forward, the restructuring of state-owned companies, informed by an assessment of their strategic relevance, is a priority.

In this MTBPS, no additional funding is provided for state-owned companies. The exception to this is where guarantees have been called by creditors and conditions have been met by the SOC in question, within the context of their strategic importance.

We must be prepared to consolidate some of our state-owned entities and let go of those that are no longer considered strategically relevant.

### **Retirement reform**

On retirement reforms, we are proposing measures to boost household savings by increasing preservation before retirement and to increase flexibility through partial access to retirement funds through a “two-pot” system.

In terms of this system, individuals would be able to access contributions to the one pot, while contributions to the other pot would be saved until retirement.

These measures would require legislative changes and further consultation. Limited withdrawals would also depend on affordability and liquidity of funds.

National Treasury will shortly publish a discussion document on the details of this proposal to obtain inputs before further announcements are made in the 2022 Budget.

### **Division of revenue**

To ensure equitable allocation of resources to provinces in response to the need to strengthen service delivery, the health component of the Provincial Equitable Share has been reviewed and will be implemented from the 2022/23 financial year.

Meanwhile, provinces receive almost R2 trillion in transfers over the 2022 MTEF. These allocations are made to maintain our commitment to the delivery of education, health and other social services to our people.

Madam Speaker, local government remains at the coal-face of service delivery. It is the sphere of government closest to the people. Over the 2022 MTEF, municipalities will receive more than R450 billion from the national fiscus.

Our immediate task is to build capable local government that delivers services effectively and efficiently.

The 2022 Budget will give details on the steps we are taking in this regard.

Currently there are 43 municipalities country wide which are in financial crisis, with another 100 municipalities at risk of similar crises.

To deal with the 43 municipalities already in crisis, I have specified the expected course of action to be taken by all Premiers, the Provincial EXCOs and MECs in ensuring that problems in these municipalities are dealt with in a more sustainable manner.

This is in line with national government’s commitment to ensuring sound fiscal management and greater fiscal responsibility in the local government sphere.

Let me take this opportunity to call upon the newly elected councillors to work hard to improve the state of their municipalities, and to co-operate with the support initiatives of provincial and national government.

### **Fighting corruption**

For our growth and recovery agenda to succeed we need a state that is capable, wellgoverned

and a society that is free of crime and corruption.

Within government, there continues to be inefficiencies in government expenditure due to corruption, wastage and various other forms of maladministration.

One critical part of our reform agenda is in the procurement system.

I am therefore delighted to announce that we are reaching the final stage of the finalisation of the Public Procurement Bill.

We anticipate that the Bill will be tabled before Parliament in the 2022/23 financial year.

Madam Speaker, the Judicial Commission of Inquiry into Allegations of State Capture, chaired by Deputy Chief Justice Zondo, will soon present its report with its findings to the President.

We look forward to swift action by the criminal justice institutions to prosecute those responsible for the damage caused by the state capture project.

For our part, we are working with all the relevant authorities and the financial sector regulators to address deficiencies in our system, and to sharpen our ability to deal more effectively, and more speedily, with all financial crimes.

### **Business support measures**

In early 2020, we introduced a Loan Guarantee Scheme, which enabled commercial banks to support firms in distress as a result of the COVID-19 crisis.

This programme has been concluded. In its place we are considering new small business support measures to enable affected businesses to bounce back.

This we will do by providing expanded funding options, broadening the types of financial institutions which can provide this funding to include DFI's and non-banks.

We are working closely with the South African Reserve Bank, the Banking Association of South Africa and other stakeholders to finalise this proposal. Further details will be announced shortly.

### **Responding to climate change**

Madam Speaker, in Glasgow in the United Kingdom nations of the world gathered for the 26th United Nations Climate Change Conference of Parties (COP 26).

Our climate change mitigation commitments are bold. However, we need globally coordinated initiatives to succeed in reducing greenhouse gas emissions.

If we invest in the correct infrastructure for the future, we will be able to take advantage of opportunities to increase our trade with other countries.

We note and welcome promises for funding to support our transition to a low carbon

economy. We strongly welcome this commitment and will engage further on the details and obligations of all parties in this regard.

## **Conclusion**

Madam Speaker, as I conclude let me reflect on the key points we are making today.

This medium-term policy statement is a call to action. A charge to ourselves to once again renew the promise of a country that many fought for and have sacrificed much.

We must continue to focus on saving lives and livelihoods. Between now and February 2022 we will be working on the details of measures to deal with the socio-economic challenges we face, especially the crises of unemployment and poverty. This must be done in a manner that does not depart from the strategy of stabilizing government debt. Recommendations in this regard will depend on the availability of resources, including policy trade-offs and reprioritization.

We reiterate that the key to solving our development challenges is the need to push ahead with structural reforms necessary to unlock the growth of our economy.

These reforms include bringing additional electricity capacity into the grid in addition to fixing Eskom.

Honourable members, the task of growing our economy requires that we work together as South Africans; single minded in our understanding that working alone none of us can achieve the desired results.

Madam Speaker, I wish to thank the President and Deputy President for their leadership and guidance during these difficult times. I want to also express my appreciation to Deputy Minister, David Masedo, for his support. The Treasury team, led by Director-General Dondo Mogajane, continues to undertake their task with dedication, and I express my thanks to them.

My sincere thanks also go to the Commissioner of the South African Revenue Service, Edward Kieswetter, and the hard-working team at SARS.

Many thanks to the Governor of the South African Reserve Bank, Mr. Lesetja Kganyago and the staff of the bank, for their work and support.

Let me also thank my colleagues in the Ministers' Committee on the Budget and in the Budget Council who have shared the load of the tough decisions that have to be made in the current climate. Similarly, the Parliamentary Committees of Finance and Appropriations, I express my sincere appreciation.

Finally, we pay tribute to the millions of South Africans, whose resilience and courage during these times of pandemic and economic difficulties is an inspiration to all of us who have the privilege to serve in the public sector.

I thank you.

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