2021 budget speech by Minister of Finance, Tito Titus Mboweni, MP

24 February 2021

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

1. INTRODUCTION

It is my singular honour and privilege to present the 2021 Budget. Today I table before this House:

1. 2021 Appropriation Bill
2. 2021 Special Appropriation Bill
3. 2021 Division of Revenue Bill
4. The Budget Review
5. The Estimates of National Expenditure (ENE)

Madam Speaker last year we outlined a strategy to becoming a winning country.

Since then, we have mourned the passing of nearly 50 000 of our fellow South Africans as a result of the Covid-19 pandemic. The damage visited upon us by Covid-19 runs deep and we share in the collective pain of many South Africans who have lost their jobs.

All this notwithstanding Madam Speaker, we are not without hope. Our national icon, the Nobel Laureate, Archbishop Emeritus Desmond Tutu reminded us that: “Hope is being able to see that there is light despite all of the darkness". He observed that sometimes we forget that just beyond the clouds the sun is shining.

The brave and fearless sacrifices of our frontline workers continue to save thousands. We salute all our health care and essential service workers who remain standing at the front line of our fight against Covid-19. We also salute the many South Africans who rallied to help others survive. These acts of human solidarity and sacrifice reflect a patriotic spirit that runs in our veins and inspires us. Often, we speak about how we must leave this earth better than we found it for future generations. Today I want to leave you hopeful and outline how we will leave this economy in better shape for those who come after us.

2. THE FISCAL FRAMEWORK

Under the leadership of our President, we have crafted a Fiscal Framework that extends support to the economy and public health services in the short-term, while ensuring the sustainability of our public finances in the medium term. This is our first reason for hope.

The fiscal framework we table today entails the following:

- Main budget revenue is projected to be R1.35 trillion, or 25.3 per cent as a share of Gross Domestic Product (GDP) in 2021/22. This rises to R1.52 trillion in the outer year (2023/24) of the Medium-Term Expenditure Framework (MTEF).

At the same time, non-interest spending will remain steady at approximately R1.56 trillion over the next three years but will decline as a share of GDP from 29.2 per cent in 2021/22 to 26.2 per cent of GDP in 2023/24.

I requested tips from the public to help craft this Budget. Many tips spoke about the limits to increased taxation. We agree that tax increases must be kept to a minimum as we stabilise our public finances. We have chosen not to introduce the R40 billion in tax measures initially proposed in the October Medium Term Budget Policy Statement (MTBPS).

With this framework we provide the budget for South Africa's vaccination campaign. This campaign allows us to emerge from the restrictions to economic activity. We are allocating more than R10 billion for the purchase and delivery of vaccines over the next two years.

We increase the contingency reserve from R5 billion to R12 billion to make provision for the further purchase of vaccines and to cater for other emergencies.

With this framework we are on track to achieve our goal of closing the main budget primary deficit. We shall achieve a primary surplus on the main budget in 2024/25. This important achievement will coincide with the end of this sixth Parliament.

Most importantly, we will stabilise government debt at 88.9 per cent of GDP in 2025/26 and the ratio will decline thereafter. This is a significant improvement to the framework we presented in October last year and creates a sound platform for sustainable growth.

Total consolidated spending amounts to R2 trillion each year over the medium term, the majority of which goes towards social services.

Honourable members, getting our fiscal house in order is the biggest contribution we can make to support our Economic Reconstruction and Recovery Plan. Continuing on the path of fiscal consolidation during the economic fallout was a difficult decision. However, on this, we are resolute. We remain adamant that fiscal prudence is the best way forward. We cannot allow our economy to have feet of clay.

High government debt levels increase the cost of borrowing across the economy. The rising debt leads to higher future taxation and uncertainty. Servicing this rising debt takes away resources that could have been invested in infrastructure and frays our social solidarity.

3. ECONOMIC OUTLOOK

Madam Speaker, my second reason for hope stems from a much-improved economic outlook.

Global economic growth is expected to rebound to 5.5 per cent in 2021 before moderating slightly to 4.2 per cent in 2022, spurred on by the expected rollout of Covid-19 vaccines and other additional policy measures.

China is expected to grow at 8.1 per cent in 2021, while India will achieve a growth rate of 11.5 per cent in 2021.

Sub-Saharan Africa is forecast to grow by 3.2 per cent.

In this context, the South African economy is expected to rebound by 3.3 per cent this year, following a 7.2 per cent contraction in 2020, and average 1.9 per cent in the outer two years.

4. PROGRESS ON ECONOMIC REFORMS

Madam Speaker, honourable members, I am also hopeful because we are making meaningful progress in the implementation of our structural economic reforms. Our structural weaknesses limit the rate at which our economy can grow. Our structural reform agenda, as articulated in the Economic Reconstruction and Recovery Plan, is aimed at removing these brakes on growth.

Operation Vulindlela, which I introduced to you last year, has already made demonstrable progress in accelerating the pace of implementation of high-impact structural reforms.

Much of this progress was outlined in the State of the Nation Address (SONA). I want to thank my Cabinet colleagues for their support of Operation Vulindlela and assure members that Deputy Minister Dr David Masondo and the team from the Presidency and National Treasury remain hard at work together with the relevant departments to ensure that implementation of the remaining reforms is appropriately funded and accelerated.

We will not rest until we have fundamentally altered the structure of this economy by lowering barriers to entry, broadening ownership patterns, raising productivity and lowering the cost of doing business.

We face many challenges as a developing country. We are confronting these head-on. Our country has a network of highways and byways which are the envy of many. The mighty N1 from Cape Town to Beitbridge, the scenic R71 that meanders through the misty mountains of Makgoebaskloof and delivers us to the Kruger National Park, and the expansive N4 that stretches from Botswana across our country into Mozambique. They are part of the lifeblood of the regional economy. Our great dams, bridges and railway lines have supported our economy for decades. However, much of this infrastructure now needs repair or replacement.

Government has committed to a R791.2 billion infrastructure investment drive to this end. We are already partnering with the private sector and other players to rollout infrastructure through initiatives such as the blended finance Infrastructure Fund.

However, all these efforts to expand infrastructure will be wasted if the end user does not pay a cost-reflective tariff for usage.

5. MEDIUM TERM SPENDING PLANS AND JOB CREATION

Madam Speaker, my fourth reason for hope is that this Budget explicitly supports economic transformation and job creation.

Our R6.2 trillion spending envelope over the Medium-Term Expenditure Framework gives expression to the Economic Reconstruction and Recovery Plan. This is not an austerity Budget. Our fastest-growing area of spending is our investment in the future-capital payments.

The Minister for the Department of Public Service and Administration,

Minister Senzo Mchunu, is working with our partners in organised labour to achieve a fair public-sector compensation dispensation when negotiations on a new multi-year wage settlement begin later this year.

We have cumulatively made R83.2 billion available for the public employment programmes since the 2020 Special Adjustments Budget. We are now augmenting this by R11 billion for the Presidential Youth Employment Initiative, taking the total funding for employment creation to nearly R100 billion. This is in response to the job creation targets for young people. outlined by the President.

Government plans to finalise 1409 restitution claims at a cost of R9.3 billion over the next three years to achieve redress and equitable access to land. The Department of Agriculture, Land Reform and Rural Development has also set aside R896.7 million for post-settlement support. This will include the recruitment of approximately 10 000 experienced extension officers.

A total MTEF allocation of R7 billion is made to the Land Bank. This allocation will help to resolve the bank's current default and re-establish the development and transformation mandate. This amount will not affect the expenditure ceiling but will be offset through an expenditure reprioritisation process. Any support to state-owned companies and public entities will have to be done through budget reprioritisation as outlined in the 2020 MTBPS.

6. DEBT OUTLOOK

Honourable Members, an incorrect notion has taken hold that government is “swimming in cash”. Certainly, compared to last October, we are in a better place. But our assessment from the Supplementary Budget in June last year still stands: our public finances are dangerously overstretched.

Our borrowing requirement will remain well above R500 billion in each year of the medium term despite the modest improvements in our fiscal position.

Consequently, gross loan debt will increase from R3.95 trillion in the current fiscal year to R5.2 trillion in 2023/24.

We owe a lot of people a lot of money. These include foreign investors, pension funds, local and foreign banks, unit trusts, financial corporations, insurance companies, the Public Investment Corporation and ordinary South African bondholders.

We must shore up our fiscal position in order to pay back the massive obligations we have incurred over the years.

7. TAX POLICY CHANGES

We must advise this House that we now expect to collect R1.21 trillion in taxes during 2020/21, which is about R213 billion less than our 2020 Budget expectations. This is the largest tax shortfall on record.

In 2021/22 government expects to collect R1.37 trillion, provided our underlying assumptions on the performance of the economy and tax base hold. I would like to take this opportunity to thank those South Africans who diligently continue to pay their taxes.

In this Budget we make the following tax policy proposals.

1. The corporate income tax rate will be lowered to 27 per cent for companies with years of assessment commencing on or after 1 April 2022. This will be done alongside a broadening of the corporate income tax base by limiting interest deductions and assessed losses. We will give consideration to further rate decreases to make our tax system more attractive. We will do this in a revenue-neutral manner. We also intend to leverage the insights of the Davis Tax Committee as we undertake this reform.

2. The personal income tax brackets will be increased by 5 per cent, which is more than inflation. This will provide R2.2 billion in tax relief. Most of that relief will reduce the tax burden on the lower and middle-incomehouseholds. This means that if you are earning above the new tax-free threshold of R87 300, you will have at least an extra R756 in your pocket after 1 March 2021.

3. Fuel levies will be increased by 27 cents per litre, comprising 15 cents per litre forthe general fuel levy, 11 cents perlitre forthe Road Accident Fund levy and 1 cent per litre for the carbon fuel levy.

4. An 8 per cent increase in the excise duties on alcohol and tobacco products.

From today:

a. a 340ml can of beer or cider will cost an extra 14c

b. a 750ml bottle of wine will cost an extra 26c

c. a 750ml bottle of sparkling wine an extra 86c

d. a bottle of 750 ml spirits, including whisky, gin or vodka, will increase by R5.50

e. a packet of 20 cigarettes will be an extra R1.39c

f. 25 grams of piped tobacco will cost an extra 47c

g. And a 23 gram cigar will be R7.71 more expensive

It is clear that excessive alcohol consumption can lead to negative social and health outcomes. Consumers do react to price increases, and higher prices should lead to lower consumption of alcohol products with positive spinoffs.

SARS has started to deepen its technology, data and machine learning capability. It is also expanding specialised audit and investigative skills inthe tax and customs areas to renew its focus on the abuse of transfer pricing, tax base erosion and tax crime.

In this coming fiscal year, SARS will establish a dedicated unit to improve compliance of individuals with wealth and complex financial arrangements. This first group of taxpayers have been identified and will receive communication during April 2021. In support of these efforts, we request that this House approve an additional spending allocation to SARS of R3 billion over the medium term.

8. DIVISION OF REVENUE

Madam Speaker, let me turn to the division of revenue.

The 2021/22 Division of Revenue stands as follows: 48.7 per cent of nationally raised funds are allocated to national government, 41.9 per cent to provinces and 9.4 per cent to local government. This is after providing for debt-service costs, the contingency reserve and provisional allocations.

The provincial equitable share will be augmented by R8 billion for provincial health departments in 2021/22 to deal with Covid-19. Of the R10.3 billion for vaccines, R2.4 billion is allocated to provincial departments of health to administer the Covid-19 vaccine programme.

Government will also put in place a no-fault compensation fund to cover claims in the unlikely event of any severe vaccine injuries, allocations to which will be announced in due course.

The local government equitable share is set to increase to 9.7 per cent of the Division of Revenue in 2023/24. We are aware that financial governance remains a challenge for many municipalities. Therefore, the Municipal Systems Improvement Grant is extended for the rollout of the District Development Model.

We must encourage collaboration and partnerships between municipal councils, labour, communities and the private sector around the principles of shared risk and shared reward. There needs to be a transition to smart local government and innovation. At the same time, well-functioning municipalities require that residents pay for services rendered.

9. SOCIAL DEVELOPMENT

Provinces will receive R3.5 billion from the Department of Social Development to improve access to early childhood development services.

R6.3 billion is allocated to extend the special Covid-19 social relief of distress grant until the end of April 2021. In addition, R678.3 million is earmarked for provincial departments of social development and basic education to continue rolling out free sanitary products for learners from low-income households.

Regular social assistance grants are adjusted as follows:

1. A R30 increase for the old age, disability and care dependency grants to R1890.
2. A R30 increase in the war veterans grant to R1910.
3. A R10 increase in the child support grant to R460.
4. A R10 increase for the foster care grant to R1050.

Government remains committed to ensuring that deserving students are supported through higher education. The National Treasury is working with the Department of Higher Education and Training to work on policy and funding options that will be detailed in the MTBPS.

10.AFRICAN AND REGIONAL ECONOMIC POLICY

Madam Speaker,

This Budget takes seriously our commitment to the continent of which we are a part. Payments to the Southern African Customs Union (SACU) have been revised upwards by R1.9 billion in 2022/23 and R15.5 billion in 2023/24 to R137.3 billion over the medium term.

The African Renaissance and International Cooperation Fund will over the MTEF support projects that enhance African trade, economic development and integration. An allocation of R148.1 million is set aside for this purpose.

The Africa Continental Free Trade Agreement (AFCTA), part of which came into effect earlier this year, presents the opportunity to deepen our trade and financial linkages with the Continent. Following last year's Budget announcement on supporting the African Continental Free Trade Agreement through a more modern risk-based capital management flow system, much progress has been made to implement the new system, and new regulations will be published by the South African Reserve Bank shortly.

The National Treasury also continues to work with industry bodies to promote South Africa as a financial hub for Africa. From 1 March 2021, companies with a primary listing offshore, including dual-listings, will bealigned to current foreign direct investment rules, which the South African Reserve Bank will oversee.

In order to improve access to African markets, our six busiest border posts will be upgraded and expanded. These will be significant infrastructure interventions using the PPP model. Starting with Beitbridge, which was built in 1929 and last upgraded in 1995, these One-Stop-Border-Posts will harmonise the crossing of borders by people and goods, eliminating the dreadful scenes we witnessed recently.

Though we face many difficulties, we must not lose sight of our place in the world, as well as our potential and responsibilities. Twenty-five years ago, on 8 May 1996, the occasion of the adoption of the South African Constitution, former President Thabo Mbeki delivered his seminal “I am an African” address at this podium.

President Mbeki reminded us that there are moments in time when we must define what we want to be.

“Together with the best in the world, we too are prone to pettiness, petulance, selfishness and short-sightedness. But it seems to have happened that we looked at ourselves and said the time had come that we make a super-human effort to be other than human, to respond to the call to create for ourselves a glorious future, to remind ourselves of the Latin saying:

Gloria est consequenda - Glory must be sought after!”

11.PUBLIC PROCUREMENT AND ZERO-BASED BUDGETING

Honourable members, our fiscal path requires that we better leverage government’s status as the largest purchaser of goods and services in the economy.

Finalisation of the Public Procurement Bill is urgent. The National Treasury is fast tracking it. The bill addresses fragmentation in procurement legislation. We aim to table this reform before Cabinet before the end of this year.

Many of the tips I received spoke of the importance of zero-based budgeting. The National Treasury is finalising the framework to implement zero-based budgeting across government. This will be done through spending reviews which have been used internationally to achieve spending efficiencies. These reviews are already underway and will shape this framework.

The Department of Public Enterprises and the National Treasury will be first to pilot a new budgeting methodology. The intention is to produce significantly re-costed budgets from 2022/23.

12. ADDRESSING CORRUPTION

The Department of Justice and Constitutional Development is allocated R1.8 billion to improve business processes. This allocation will support our brave law enforcement agents in the fight against crime and corruption.

We are bringing the long arm of the law into the digital age through the Justice Modernisation Programme. SARS, SARB and the Financial Intelligence Centre (FIC) are working jointly

on combating criminal and illicit cross-border activities through an inter-agency working group. This group has completed 117 investigations, and found R2.7 billion for our fiscus. Customs and excise operations are reducing the illicit movement of goods across borders, assisted by specialised cargo scanners, resulting in 3 393 seizures valued at R1.5 billion for the fiscal year to January 2021.

13. RETIREMENT FUND REFORM

We announced in the MTBPS the historic agreement with all NEDLAC constituencies for the annuitisation of provident funds. This will enable all workers to continue to enjoy tax deductions on their contributions.

The NEDLAC constituencies also agreed 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.

I can announce that annuitisation for provident funds takes effect from 1 March 2021, and provident fund members will continue to enjoy a tax deduction on their contributions. In addition, the National Treasury will this week publish draft amendments to Regulation 28 for public comment. The proposed amendments to Regulation 28 seek to make it easier for retirement funds to increase investment in infrastructure.

14.SUMMARY OF THE PRESENTATION ON THE FISCAL STRATEGY

This 2021 budget framework puts South Africa on course to achieve a primary surplus. By doing this, government debt will stabilise at 88.9 per cent of GDP in 2025/26.

The path is challenging but achievable. It is the most prudent way to achieve higher levels of prosperity and avoid a sovereign debt crisis.

Madam Speaker, Honourable Members, when the Constitution was adopted 25 years ago, the words “Nothing can stop us now!” resonated in this House.

As we affirm our commitment to sustainable public finances and the supremacy of our Constitution, we must again become resolute in the mission to recover and shape our destiny.

15.CONCLUSION AND THANKS

Madam Speaker, I thank the President and Deputy President for their courageous leadership during these testing times. A word of appreciation to the Deputy Minister of Finance, Dr. David Masondo. Thanks to the Director-General Mogajane and his dedicated team at the National Treasury.

My thanks also go to the Commissioner of the South African Revenue Service, Mr. Edward Kieswetter and his hard-working colleagues for the tremendous job they are doing. My gratitude to the Governor of the South African Reserve Bank Mr. Lesetja Kganyago and the outstanding staff of the Bank.

I particularly appreciate my colleagues in Cabinet and the wisdom of the Ministers' Committee on the Budget. I also thank my colleagues in the Budget Council. I am grateful to the Parliamentary Committees who also work tirelessly on the budget.

Finally, to the millions of South Africans who faced, and continue to face, enormous difficulties and challenges, we ask you to take courage, persevere and walk with us. Above all, let us heed the counsel of Archbishop Tutu: See that there is light despite all of the darkness.

A prosperous future is possible for our beautiful country. Gloria est consequenda – Glory must be sought after!

I thank you.