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SALARIES

Minister sure he and unions can cut public service wage bill

Genevieve Quital
Political Editor

The government has pinned its hopes for fiscal consolidation on a bid to slash public servant salaries in 2020, a plan that has not yet been negotiated with trade unions.

Trade union federation Cosatu, which met the government in the Public Service Co-ordinating Bargaining Council on the eve of the budget on Tuesday, has already responded with fury to the plan, calling it a "declaration of war".

The cuts of R160.2bn to the public sector wage bill over the next three years envisage an immediate re-opening of the three-year wage agreement currently in force and a settlement of the prevailing consumer price index (CPI) minus 3% for 2020. This is a substantial reduction on what workers would have received on April 1 2020, which would, for most employees, have included a cost-of-living adjustment of CPI plus 0.5%, as well as notch increases of at least 1%.

The wage bill, which absorbs more than 35% of government spending, has been a major driver of rising expenditure, crowding out spending on goods and services and capital investment. The Budget Review notes that public servants' salaries have grown by around 40% in real terms over the past 12 years, without equivalent increases in productivity.

Despite Cosatu's pronouncements, Mboweni, speaking ahead of his budget speech, said he was confident that the government and unions would find each other.

"There will be agreements and disagreements ... But for the credibility of our fiscal stance, that R160bn has to be found for all our sakes. There is no point in being victorious here or there, trying to keep your cents but lose the pound," Mboweni said.

A salary freeze has been put in place for all public representatives, including cabinet ministers and MPs.

According to the Treasury's proposal, cuts in the first year to well below CPI would enable increases over the next two years to keep pace with inflation. A nominal increase of 1.5% in 2020 would allow for 4.5% and 4.4% over the next two years.

Catherine Mcleod, head of macroeconomic policy at the Treasury, said: "If you act now, you are able to manage the costs later. Every rand you save this year is a rand you don't have to save next year," she said.

This will involve a cut of R37.8bn in 2020/2021 and further cuts in 2021/2022 and 2022/2023 of R54.9bn and R67.5bn, respectively.

According to the Budget Review, the proposed reductions would see consolidated compensation spending contract by 1% in real terms over the medium term. It would also equate to a one percentage point difference in the budget deficit, head of the budget office Ian Stuart said in a briefing to reporters.

The target could be achieved through a combination of modifications to cost-of-living adjustments, pay progression and other benefits. Last year, the government said it would reduce the public wage bill through early retirements and natural attrition. However this did not pan out as expected, with little interest shown by employees.

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Public-sector wages cut in bid to calm rating agencies

- *Expenditure reductions of R156bn over three years proposed*
- *R160bn drop in remuneration for officials will account for the bulk*

Lukanyo Mnyanda
Editor

A huge cut in the public-sector wage bill, setting the ANC government up for a mighty fight with its union allies, is the standout item in finance minister Tito Mboweni's budget.

Ratings agencies might be less impressed with the budget deficit and deficit numbers.

In what it described as "a major step towards fiscal sustainability", the government proposed cutting expenditure over the next three years by R156.1bn from its 2019 projections.

With interest payments consuming 15c of every rand the government raises through tax, and set to total more than is spent on health by 2023, the Budget Review called for drastic action to arrest the slide.

Mboweni aims to do so by tackling what most economists suggested would be a red line for the parts of the ANC alliance that catapulted Cyril Ramaphosa to the party's presidency in 2017.

A R160bn drop in the remuneration costs for national and provincial administrations and other public bodies will account for the bulk of the anticipated R261bn in savings, equivalent to 1% of GDP for the next three years. This will be somewhat offset by a R111bn increase in allocations for ailing state-owned state enterprises (SOEs), mostly Eskom and SAA.

Before the budget on Wednesday, economists had predicted that Mboweni would fail to win political support for spending cuts that would be enough to appease Moody's Investors Service, the last ratings company to have SA on investment grade.

While the budget may please investors and analysts, it is likely to be resisted by unions, with the budget review citing the renegotiation of existing deals and a new round of talks among the biggest risks to its whole fiscal framework. "This target can be achieved through a combination of modifications to costs-of-living adjustments, pay progression and other benefits," the Budget Review says.

Ian Stuart, acting head of the budget office, acknowledged that the negotiations would be tough and subject to political processes. Mboweni later said he was confident that labour and government would find each other. For the markets, the question will be whether Ramaphosa will stand by him in the face of tough negotiations and possibly even strikes.

The absence of tax increases, a recognition by the government that there is only so much it can squeeze from taxpayers in a weak economy and with dwindling corporate profitability, was another surprise, with some private sector analysts having predicted a VAT increase to plug the government's gaping fiscal gap.

Not only did the government not increase taxes for SA's struggling consumers and companies, individuals were handed unexpected relief through above-inflation adjustments to tax brackets. Leaving the brackets untouched as it did in 2019, would have handed the state an additional R12bn in revenue, meaning the economy got an unexpected R14bn boost.

"We are worried about the impact on growth," said Treasury deputy director-general Ismail Momoniat.

"In this economy, you can't strangle growth," he said, adding that the government would have liked to cut corporate taxes if the fiscal space had allowed it.

With little sign of improvement in the economy and therefore the debt profile, it remains to be seen if the budget will convince Moody's.

The budget slashed the final GDP growth forecast for 2019 to 0.3%, slightly lower than the SA Reserve Bank's 0.4%, with power cuts from Eskom the main culprit at a time when the global economy faces fresh headwinds from the coronavirus outbreak.

For 2020/2021, the Treasury expects the economy to expand by 0.9%, compared with a previous prediction of 1.7%. The expansion is expected to then accelerate to 1.6% by 2022, still well below the levels of at least 3% needed to make a dent in an unemployment rate that reached a record 29.1% in 2019.

As a result of the subdued growth, the government sees tax revenue for 2019/2020 coming in R63bn lower than what was projected a year ago, with the state reluctant to pencil in any additional money from the rehabilitation of the SA Revenue Service (Sars).

Government failures during Tom Moyane's reign as Sars commissioner that were detailed in the final report of the Nugent commission, were cited among the reasons for shortfalls that led to a VAT hike in 2018.

Current Sars commissioner Edward Kieswetter said "we have low-hanging fruit to pursue" related to strengthening the authority, and improving compliance rather than changing tax rates to boost takings.

Slow growth and revenue shortfalls will translate to budget deficits over the next three years that are set to stay above 6%, peaking at 6.8% in 2020/2021 and falling to 5.7% in the year ending 2023, all of which will lead to sharp increases in government borrowing to almost R500bn, including the repayment of existing debt, in 2022/2023 from just more than R400bn.

Spending cuts: Finance minister Tito Mboweni arrives with members of his ministry to deliver his 2020 budget speech in Parliament on Wednesday. In an effort to curb government spending, Mboweni announced cuts to the wage bill. /**Esa Alexander**

Not surprisingly, the debt-to-GDP ratio, a key measure watched by ratings agencies, will continue to deteriorate from 62% in the 2020 fiscal year to 72% in 2022/2023, up from just above 20% a decade ago, before the government ramped up spending in response to the global financial crisis and in infrastructure projects linked to the 2010 World Cup.

"The risk to SA's remaining investment-grade credit ratings has become more pronounced," the Budget Review says.

A downgrade by Moody's, which is due to review SA's rating late in March, could be devastating for the country and could lead to the government's financial situation deteriorating even further as the outflow of money from the country's bonds markets pushes up borrowing cuts, leaving even less cash available for key services such as health and education.

The review was part recognition of the dire fiscal situation the government finds itself in and part of a call to arms as it repeated calls for a quick implementation of microeconomic reforms contained in the Treasury strategy document released in August 2019.

Its modelling of growth scenarios could not be clearer: adopt the policies in the statement and see growth accelerate to about 2% in 2022, and do nothing and end up with about half that as more cash goes to distressed SOEs and borrowing costs, while confidence and investment take a hit.

While the public-sector wage bill took the brunt of spending cuts, there were some eye-catching reductions, including the slashing of allocations to human settlements, health and education infrastructure.

The potentially contentious proposals for a state bank and sovereign wealth fund were elegantly thrown down the road with more promises and highlighting the responsibility of the Prudential Authority in issuing banking licences.

During the press conference before the budget presentation, David Masondo, the deputy finance minister, had a message for the unions that the wage bill is one of the biggest factors driving the cost of providing services, while a downgrade is more than just about costs to government, but for businesses across the economy and their ability to employ more people.

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STATE ENTERPRISES

SAA fares best with budget support

Carol Paton
Editor at Large

"The sword of Damocles has now fallen on us," finance minister Tito Mboweni said in his budget speech on Wednesday, referring to SAA's crash landing after years of losses and bailouts.

SAA fared the best of the state-owned enterprises (SOEs) in terms of budget support, other than Eskom, which was already placed on life support in 2019's budget with a huge R150bn bailout to spread over 10 years.

Mboweni said he did not intend to say much about Eskom as "this was an old story", but when it came to SAA the inevitable had come to pass as the airline had been placed in business rescue. The proverbial sword of Damocles – which he referred to in 2019 – had fallen.

SAA will have debt and interest payments taken care of and get extra support to fund restructuring. SAA will get R16.4bn to cover debt repayment and interest costs. This includes R9.2bn of historic debt owed to commercial banks and R2bn borrowed from the consortium to fund business rescue. In January, SAA got a R3.5bn Development Bank of Southern Africa emergency loan.

In addition to debt repayments, there is additional allocation for interest payments over the period, bringing the total over the three-year period to R16.4bn. The amount that SAA will get to fund the remainder of the business rescue process was not quantified in the budget.

Mboweni, whose private view is that SAA should be sold, said business rescue "would lead to a radically restructured airline. The associated restructuring costs will be reprioritsed within the budget," he said.

Eskom, allocated R23bn a year for the next decade in the 2019 budget, will get allocations over seven years rather than 10, due to front-loading of the allocations, which began in 2019.

Although Eskom does not get exra resources in the 2020 budget, it will get substantial support of R112bn from the fiscus over the three-year budget period. This includes the R23bn allocated over the medium-term period plus additional appropriations announced during 2019, which allocated another R33bn for 2020/2021 and an additional R10bn in 2021/2022.

A Budget Review table shows that from 2008 to the end of 2022/2023, the government will have bailed out SOEs to the tune of R291bn. The bulk went to Eskom (R244.7bn) with SAA coming second with a total bailout package over the 15-year period of R38.4bn.

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DETERIORATING DEBT

Confirmed: nothing much has changed since October

Lullu Krugel and Christie Viljoen

There was hope that Budget Review 2020 would give SA some good news.

The preceding fiscal address from finance minister Tito Mboweni – the medium-term budget policy statement (MTBPS) four months ago – sounded warning bells about the country's fiscal situation but also made sounds about good news to be delivered this time around.

There were some positive announcements. After media coverage of analysts predicting an increase in VAT, the dreaded rise did not materialise. In fact, the finance minister announced some tax relief for consumers.

Personal income taxes are adjusted annually to compensate for inflation. This time, taxpayers were given above-inflation relief on personal income taxes. According to the Treasury, those earning R265,000 a year will see their income tax reduced by more than R1,500 a year.

This decision was unexpected given the pressures on the fiscus. It is likely that Mboweni looked at his calculations from an economic growth perspective and realised a small cut in personal income tax might give the local economy a bit of a boost.

On the expenditure side, the Treasury announced that it is planning for R160bn in savings on the public-sector wage bill over three years. This will enable fiscal authorities to structure a turning point in the fiscal deficit.

The public-sector wage bill has increased significantly over the past decade in nominal and real terms. It is a major expenditure point for the state, with little flexibility in making reductions to the overall cost.

The envisaged R160bn in savings has yet to be agreed with labour unions. The outcome of this process, which will entail renegotiating existing wage agreements – could be far smaller than R160bn.

With little flexibility on the expenditure side of the fiscal equation, the government is reliant on buoyant revenue. But this is not materialising due to the slow pace of economic growth, now and over the forecast period.

The fiscal balance – the difference between spending and income – provided some of the worst news. The budget balance is expected to balloon to 6.8% of GDP in 2020/2021, a departure from the figure of 4.3% presented a year ago. The proposed fiscal deficit will also be the largest since 1992.

The widening deficit is bad news for the country's debt dynamics. A continued large discrepancy between income and expenditure is resulting in a deteriorating public borrowing profile. Meanwhile, SA's debt obligations continue to rise, with no turning point anytime soon.

The deteriorating debt situation is far from encouraging when considering SA's sovereign ratings. Moody's Investors Service – the only major ratings agency that still provides SA with an investment-grade rating – is set to review this assessment at the end of March.

Moody's takeaway from this budget will not be encouraging.

Despite plans for reduced spending on staff, the Treasury has made no real improvements to the budget balance and debt projections. Any calculations Moody's makes will be similar to four months ago. The current fiscal situation is not much different from that provided in the medium-term budget.

The key issue is to restate the above: nothing much has changed since October 2019. The medium-term budget policy statement was a warning from the Treasury over the direction SA is headed if changes are not implemented quickly.

The Budget Review does show intentions to reduce public-sector costs, but nothing tangible. The document largely reiterates the reforms proposed last year, with limited progress on these changes. Many analysts will look at the budget speech and have a more favourable view of it compared to the medium-term budget policy statement. This cannot be because the numbers look better; it is probably because they are by now familiar.

The slow progress in righting the fiscal ship is a concern. It is clear that much faster economic growth will not materialise anytime soon, so analysts know improvement needs to come on the expenditure side, and it is here where progress is slower than desired.

The finance minister will rely on many things going his way – public-sector wage talks, reform at Eskom and a marked improvement in collections by the SA Revenue Service – to realise his goals for 2020/2021.

Most South Africans will be happy that VAT has not increased, and that personal income taxes will be a little less onerous. However, aiming for some smiles is likely not a sustainable approach to support the local economy. Bigger changes are needed, and they are needed yesterday.

● *Krugel is chief economist for PwC Africa, and Viljoen is an economist at PwC SA.*

Pay cuts but fiscal position remains tight

● *Finance minister Mboweni takes a tough line on reducing spending – including on the state's wage bill – but debt levels are set to continue rising*

Lynley Donnelly
Economics Writer

Finance minister Tito Mboweni's Budget Review paints a grim picture, revealing a shrinking envelope of money to run the country as SA continues to contend with poor growth and declining revenues.

Disappointing revenues, alongside continued spending pressure to support struggling state-owned entities (SOEs), means debt is not projected to stabilise over the coming three years – despite expenditure cuts Mboweni announced amounting to R261bn, including a cut of R160bn to the state's wage bill.

However, in the face of the declining tax take and poor growth the budget did not raise taxes, notably avoiding a VAT hike, which some analysts had argued was inevitable.

"It shows the difficult position we are in, and I think we need to wake up to it," Mboweni told journalists before delivering his budget speech in parliament.

The tight line he walked was, however, welcomed by analysts, even though the proposed savings cannot be achieved without buy-in from public-sector unions.

With economic growth now expected to average 1% over the coming three years, the revenue shortfall has come in at R63.3bn.

The consolidated budget deficit, which factors in cash balances held by certain social security funds, provinces and public entities, will come in at about 6.3% of GDP for 2019/2020, driven by poorer nominal GDP outcomes and the poorer tax take.

The budget deficit for the 2020/2021 year rises to 6.8% and is expected to be 6.2% in 2021/2022 before declining to 5.7% in 2022/2023.

The state's debt level – an important metric that has been flagged by credit ratings agencies, including Moody's Investors Service, the last agency that rates SA government debt at investment grade – is not expected to stabilise in the coming years.

The government's debt-to-GDP ratio will reach 61.6% during 2019/2020 before rising to 65.6% in 2020/2021, 69.1% in 2021/2022 and 71.6% in 2022/2023. These levels show a steady creep up from the figures announced in the medium-term budget policy statement, in which the Treasury predicted that the government's debt-to-GDP ratio would reach 60.8% in 2019/2020; 64.9% in 2020/2021 and 68.5% in 2021/2022, before reaching 71.3% in 2022/2023.

'IT SHOWS THE DIFFICULT POSITION WE ARE IN, AND I THINK WE NEED TO WAKE UP TO IT'

As a first step to halting the fiscal deterioration, Mboweni announced a cut to spending in the order of R260bn – a large part of which must come from the public-sector wage bill. According to the Treasury, cuts to the wage bill of R160bn can be achieved through a combination of changes to the cost-of-living adjustments, pay progression and other benefits.

CLEANING HOUSE

In total, government spending – excluding interest paid on debt – is set to decrease in real terms by an average of 0.4%.

Mboweni emphasised, however, that despite spending cuts in real terms this was not an austerity budget.

"We are not at a point of austerity. We are at a point of cleaning up our house. We are still spending, but not at the rate we wanted to be."

The poor growth outlook and repeated poor performance of tax revenues did, however, see the state hold off on large tax hikes. Analysts had predicted the state could increase VAT to 16% given its financial difficulties. Instead, the state gave taxpayers relief by adjusting for increases in inflation – forgoing revenue collection of R14bn.

But analysts have argued that, given that the budget does make an effort to address the public-sector wage bill, which consumes close to 35% of government spending, as well as providing tax relief to support economic growth, it can be read as a good outcome under the circumstances.

"It is exactly what they should be doing," said Investec's head of SA investments Nazmeera Moola. But it was premised on wage discussions with unions being successful, she said, which is a "risky" strategy.

"They are heavily reliant on this massive cut to the wage bill this year, which there doesn't seem to have been much discussion about," said Moola.

Public unions have come out against any efforts to rein in wages, but Mboweni was confident that during discussions with labour, the state and unions will "find each other".

But Treasury officials warned that the state has to try to achieve the wage savings. The alternative will be successive increases in the budget deficit, which could rise to 7.5% of GDP next year.

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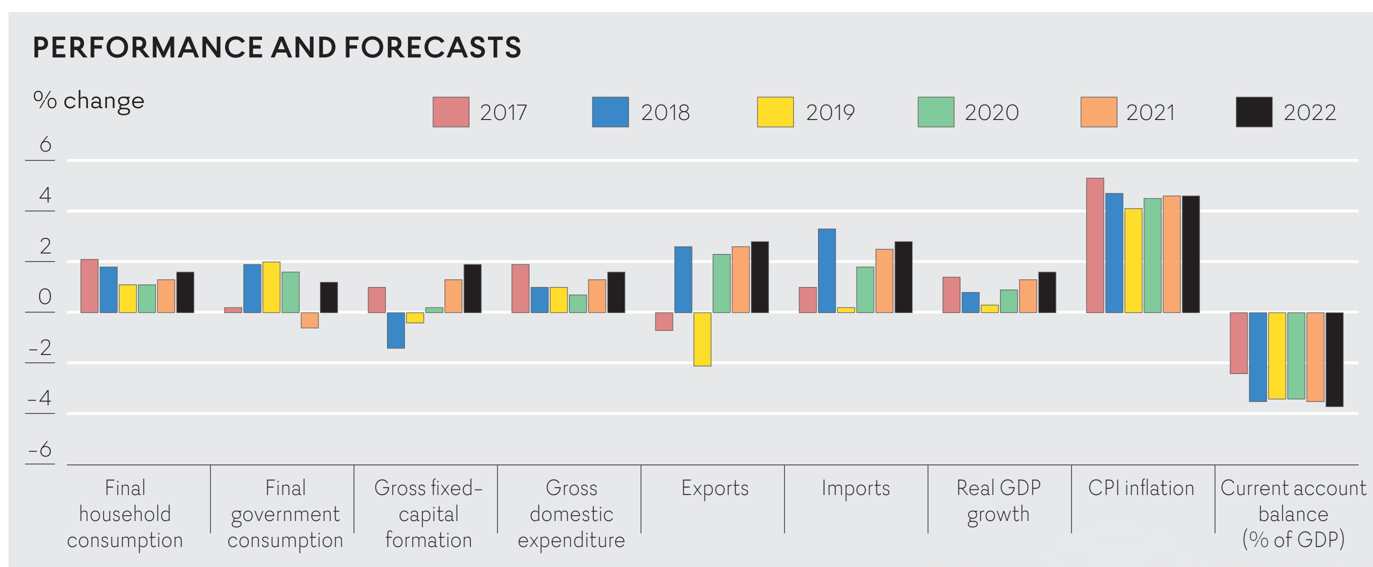
FISCAL POLICY — MACROECONOMIC OUTLOOK



Graphic: KAREN MOOLMAN, RUBY-GAY MARTIN Source: BUDGET REVIEW 2020

IS IT ENOUGH?

Has Mboweni stayed Moody's knife?

Lynley Donnelly

The big question after finance minister Tito Mboweni's budget on Wednesday is how ratings agency Moody's Investors Services views the limited fiscal consolidation outlined in the numbers, despite the government's efforts to tackle its wage bill and boost growth.

Though the state is proposing R160bn in wage cuts – as part of overall spending reductions of 260bn – the budget deficit and debt trajectory have continued to rise, not least because economic growth has continued to disappoint.

In the face of poorer growth outcomes, the Treasury opted not to increase taxes such as VAT, and underscored economic reforms being introduced to boost growth, including overhauling the electricity supply, as well as other network industries such as ports and rail.

Some analysts believe that much will depend on what happens between now and Moody's scheduled review on March 27, most importantly how discussions between labour and the government progress.

Others warn the continued escalation of government debt increases the likelihood that SA could lose its last investment grade rating

Moody's rates SA's debt at one notch above investment grade, though its ratings outlook is negative.

The Treasury warned in the Budget Review that the "risk to SA's remaining investment-grade credit ratings has become more pronounced".

"Moody's will view the strong signal of a commitment to addressing the real fiscal problems, rather than to find plasters, positively," said Standard Bank economist Elna Moolman.

"This budget was about doing the right things – addressing the elevated wage spending, and shifting the spending balance towards capital rather than consumption. In other words, spending on infrastructure rather than wages," she said.

"However, I'm concerned about debt not stabilising during the medium term, which still points to SA likely losing its only remaining investment grade rating," Moolman said.

Michael Sachs, adjunct professor at the Southern Centre for Inequality Studies at Wits. said the biggest challenge with the budget is that the whole fiscal framework rests on an agreement with labour over wages.

"I don't see any path to consolidation, even with the spending cuts," Sachs said. "The emphasis is very much on expenditure containment and that is where the political obstacles are much bigger,"

PwC economists Lullu Krugel and Christie Viljoen said Moody's will welcome the efforts to rein in the public sector wage bill, and the reforms outlined to help kick-start economic growth. But they said the realities are that economic growth forecasts have been revised lower, while the budget deficit "is ballooning", public debt is rising and there is "little prospect" of the trajectory looking any better come the medium-term budget policy statement later this year.

Moody's could wait until its next review scheduled for November before it makes a decision, but "irrespective of the exact timing", the loss of SA's investment grade rating is "quite certain to happen", they said.

Labour hurdle: The biggest challenge ahead is that the fiscal framework rests on an agreement with labour on wages, says Michael Sachs, of Wits Southern Centre for Inequality Studies. /**Russell Roberts**

ECONOMY

Miserable growth outlook weighs on fiscal metrics

Lynley Donnelly

Finance minister Tito Mboweni painted a bleak picture of economic growth, which the Treasury expects to slow further in the coming years, eroding the state's ability to get a handle on its finances.

The worsening growth outcome, alongside deeper revenue shortfalls and draining support for state-owned entities (SOEs), is one of the main reasons that the government's debt trajectory does not stabilise in the coming years, despite Mboweni announcing spending cuts of R261bn, which include a cut of R160bn in the state's wage bill.

To jump-start growth and halt the unchecked deterioration in government finances, Mboweni stressed the need to implement economic reforms, a number of which are outlined in the Treasury's economic strategy paper.

They have to begin with reforms on the energy front to improve electricity supply and address the burden that power utility Eskom has become on growth, Mboweni said.

Steps include efforts to expand private sector power generation, as well as reforms in other network industries such as ports and rail, where inefficiencies have increased the cost of doing business in SA.

"At the end of the day, we have to have a growth story," Mboweni told journalists in a press briefing ahead of his speech.

The Treasury now expects economic growth to have reached just 0.3% in 2019, down from the already revised figure in October's medium-term budget policy statement estimate of 0.5%.

Its forecast for the current year has also been revised sharply down to 0.9%, from the 1.2% forecast in October. It now expects growth to reach 1.3% in 2021 and 1.6% in 2022, down from October's estimates of 1.6% and 1.7%, respectively.

These are lower than the SA Reserve Bank's prediction, which expects the economy to grow at 0.4% in 2019, 1.2% in 2020 and 1.6% in 2021.

"Growth is much lower, the economy is much smaller and revenue shortfalls are substantial again," said Ian Stuart, acting head of the budget office, noting that this is contributing to the difficulty the state has in reducing its debt trajectory.

Weak growth resulted in SA's unemployment level reaching a record high of 29.1% during 2019. At this level, growth will average 1.3% over the next three years – well below the average of 1.8% between 2010 and 2018, and below the current population growth rate of 1.4%. This indicates that SA's GDP per capita is set to decline, meaning on average individuals will grow poorer over time.

In the Budget Review, the Treasury again highlighted the "large toll" Eskom is taking on economic growth, with the power cuts in the final months of 2019 expected to have shaved off 0.1 of a percentage point. "Without intervention, the impact of supply disruptions on growth will be greater in 2020," Treasury said.

The Treasury also warned that serious risks to its forecasts remain if there is continued deterioration in the financial condition of state-owned companies that compound the demands on the fiscus, further power supply problems, policy inertia and the slow implementation of structural reforms.

It outlined two scenarios for economic growth. Should SOE finances deteriorate further, raising borrowing costs and reducing confidence and investment amid worsening global growth, SA's economy could contract during 2020.

However, the Treasury said if the reforms outlined in its economic strategy paper are implemented, this could help raise growth to almost 2% in the coming three years.

THE BUDGET

STATE FINANCE STABILISATION

Not enough realism to curtail the rising debt trajectory

ISAAH MHLANGA

The 2019 medium term budget policy statement (MTBPS) focused on four key areas, to which it committed the government to deliver in areas that would serve the SA economy well over the long term. While bringing realism to the economic assumptions underlying the 2020 budget, the government has backtracked on key aims that could have been achieved with more political will, and compromises among key stakeholders.

The overall assessment of the 2020 budget is that it is realistic, but not bold enough to curtail the rising debt trajectory. It reflects the compromises between political stability, economic transformation and the need to have private sector-led economic growth. The compromises have negative economic consequences, particularly over the short term. What is important is that the Treasury has signalled its desire to improve the quality of spending by rebalancing government spending towards productive economic sectors.

The Budget Review fails to stabilise the state's finances as the primary fiscal deficit does not close within the medium term. The Treasury seems to have taken a position that there need not be fiscal consolidation at all costs. On the expenditure side, the wage bill is reduced by R160.2bn over the medium term, largely at national and provincial departments as well as national public entities. Out of the wage reductions, R111.1bn is reallocated to other spending, largely to deal with debt problems at Eskom and SAA.

The result is that in effect this budget does not achieve stability of public finances. More so since there is a significant implementation risk, since the proposals assume that the Treasury will be able to renegotiate the public service wage deal. Surprisingly, no new tax revenue-raising measures were announced due to the weak economy and the tax burden already on the consumer these past five years.

Infrastructure investment is one way, if achieved, to drive economic growth. The government's commitment to it is clear and well communicated through various initiatives. In addition to continued reform in the energy sector and in telecommunications, the budget signals a potential reduction in corporate income tax in the future, but the timing remains unclear. This is a step in the right direction, though, since it could help attract foreign direct investment to the country.

The Treasury committed itself to develop a sustainable plan to reduce future transfers, in part through the disposal of noncore assets and bringing private sector equity partners into some of the state-owned enterprises (SOEs).

That said, no announcement was made on any SOE disposal. A lasting solution remains elusive for Eskom and SAA, which will remain a source of risk for the fiscus, although the funding provided to Eskom and SAA will hopefully ensure energy stability and reduce the risks to the economy.

The government has committed itself to merge and consolidate entities and regulatory agencies, and to salary controls at public entities. It also undertook to review public procurement processes. The budget largely follows through on this, but the rather big assumption that the wage agreement renegotiation will be successful introduces risks.

Fiscal credibility has short-term costs that pay out a lot more over the long term. Over the past decade SA's fiscal credibility has been significantly eroded due to unrealistic economic assumptions, which resulted in the failure of the government to stick to budget commitments. To regain fiscal credibility requires producing realistic economic assumptions and budgets, and outlining politically feasible and measurable initiatives to make sure the budget targets are achieved. While the 2020 budget reduces the government wage bill, the savings envisaged are simply reallocated to support struggling SOEs.

As a result, there is no fiscal consolidation as the primary budget balance remains in deficit and the debt-to-GDP ratio continues to rise. This is therefore yet another year in which the Treasury fails to meet its targets.

Fiscal credibility is an economic decision-making and commitment problem, which requires political will to steer the state out of the potential debt trap into an environment where it can deliver prosperity. This requires a demonstration of the willingness to take short-term pain that is shared by society, especially those who derive the lion's share of economic progress. All of this for SA's long-term gain. The Treasury has proposed how the wage bill can be dealt with, but whether this will succeed depends on labour unions appreciating the precarious state of our finances. I'm not confident they will yield on the wage cut issue.

● *Mhlanga is executive chief economist at Alexander Forbes.*

Power tops the list of structural reforms

Supply constraints: The Treasury estimates that electricity supply constraints shaved 0.1% off GDP growth for 2019 and are set to have a bigger effect in 2020. /**File Picture**

● *President's commitment to open up electricity generation 'must be rapidly implemented'*

Carol Paton
Editor at Large

Opening up the generation of electricity to more suppliers is the most pressing of the structural reforms that must be made to rekindle economic growth, says the Treasury.

The commitments made by President Cyril Ramaphosa to open up electricity generation to the private sector and speed up regulatory processes must be "rapidly implemented", says the Budget Review.

The measures should include acquiring additional electricity from existing independent power producers (IPPs); launching a new round of procurement of renewable energy from IPPs; and allowing municipalities to procure energy directly from private suppliers. The Treasury estimates that electricity supply constraints shaved 0.1% off GDP growth for 2019 and are set to have a bigger effect in 2020.

Finance minister Tito Mboweni has championed structural economic reforms as the most effective way to stimulate the economy. He told parliament that "steps are being taken to address SA's lagging productivity growth and reduce the cost of doing business".

In August 2019, he published a growth strategy with emphasis on reducing the cost of doing business, in particular through the reform of network industries. The strategy advocated the involvement of the private sector in the provision of infrastructure. It suggested the selling off of some Eskom power stations and reforms to the labour market, both of which were removed from the version finally adopted by the cabinet.

As well as reforms to the electricity market, the Budget Review advocates for urgent regulatory reform to the ports sector and to freight rail to be accelerated. Among the changes will be steps to ease the access of private sector operators or third parties to the Transnet freight rail network.

Catherine MacLeod, chief director of macro-economic policy in the Treasury and one of the authors of the growth strategy document, said that while third parties are now able to make use of the Transnet rail network, new legislation in the form of the Economic Regulation of Transport Bill, "will make their access easier".

The corporatisation of the National Ports Authority, already under way, should be accelerated, MacLeod says, so it is able to support greater investment in ports, free from constraints of Transnet group considerations.

Some progress has been made with telecommunications regulation, with the publication of the broadband spectrum licensing plan released in November 2019.

Mboweni said the release of the spectrum licensing will "prepare the way the auctioning of high-demand spectrum" and that the Independent Communications Authority of SA (Icasa) will be "appropriately capacitated for this".

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THE BUDGET

FISCAL CONSOLIDATION

Pointless austerity and stillborn public sector wage plan

DUMA GQUBULE

Finance minister Tito Mboweni's budget amounted to a declaration of war on the country's 1.3-million public servants.

In his medium-term budget policy statement (MTBPS) at the end of October, he said the government had identified savings of R50bn in goods and services and transfers.

It had to find additional measures of more than R150bn to meet its fiscal consolidation targets. "How will we do this? We will need to deal with the challenges of the wage bill. We look forward to robust discussions in the relevant bargaining structures and with other stakeholders to achieve a sustainable arrangement," says Mboweni.

Since then, the government's behaviour has been reckless and irresponsible. It has acted in bad faith. It did not table any proposal in the Public Service Co-ordinating Bargaining Council (PSCBC) until the day before the budget. In a presentation to the council, the department of public service & administration said the government could not afford the last leg of the 2018 agreement, which had resulted in a deficit of R30.2bn.

This is unacceptable, especially so soon after President Cyril Ramaphosa spoke so eloquently about the virtues of social compacts in his state of the nation address.

When Ramaphosa addressed the Cosatu central executive committee on Monday he said nothing about the government's plans to slash the public sector wage bill, general secretary Bheki Ntshalintshali said on Wednesday. "The government wants to reopen the existing wage agreement, but it has not yet tabled a proposal in the PSCBC. If they were serious they would have started negotiations immediately after the MTBPS and tabled a proposal a long time ago ...

"This is an attack on the multiyear agreements at the PSCBC. It undermines collective bargaining. This will make it difficult for us to commit to multiyear agreements in future. We did not want these agreements. It was the government's idea," he said.

In his speech, Mboweni said there would be reductions in baseline spending of R261bn over the next three years, which would be offset by additional spending of R111bn. About R160bn would go to Eskom and SAA. Therefore, the austerity measures would be R150bn.

The baseline spending reductions include cuts of R160bn in the public sector wage bill and R100bn cuts in programme spending. He also announced tax cuts of R14bn, which will have no effect on GDP growth.

THREE MORE YEARS OF POINTLESS AUSTERITY WILL RESULT IN A MELTDOWN AND INCREASED POLITICAL INSTABILITY

The Treasury has forecast GDP growth of 0.9% in 2020, 1.3% in 2021 and 1.6% in 2022, an average of 1.3% a year, which is below the population growth rate. After five successive years of declining GDP per capita, the Treasury has forecast three more years of the same. By 2022 SA will have had eight years of declining GDP per capita. However, as has been the case every year during the past decade, these forecasts are not credible because they always overestimate GDP growth.

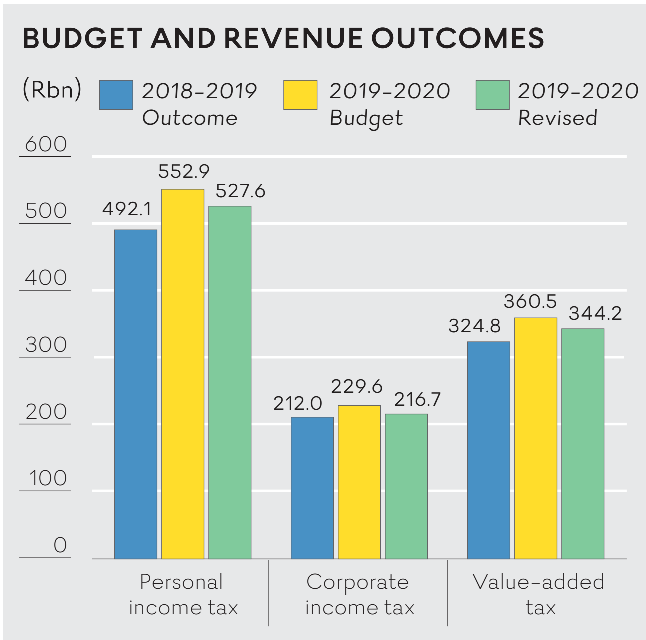
Noninterest expenditure is forecast to increase 3.8% a year over the next three years from 8.4% a year over the past three years. These are deep cuts of 4.6% of total spending a year, equivalent to an average of 1% of GDP a year, according to the Treasury. If implemented, these drastic austerity measures will slash economic growth to zero over the next three years. The declines in GDP per capita will accelerate to at least minus 1% a year, and unemployment will probably increase to 12-million.

Applied Development Research Solutions economist Asghar Adelzadeh says the budget has shown SA is stuck on a low-growth path. "The minister says the economy will rise again, but he provides no evidence of how this will happen. How will we start growing like the rest of the world? This is not a growth strategy. These expenditure cuts will ensure that SA remains on a low-growth path and does not succeed in reducing the debt-to-GDP ratio."

SA's economy is in a deep crisis. It has had the longest period of declining GDP per capita since it started producing statistics in 1945. Three more years of pointless austerity will result in an economic meltdown and increased political instability as trade unions take to the streets. The government will not get to implement the cuts in the public sector wage bill.

● *Gqubule is founding director at the Centre for Economic Development and Transformation.*

TAX REVENUE COLLECTION



Graphic: RUBY-GAY MARTIN Source: BUDGET REVIEW 2020

Hint of future corporate tax cut

● *Aim is to encourage investment, improve competitiveness and reduce appeal of base erosion and profit shifting*

Linda Ensor
Parliamentary Writer

The government has signalled its intention to restructure the corporate income tax system over the medium term by broadening the base and reducing the corporate tax rate.

The intention is to encourage investment, improve SA's competitiveness and reduce the appeal of base erosion and profit shifting.

SA's corporate tax rate has remained unchanged at 28% for more than a decade, reducing the country's competitiveness.

Also in the pipeline is the phasing out of business tax incentives, with a sunset date of February 28 2022 being set for specific ones.

Another plan is to restrict the offsetting of assessed losses carried forward to 80% of taxable income for years of assessment, commencing on or after January 1 2021. Further corporate tax measures announced include a restriction on net interest deductions to 30% of earnings for years of assessment, commencing on or after January 1 2021. This is intended to address base erosion and profit shifting by multinational corporations, which involves artificially inflating company debt and/or interest rates on that debt, and moving profits to a related party in another jurisdiction with a lower income tax rate.

The Treasury has opened consultation on the design of this limitation, with a discussion document having been made available on its website.

THE EFFECTIVENESS OF TAX INCENTIVES IN MEETING THEIR STATED OBJECTIVES IS QUESTIONABLE

The incentives that have been identified for possible phasing-out include those dealing with airport and port assets, rolling stock, and loans for residential units, though each of these will be reviewed before the sunset date. Also, the section 12I tax incentive for industrial policy projects will not be renewed beyond March 31 2020.

The urban development zone incentive will be extended for one year pending review and tax incentives for special economic zones will not be extended beyond the already approved six special economic zones.

The "government intends to insert sunset dates in additional tax incentives where they do not now exist to avoid benefits continuing indefinitely without adequate oversight.

"The effectiveness of tax incentives in meeting their stated objectives is questionable," the Budget Review said.

Consultation with affected industries on the introduction of export taxes on scrap metal to replace the current price preference system will take place until May. Tax rates have been proposed in the Budget Review.

The brackets to calculate transfer duties on the sale of property will be adjusted for inflation from March 1 2020. No transfer duty will be liable for properties with a value lower than R1m.

The carbon tax rate will increase by 5.6% for the 2020 calendar year, going up from R120/tonne of carbon dioxide equivalent to R127/tonne. An increase in the vehicle emissions tax rate for passenger cars and doublecabs is proposed with effect from April 1 2020.

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RESPITE

Taxpayers get surprise R14bn in tax relief to bouy growth

Linda Ensor

PERSONAL INCOME TAX RATE ADJUSTMENTS

2019-20 Income (R)	2019-20 Tax rate	2020-21 Income (R)	2020-21 Tax rate
0 – 195 850	18% of each R1	0 – 205 900	18% of each R1
195 851 – 305 850	R332 253 + 26% of the amount above R105 850	205 900 – 321 600	R37 062 + 26% of the amount above R205 900
305 851 – 423 300	R63 853 + 31% of the amount above R305 850	321 601 – 445 100	R67 144 + 31% of the amount above R321 600
423 301 – 555 600	R100 263 + 36% of the amount above R423 300	445 101 – 584 200	R105 429 + 36% of the amount above R445 100
555 601 – 708 310	R147 891 + 39% of the amount above R555 600	584 201 – 744 800	R155 505 + 39% of the amount above R584 200
708 311 – 1 500 000	R207 448 + 41% of the amount above R708 310	744 801 – 1 577 300	R218 139 + 41% of the amount above R744 800
1 500 001 and above	R532 041 + 45% of the amount above R1 500 000	1 577 301 and above	R559 464 + 45% of the amount above R1 577 300
Tax rebate:		**Tax rebate:**	
Primary	R14 220	Primary	R14 958
Secondary	R7 794	Secondary	R8 199
Tertiary	R2 601	Tertiary	R2 737
Tax threshold:		**Tax threshold:**	
Below age 65	R79 000	Below age 65	R83 100
Age 65 to 74	R122 300	Age 65 to 74	R128 650
Age 75 and over	R136 750	Age 75 and over	R143 850

Graphic: KAREN MOOLMAN Source: BUDGET REVIEW 2020

Individual taxpayers have been given unexpected tax relief of R14bn, including R2bn through the adjustment of tax brackets by more than the inflation rate.

The surprise announcement in finance minister Tito Mboweni's budget was the decision not to increase tax rates so as not to slow down the already sluggish economy. This reverses the plan of the 2019/2020 budget for R10bn of tax increases for 2020/2021.

Ahead of the budget it was speculated that the Treasury would be forced to resort to tax increases to reduce the budget deficit, even if that was simply by not compensating for the effect of inflation on tax brackets.

If the government had not compensated for the effect of inflation on tax brackets, taxpayers would have had to pay R12bn more in tax.

All tax brackets will benefit from the relief but the bulk of the benefit accrues to individuals earning less than R500,000 a year, senior SA Revenue Service (Sars) official Franz Tomasek said in an interview ahead of Mboweni's budget speech.

The personal income tax brackets and the primary, secondary and tertiary rebates will be increased 5.2% for 2020/2021, which is above the expected inflation rate of 4.4%. The change in the primary rebate increases the tax-free threshold from an income of R79,000 to R83,100.

The primary rebate rises from R14,220 to R14,958, the secondary rebate from R7,794 to R8,199 and the tertiary rebate from R2,601 to R2,736.

The tax threshold for those below the age of 65 years rises from R79,000 to R83,100, for those over the age of 65 years from R122,300 to R128,650 and age 75 years and over from R136,750 to R143,850.

Also proposed is an increase in the value of medical tax credits in 2020/2021 from R310 to R319 a month for the first two beneficiaries and from R209 to R215 a month for the remaining beneficiaries of premium payers. This increases the value of the tax credit by 2.8%.

The change is line with the announcement in the 2018 Budget Review that the medical tax credit would be adjusted by less than inflation to help fund the rol-out of National Health Insurance over the medium term.

The Treasury has increased the annual limit on contributions to tax-free savings accounts from R33,000 to R36,000 as from March 1 2020.

In terms of its projections for the three-year medium-term expenditure framework period, the Treasury has not made provision for further changes to tax rates except annual adjustments in personal income tax brackets, levies and excise duties in line with inflation. This means that tax revenue projections are lower than the 2019 medium-term budget policy statement estimates by R35.4bn in 2020/2021, R43.5bn in 2021/2022 and R48.5bn in 2022/2023.

The relief comes despite the fact that projected tax revenue is expected to be R63.3bn lower in 2019/2020 than the amount projected in the 2019/2020 budget.

The Treasury said in the Budget Review that "substantial tax increases may obstruct short-term recovery. Over the past five years, the government has increased rates of personal income tax, capital gains tax and VAT while raising the fuel levy and excise duties on alcohol and tobacco. The tax-to-GDP ratio has steadily increased over this period, reaching 26.2%, which is close to its democratic era peak of 26.4% in 2007/2008."

Tax revenue is projected to grow 4.9%, while gross tax buoyancy is expected to fall to 0.93. Tax buoyancy is the ratio of tax revenue growth to economic growth, which measures whether revenue collections are performing as expected.

SA TOMORROW

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THE BUDGET

STATE DILEMMA

Truckloads of luck are needed to escape the debt spiral

DAWIE ROODT

SA has entered a fiscal debt spiral and only an extraordinary attempt, or luck, will get it out of it.

Economists typically express and compare the state's debt to the size of the economy or GDP.

State debt comprises mostly bonds (about 79% of total), treasury bills (10%), some other debts (1%) and foreign loans (10%). Total gross state debt should be about R3.352-trillion at the end of the current fiscal year (end of March 2020), or 65.7% of GDP.

The most obvious origin of debt is borrowing. The state spends more than it collects from its various sources of revenue. The difference, or fiscal deficit, should be about R361bn in the current fiscal year, or 7% of GDP.

At the end of the previous fiscal year the state's debt stood at R2.788-trillion (56.7% of GDP) and the deficit in the current fiscal year is added to the debt of the previous fiscal year to get to the debt at the end of the current fiscal year.

In the current environment the deficit is the most important contributor to debt. However, since debt is usually expressed as a percentage of GDP, the size of the economy and economic growth is also important in calculating this ratio.

CRUCIAL VARIABLES

In a zero-inflation environment with zero economic growth, the state's debt relative to GDP will increase annually by the size of the fiscal deficit.

The economy is hardly growing, which means the current deficit of 7% of GDP can be added to last year's debt-to-GDP to get to the new debt-to-GDP ratio. If the economy was also growing at 7%, the debt-to-GDP ratio would remain unchanged from the year before. Economic growth is therefore crucial to preventing the debt-to-GDP ratio from accelerating out of control.

A third crucial variable that affects the debt-to-GDP ratio is inflation. When calculating economic growth the effect of inflation distorts information about the size of the economy. Economic data is thus adjusted to determine the "correct" size and growth of the real economy.

However, when the debt-to-GDP ratio is calculated, nominal debt is expressed as a percentage of nominal GDP. That means the nominal size of the economy will increase due to the effect of inflation, but the nominal "size" of debt remains the same — last year's R1bn of state debt is still R1bn now (though some debt instruments are adjusted for the effect of inflation), but last year's R1bn worth of economic activity is more than today's R1bn worth of economic activity because of the effect of inflation.

With the current set of variables — inflation at 4.5% and debt-to-GDP at 65% — inflation alone will "reduce" the debt-to-GDP ratio by nearly three percentage points, to 62% of GDP. If inflation was running at 10%, for example, the debt-to-GDP ratio would fall to 59% — assuming no new debt.

WITH ANY LUCK, INFLATION WILL ACCELERATE TO FIX THE DEBT-TO-GDP PROBLEM, BUT THAT IS THE KIND OF LUCK WE CAN DO WITHOUT

TYPICAL FRAUD

The level of inflation is clearly crucial for the debt-to-GDP ratio and is a typical fraud used by governments globally to erode debt away. This is also why it is so important to keep the SA Reserve Bank insulated from political interference.

Another variable that affects the debt-to-GDP ratio is the exchange rate of the rand. Fortunately, by our estimates foreign denominated debt, at R334bn, is only about 10% of total outstanding debt.

But still, a 1% depreciation of the currency will "add" 0.1% to total debt, or about 0.06% to the debt-to-GDP ratio.

Most assumptions are for the rand to depreciate at a rate of about 5% against the dollar, which means the debt-to-GDP ratio should increase 0.32% annually from this source. But a downgrade, for example, may lead to a sharper depreciation of the rand, of say 10%, which would "add" 0.65% to the debt-to-GDP ratio, about R33bn.

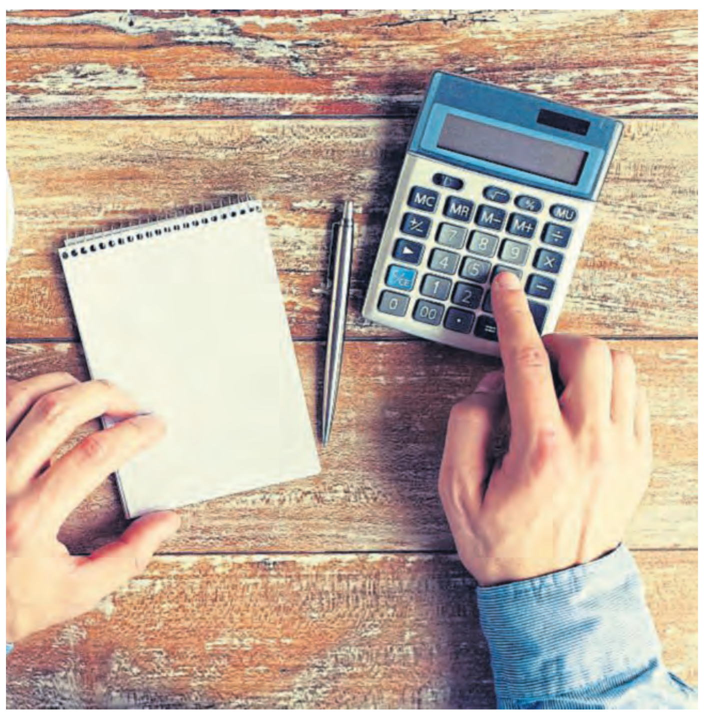
Other variables also affect the debt-to-GDP ratio, but the above are the most important.

Given the budget estimates of the minister and the most likely actual outcome, as well as the current economic environment of very low or no growth, a huge fiscal deficit, a depreciating currency and lowish inflation, it is clear that the state's debt is out of control.

Since our political leaders don't want to control state spending and hence the deficit, all we can hope for now is stronger growth — which is unlikely to materialise.

With any luck, inflation will accelerate sharply to fix the debt-to-GDP problem, but that is the kind of luck we can do without.

● *Roodt is chief economist of the Efficient Group.*



Revisions: One proposal will enable taxpayers to monitor their taxes throughout the year. /123RF/Lev Dolgachov

SPONSORED CONTENT

Positives, but little change to personal taxes

Tarryn Atkinson

The budget was anticipated with much angst and crystal ball gazing, but it is relatively light on the personal tax aspects: slight changes to the tax brackets, which saw no changes in 2019, slight increases to medical credits – and very few other changes to make much mention of.

One of the more topical changes is the increase of the foreign remuneration exemption from the currently promulgated R1m to R1.25m. While this will be appreciated and welcomed, a large number of concerns and challenges still need to be resolved in the practical application of the amended legislation and the now increased exemption limit.

Another welcome increase is to the annual contribution limit for tax-free investments. This has been raised from R33,000 to R36,000 to encourage a savings culture, which is lacking in the SA economy.

Some of the more interesting proposals, however, are to be found in the various annexures to the budget documentation.

Related to the foreign remuneration exemption is a proposal by the Treasury to align some of the requirements for exchange control and tax in terms of emigration. Much media exposure, some of it not always technically accurate, has been given to the term "financial emigration" since the announcement of the changes to the foreign remuneration exemption.

The proposal seeks to create more alignment between the Reserve Bank emigration process and tax residency. While this will have very little effect from a tax perspective, as the existing residency rules would still apply, the view is that it may make the flow of funds easier for those wishing to emigrate.

THE PROPOSAL SEEKS TO CREATE MORE ALIGNMENT BETWEEN THE RESERVE BANK EMIGRATION PROCESS AND TAX RESIDENCY

Another interesting proposal relates to employer-provided bursaries. A flurry of bursary schemes were launched by various service providers to allow employees to sacrifice a portion of their salaries towards a bursary from the employer to pay school fees for their children.

The Treasury has now indicated that this was not the intention of the legislation and the loophole will be closed with effect from March 1 2020.

While this legislation has not been released yet, it will be interesting to see how this will be dealt with.

The Treasury has also announced a proposal to revise the pay as you earn (PAYE) and personal income tax system to allow for simpler filing by employers, more accurate reporting, and for taxpayers to be able to monitor their taxes throughout the year. This may result in many salaried employees not being required to file tax returns in future.

While there are very few real tax changes to comment on, there are a number of positives that can be taken from the budget and there is hope that these proposals will gain traction, particularly the comments contained in the budget regarding the rebuilding of governance at the SA Revenue Service. A working and efficient tax agency is good for SA, and a goal that all should strive and work towards.

● *Atkinson is chair of the Saica national tax committee and head of employees' tax and benefits at First Rand Group.*

A PROPOSAL TO REVISE THE PAYE AND PERSONAL INCOME TAX SYSTEM WILL ALLOW FOR SIMPLER FILING BY EMPLOYERS

'Hubbly bubblies' and heated tobacco products to be taxed

● *New category will be calculated at 75% of the cigarette excise rate*

Claudi Mailovich
Senior Political Writer

Smoke signals: Hubbly-bubblies are among the items that have been added to the list of heated tobacco products attracting excise duty /Igor Poleshchuk/123RF

The government will start taxing heated tobacco products with immediate effect, and plans to start taxing electronic cigarettes next year as part of the so-called "sin taxes".

This was disclosed in the 2020 Budget Review tabled by finance minister Tito Mboweni on Wednesday, in which smokers and drinkers were once again told that they would pay more for their vices.

Heated tobacco products produce aerosols that contain addictive substances and other chemicals, which are inhaled by users. It currently does not form part of the products that fall under excise duties.

The Budget Review said a new category would be introduced for heated tobacco products in the schedule for excise duties. It will be taxed at a rate of 75% of the cigarette excise rate with immediate effect.

"In line with the department of health policy, we will start taxing heated tobacco products, for example hubbly-bubblies," Mboweni said in his budget speech on Wednesday.

While SA faces a huge revenue gap, excise duties on alcohol and tobacco will – for most products – increase only by an amount that matches the expected inflation rate of 4.4% for the 2020/2021 budget, and 6% in the case of sparkling wine and 7.5% for pipe tobacco and cigars.

Excise duties will rise 74c from R16.66 for 20 cigarettes to R17.40 for 20 cigarettes in the 2020/2021 budget.

A 750ml bottle of spirits such as whiskey, gin or vodka will rise R2.89, while a can of beer will cost 8c more, a bottle of wine will cost 14c more and a 23g cigar will cost R6.73 more. There is no increase on the excise duty on traditional beer.

Ahead of the budget, the SA Liquor Brand Owners Association (Salba), a trade association representing alcohol manufacturers and distributors, called on the government to increase excise duties only by the rate of inflation.

Referring to electronic cigarettes, Mboweni said in the Budget Review that they were different to heated tobacco products, as they did not contain tobacco, but did contain nicotine and other chemicals, and that they were currently not taxed.

"Government intends to tax electronic cigarettes in 2021," he said in the budget.

In terms of other sin taxes, the government proposes to double the plastic bag levy from 12c to 25c a bag from April 1. The increased plastic bag levy is budgeted to raise R250m for 2020/2021.

"We remain extremely concerned about plastic bags throughout the length and breadth of our country," Mboweni said.

A review of the current levy, including a clarification of the tax treatment of compostable bags, will be undertaken, according to the Budget Review.

It says that while progress has been made in the domestic environment with regard to plastic pollution, it remains a huge problem, especially for marine life.

The Treasury will consult on extending the current levy on plastic bags to all single-use plastics used for retail consumption, including plastic straws, utensils and packaging. Any changes will be implemented in 2021. The process would be likely to involve further consultations with stakeholders, and would also require complementary legislation.

The fuel levy will be adjusted for inflation. The government proposes that the general fuel levy increase 16c/l, and the Road Accident Fund (RAF) levy 9c/l. Both increases will be effective from April 1.

Mboweni said despite the increase, the RAF's liabilities were forecast to exceed R600bn by 2022/2023. "We need to take urgent steps to reduce this risk to the fiscus and bring a more equitable way of sharing these costs," he said.

One way could be to introduce compulsory third-party insurance, he said.

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THE BUDGET

FRAMEWORK

Lack of coherent policies and crime yet to be addressed

SA's fiscal challenges are like an iceberg in the water ahead of a ship. President Cyril Ramaphosa, as the captain, and finance minister Tito Mboweni, as his navigator, need to make drastic decisions quickly, with the knowledge that they can't see the full iceberg but need to budget for it.

PIETER FABER

The tip of the iceberg has now grown to R370.6bn, which is the ballooning budget deficit, and we need to reduce that to zero to start reducing debt effectively. The speed of climbing debt increases the speed of the ship. The iceberg remains — in the form of imploding water infrastructure, including sewage and river systems; state debt guarantees that are becoming state debt; and imploding municipalities, whose main income is from water and electricity, which are commodities they are losing quickly. Also, can we fix the electricity problem quickly enough?

The SA Institute of Chartered Accountants' (Saica) main concern remains the continual increase in public expenditure in an economic environment that does not match its tax collections.

In the main, Wednesday's budget does follow the same recipe as previous years by making nominal spending cuts and financing the difference through debt. It also relies on growth in GDP recovering to just over 1% from an estimate of 0.9%. Moody's Investors Service, the most optimistic credit ratings agency, seems less convinced, estimating GDP at 0.7% for 2020 and 0.9% for 2021.

We do not see more measures to hold officials accountable for spending, and providing more value for spending. This remains a serious concern.

Two of the largest factors in our economic implosion have not been addressed, namely a coherent policy framework (not just macroeconomic) and a significant reduction in crime. The latter is even more important as you cannot implement policy and legislation changes that no-one adheres to or many actively undermine.

The 2020 state of the nation address had a few proposals but not a single coherent strategy, including reviewing the structure and performance of our whole criminal justice system. A small business, whether in retail, manufacturing or tourism, cannot survive in our current crime-ridden country if it cannot connect goods and services to customers in all areas. No child can learn in an unsafe environment, where schools are looted and destroyed, funds misappropriated and children robbed and murdered while living in the dark.

We require a coherent plan in this regard across all of government.

Saica agrees with Mboweni that all is not lost and we have overcome challenges before. We know what the challenges are, it just requires political will to start addressing them.

In this regard, there are positive signs in the budget that Mboweni and Ramaphosa have started to listen and implement changes, which include:

- Moving to a low-rate, broad-base fiscal policy with enhanced tax simplicity. Ireland and New Zealand have both migrated from fiscal disaster in the 1980s to good and stable finances based on these principles;
- Fairly burdening taxpayers — and we welcome no substantial tax increases this year, though they may be unavoidable in the medium term;
- Creating certainty and transparency in the macroeconomic framework — and we hope broad consultation will inform this;
- Reducing borrowing costs by reducing debt, though only R156bn over three years is too low, it is double the previous "austerity measures"; and
- Reducing the wage bill by R160bn over three years is welcomed. In reality, this is less than a 10% reduction of the consolidated wage bill, with R37bn already in 2021, but we need to also consider what we can bear.

Saica does hope that trade unions will constructively engage and participate. Saica believes that structurally the staffing in the government should be addressed and agree with trade unions of the necessity of a skills audit — if we have five personal assistants and one engineer when we need the opposite. Reducing the one engineer reduces the wage bill but does not structurally fix the problem.

It will be on everyone's mind whether the government has done enough to convince Moody's to retain its investment rating. The government is definitely making more of the right noises. However, looking at the revised estimates for national expenditure and its R23.5bn increase, Moody's may not be convinced that SA has the fiscal discipline and political will to implement these plans, irrespective of how good they are. Saica hopes the government does and will.

- *Faber is Saica's senior executive: tax.*

JOB READINESS

New youth centres to combat unemployment

Genevieve Quintal
Political Editor

The government will establish four youth employment centres within existing labour centres over the medium-term expenditure framework to combat unemployment, according to the 2020 budget. Each centre is estimated to cost R3m to set up.

Finance minister Tito Mboweni made the announcement in his budget speech on Wednesday. More than half of all young people in SA are unemployed, and of the 1.2-million youths who enter the labour market each year about two-thirds remain outside employment, education or training.

The centres will be equipped with free internet, CV-drafting facilities and self-help and assessment facilities, and will provide a mobile platform through which registered work seekers can be matched to available job opportunities registered on the Employment Services of SA database.

Through the platform, those who require less intervention and job preparation could be fast-tracked for job opportunities, allowing job counsellors to focus on those who require more assistance to enhance their prospects of employment.

The expenditure is in the work-seeker services sub-programme in the public employment services programme.

Youth unemployment, which focuses on people aged 15-24 years, is at 58.1%, up 3.4 percentage points on an annual basis, according to Stats SA's quarterly labour force survey released earlier in February. But on an expanded basis for the fourth quarter, the youth unemployment rate was 69.5%.

Mboweni said the government would reprioritise resources to raise spending on this critical area, and work would start immediately. More details would be provided in the medium-term budget policy statement (MTBPS) later in 2020. "We intend to make this intervention a resounding success," Mboweni said.

In his state of the nation address two weeks ago, President Cyril Ramaphosa said a presidential youth employment intervention, consisting of six priority actions over the next five years, would be implemented immediately. The intervention would involve a youth employment initiative that would be funded by setting aside 1% of the budget.

Ramaphosa said prototype sites for those pathways would be launched in five provinces in February, to form the basis of a national network that would reach 3-million young people through multiple channels.

The way young people are prepared for work would be changed fundamentally, with shorter, more flexible courses being provided for specific skills that employers in fast-growing sectors needed.

Ramaphosa said new and innovative ways to support youth entrepreneurship and self-employment were being developed, and the youth employment service would be scaled up. Technical and vocational education and training colleges and the private sector would be involved to ensure more learners received practical experience in the workplace to complete their training.

In addition, the first presidential youth service programme would be established to provide opportunities for young people to earn an income while contributing to nation building.

The National Youth Development Agency and the department of small business development would provide grant funding and business support to 1,000 young entrepreneurs in the next 100 days. The government plans to assist 100,000 young entrepreneurs over the next three years to access business skills, training, funding and market facilitation.

According to the budget the number of work seekers registered on the Employment Services of SA database is set to increase from 700,000 in 2019/2020 to 800,000 per year in 2021/2022 due to a planned increase in advocacy campaigns and the number of employment counsellors employed.

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Hungry for change: Youth unemployment is running at almost 70% on the expanded measure of unemployment. /Zintle Bobelo/The Rep

Target for sovereign wealth fund is R30bn

- *Capital could come from sale of noncore assets or allocation of spectrum*

Claudi Mailovich
Senior Political Writer

Finance minister Tito Mboweni says the newly established sovereign wealth fund could be funded from allocation of spectrum and mineral rights royalties, among other things.

Mboweni said in his budget speech on Wednesday that the target capital for the fund was R30bn.

While the Budget Review said only that the Treasury was conducting a feasibility study for a sovereign wealth fund, which could "possibly" be capitalised from the allocation of spectrum and the sale of noncore assets, Mboweni filled in some of the gaps for what would essentially be a savings vehicle for SA and would form part of the fiscal framework.

Mboweni was charged with giving details of the fund by President Cyril Ramaphosa during his state of the nation address, in which he said it was decided that a sovereign wealth fund would be established as a means to preserve and grow SA's endowment, which would give "practical meaning to the injunction that the people shall share in the country's wealth".

The creation of a sovereign wealth fund is a long-standing ANC resolution that has for years not been implemented.

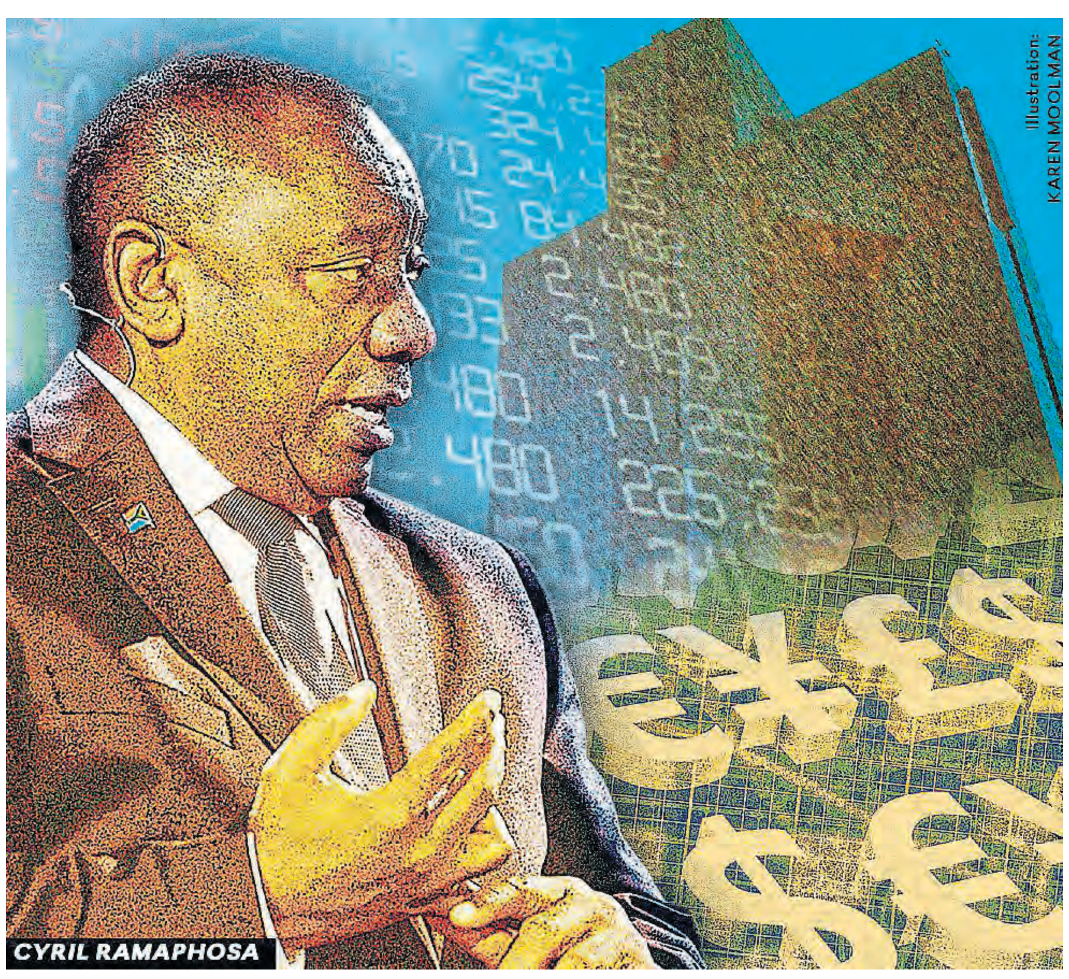

Illustration: KAREN MOOLMAN

LONG-TERM TOOL

Mboweni said on Wednesday that a sovereign wealth fund was an important long-term tool for saving and investment for future generations.

"We must learn to save during the good times, and a fund can play an important role as a countercyclical fiscal tool," the minister said.

He said that, given the legal, administrative and procedural issues involved, a bill would be submitted during this parliament.

"There are a variety of possible funding sources such as the proceeds of spectrum allocation, petroleum, gas or mineral rights royalties, the sale of noncore assets, future fiscal surpluses and money we set aside," Mboweni said.

He said the fund would ensure that SA "continues to invest in the future generations of this country in a fiscally prudent manner".

In a media briefing ahead of his speech, Mboweni could not be drawn on the timeline for the establishment of the sovereign wealth fund.

Besides asking for details on the fund, Ramaphosa had also said that Mboweni would give more details on the establishment of a state bank as part of the government's effort to extend access to financial services to all South Africans.

The establishment of a state bank is also a long-standing ANC resolution, which was reaffirmed by delegates at the governing party's 2017 elective conference at Nasrec, Johannesburg, where Ramaphosa was elected president of the party.

STATE BANK

In 2019, parliament passed legislation to allow for state-owned companies to apply for banking licences, and the Post Bank is in the process of applying for one.

Mboweni said in his speech that he had made David Masondo, his deputy, responsible for the "state bank project".

He said he was "pleased" to inform the house that preferred options for the establishment of the bank were now ready.

Mboweni said the architecture of the bank would be that of a retail bank operating on commercial principles.

The state bank would be subject to the Banks Act and have an appropriate capital structure and performance parameters on investments and loan impairments. It would be regulated by the Prudential Authority, Mboweni said.

He said the fragmented system of national and provincial development finance institutions would be consolidated.

Masondo said the state bank would address various market failures.

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THE BUDGET

RESPONSE

Speech gives the market a welcome boost of positive news

Karl Gernetzky
Markets Writer

Economists and the rand responded well to plans to keep taxes low and cut the public sector wage bill, though promises in the budget may not be enough to avert a downgrade of SA's sovereign debt to junk status.

Local risk assets soared after finance minister Tito Mboweni's budget speech, with the rand firming about 0.7% to the dollar, while local banking stocks jumped more than 6%. The generic 10-year government bond reached its best level in seven months.

"This appears to put SA on the right track to avoid a downgrade," said Citadel's chief economist, Maarten Ackerman, but this would ultimately be determined by the government's ability to deliver on its plans.

"They have shown they are willing to address the elephant in the room, which is the public sector wage bill," said Ackerman, though this may be difficult to execute if opposed by unions.

Slow growth and revenue shortfalls will translate to budget deficits over the next three years that are set to stay above 6%, the Treasury said, peaking at 6.8% in 2020/2021 and falling to 5.7% in the year ending 2023.

A R160bn drop in the remuneration costs for national and provincial administrations and other public bodies will account for the bulk of the anticipated R261bn in savings, equal to 1% of GDP for the next three years.

"It's hard to remember the last time the market enjoyed a speech by a finance minister in SA," said Monex Europe's Simon Harvey, adding that the optimism may not last. The pro-growth aspects and longer-term promises on the budget deficit should be enough to at least delay a downgrade by Moody's Investors Service, he said.

SA needs structural reforms and economic growth, said Harvey, and Mboweni presented what seems to be a credible solution in the short term for SA's fiscal position, even if the budget deficit will rise in the short term before falling again.

"Markets have become a bit numb to the promises, however, and what we need to see before the next budget is some progress in implementation."

The JSE, rand and local bonds firmed noticeably soon after Mboweni began speaking, reversing earlier losses.

By 6pm the rand had gained to R15.13/$. The JSE closed 0.43% higher, with the banking index leaping 6.21%, its best day in more than two years.

The government has signalled its intention to restructure the corporate income tax system over the medium term by broadening the base and reducing the rate. This was a necessary move as SA's rate of 28% was above the global average.

The Treasury stressed, however, that this was a future plan, said Ackerman.

The government's problem is revenue rather than spending, said Capital Economics senior emerging-markets economist John Ashbourne. Cutting wages will be difficult politically, while a weakening fiscal position and rising debt make a downgrade by Moody's still likely, even if it didn't happen as soon as March, he said.

BNP Paribas chief economist Jeffrey Schultz said that while the budget makes the right noises, and not raising taxes further was the right call, the state faces tough negotiation with its workforce. While Moody's may not move in March, a downgrade sometime in 2020 is probably inevitable, he said.

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Most grants for provinces and municipalities take a cut

● *Failure to meet basic standards will have consequences, says review*

Bekezela Phakathi
Parliamentary Writer

Most grants for provinces and municipalities have been reduced as part of efforts to limit growth in government expenditure and ensure public debt is sustainable.

The reductions took into account past performance and whether there had been significant real growth in allocations in recent years in order to manage the effect on services, according to the Budget Review. Grants that have persistently underperformed have been reduced by larger amounts.

The review highlights that provinces and municipalities account for most public spending in SA, so building a capable state that is able to deliver on its developmental mandate requires provinces and municipalities to have the capacity to spend efficiently. However, this has not always been the case and wasteful spending and corruption continue to undermine the ability of the government to translate budgeted resources into the delivery of services.

The review said that where provinces and municipalities fail to meet basic standards, "national government is prepared to impose consequences, including by intervening and withholding transfers ... If a municipality or province does not adhere to grant conditions or is not spending its allocated funds, then further transfers can be withheld or reallocated to another recipient."

The government expects to collect tax revenue of R1.43-trillion in 2020/2021. Over the medium-term expenditure framework period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2% of nationally raised funds are allocated to the national government, 43% to provinces and 8.8% to local government. Total consolidated spending will amount to R1.95-trillion in 2020/2021.

Relative to the 2019 budget, main budget non-interest expenditure will be reduced by R156.1bn over the medium-term expenditure framework period.

The largest proportional reduction to local government grants in 2020/2021 has been made in the public transport network grant, because only six of the 13 cities receiving the grant have successfully launched public transport systems. The three cities that have shown the least progress — Buffalo City, Msunduzi and Mbombela — have been suspended from the grant and will not receive allocations in the 2020 medium-term expenditure framework period.

Overall, public transport spending is reduced by R13.2bn over the next three years, mainly on allocations to the Passenger Rail Agency of SA and the public transport network grant. The reduced allocation to the agency is mainly due to underspending in previous years.

Larger reductions were made to grants to urban municipalities, which have more capacity to offset cuts by increasing their own-revenue investments. Proposed changes to the wage bill, once effected, will result in reductions to the provincial equitable share in the 2020/2021 adjustment budget. These reductions will be fully offset by the lower compensation spending by provinces as a result of the revised wage agreement.

Allocations to the human settlements sector are reduced by R14.6bn over the medium-term expenditure framework period, implying fewer subsidy houses, serviced sites, and related bulk and connector infrastructure. The municipal infrastructure grant is reduced by R2.8bn over the same period, slowing provision of infrastructure such as water and electricity connections to poor households.

The government has also shifted the emphasis of housing policy from building costly subsidised units to providing serviced sites where residents can invest in improvements, according to the budget documents. Funding for this purpose is ringfenced in the informal settlement upgrading components of the human settlements development grant and urban settlements development grant. Other changes aim to improve the effectiveness of conditional grant spending.

The review emphasises the need to eliminate wastage. "The resulting collapse of basic functions like water reticulation, sewage treatment and safe roads in some parts of the country imposes hardships on communities and increases the cost of doing business.

"For public spending to achieve value for money, the fundamentals of governance need to be fixed at all levels. The 2020 budget protects the transfers that deliver the greatest value, while reducing those spent less effectively. Improving spending efficiency requires greater accountability from provinces and municipalities, especially to the residents who are entitled to these services."

The 2020 budget includes funding to support pilot initiatives to improve municipal revenue collection. The Treasury will work with selected municipalities that have large outstanding debts to bulk suppliers, including Eskom, as a result of customer non-payment. Smart meters will be retrofitted in these municipalities to test whether revenue collections increase sufficiently to pay for the meters and recover associated costs. If so, further rollout of smart meters may be funded by borrowing against future revenue increases.

Finance minister Tito Mboweni said that while some of the cuts 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".

In the Budget Review, Treasury director-general Dondo Mogajane said expenditure cuts "will inevitably have negative consequences for the economy and social services. But these short-term costs are necessary to put the country onto a more sustainable footing."

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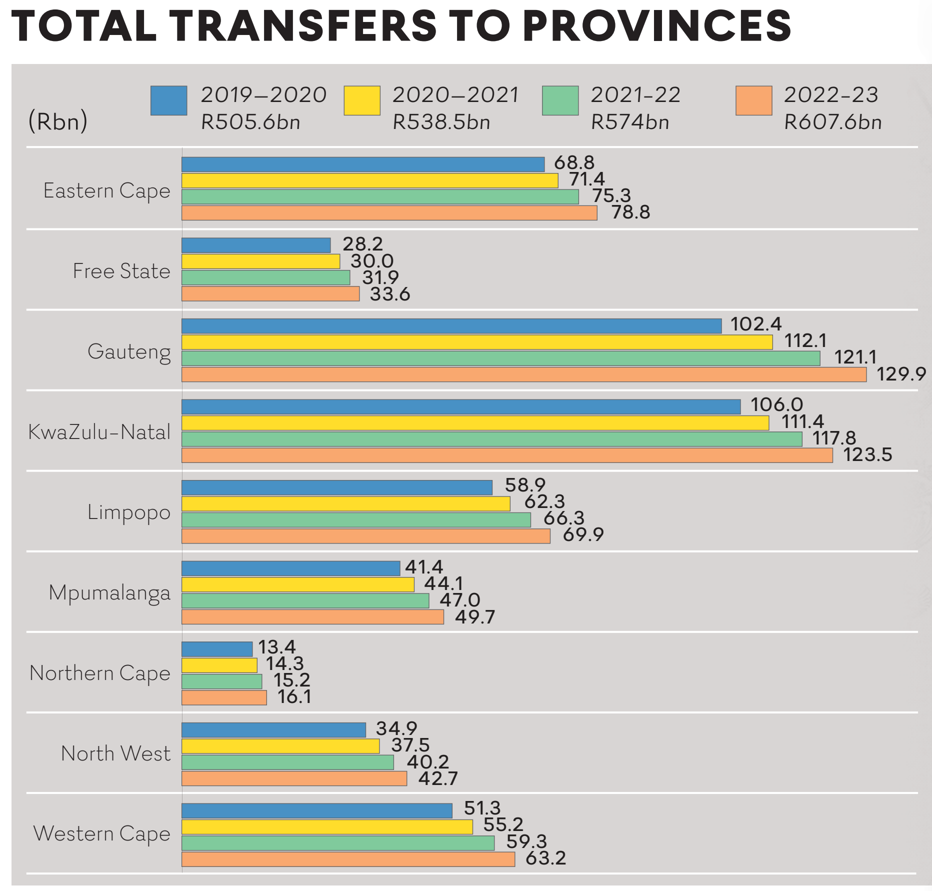
TOTAL TRANSFERS TO PROVINCES



Graphic: KAREN MOOLMAN, RUBY-GAY MARTIN Source: BUDGET REVIEW 2020

OUTSTANDING RESTITUTION CLAIMS

Greater support for agriculture and land reform

Bekezela Phakathi

The government has stressed the need to support the agricultural sector as part of efforts to promote faster and sustained inclusive economic growth.

The sector is seen as crucial in the drive to deal with the challenges of unemployment, poverty and inequality.

In his budget speech on Wednesday, finance minister Tito Mboweni said that over the medium term, the government has allocated R495m to the department of agriculture, land reform and rural development to respond to biosecurity threats, and revitalise laboratories and quarantine stations to strengthen inspection services at ports of entry. This will improve compliance with international standards and so support exports.

SA was recently hit by an outbreak of foot-and-mouth disease resulting in the World Organisation for Animal Health suspending its disease-free zone status. Neighbouring countries Zimbabwe, Botswana, Namibia, eSwatini and Mozambique, announced a ban on SA meat imports pending the containment of the disease. The SA beef industry is crucial to the economy and generates more than R2bn in exports a year.

In his speech, Mboweni said an additional R500m is to be reprioritised over the medium term for the department to finalise outstanding land restitution claims.

This comes amid raging debate on land expropriation without compensation, which has rattled investors. The ANC resolved in 2017 to back the policy as a way of accelerating land reform and tackle skewed ownership patterns that have changed little since SA's first democratic elections in 1994. Parliament's ad hoc committee looking into the matter has published a draft bill to amend section 25 of the constitution, and will begin holding public hearings on Friday.

The department's expenditure is expected to increase at an average annual rate of 2.4%, from R17.2bn in 2019/2020 to R18.5bn in 2022/2023. According to budget documents, the department's focus on providing redress and equitable access to land will be far-reaching as these provisions aim to contribute to inclusive and sustainable economic development.

As part of the land restitution programme, the department expects to finalise 1,411 restitution claims over the medium term at a cost of R8.7bn, which accounts for 16.3% of the budget.

The department will focus on providing landless South Africans with access to land and on promoting agrarian transformation. Over the period ahead, the department aims to acquire about 312,218ha of strategically located land, and provide agricultural input and infrastructure to make resettled farms productive. For this purpose, R2.9bn will be transferred to the agricultural land holding account over the medium-term expenditure framework period.

Since the initiative began in 2008/2009, about 1,675 farms have been created from more than 4.9-million hectares of land acquired. According to budget documents, to streamline the provision of agricultural finance, the department will transfer R1.2bn over the medium-term expenditure framework period to the Land Bank, which will enable the institution to offer blended finance (a combination of government grants and loans at cheaper rates) to emerging black farmers.

SPENDING CUTS

'It is pilchards in place of steak, not austerity'

Carol Paton
Editor at Large

Despite huge spending cuts of R261bn, this is not an austerity budget, finance minister Tito Mboweni says. Rather it is a case of choosing to eat pilchards and not rump steak.

For the first time since the late 1990s, non-interest expenditure will contract in real terms at a rate of 0.4%. SA has been able, through most of the democratic period, to strongly grow spending on social services and even in recent years ensure that education and health grew faster than inflation, while welfare has been spared budget cuts.

But without any increase in taxes and some moderate tax relief for bracket creep, Mboweni said the budget could still not be classified as austere.

"We are not at a point of austerity; we are cleaning house. We are still spending but not at the rate we would like to. If this was austerity we would be closing schools and hospitals and retrenching people," he told the media in a prespeech briefing.

He likened the spending cuts to a family choosing to eat pilchards — known to be one of his favourite foods — rather than rump steak.

The R261bn of cuts are made up of an estimated R160bn of savings from a renegotiated wage settlement and R100bn revisions to baseline budgets. However, additional allocations to other budget items, particularly Eskom, means that the overall expenditure envelope falls by about R150bn.

Provinces and municipalities will be particularly affected by the expenditure cuts, which will see reductions in conditional grants for a range of government programmes. Allocations to the human settlements sector have again been reduced, this time by R14.6bn over the medium-term period. This will mean "fewer subsidy houses, serviced sites and related bulk infrastructure".

Public transport grants and subsidies have also come under fire, with the Passenger Rail Agency of SA (Prasa) losing R13.2bn over the medium-term period. While Prasa's infrastructure is in a dire state, it has nonetheless accumulated large cash surpluses, in the main due to chronic underspending of its capital budget. Integrated transport networks — or rapid transit bus services — will be suspended in Buffalo City, Mbombela and Msunduzi, as these cities have made the least progress in rolling out the services.

Basic and higher education as well as health also come in for substantial baseline budget reductions over the medium term.

The Treasury has slashed R2.3bn from the infrastructure allocation to technical and vocational education training colleges and R621m from the university infrastructure. It has also cut R1.85bn from the education infrastructure grant and reduced the school infrastructure backlogs grant by R122.8m, which is likely to delay progress in ensuring all schoolchildren learn in safe classrooms with appropriate sanitation facilities.

Spending on basic education will not keep pace with inflation, growing on average by 3.8% over the medium term. While health spending narrowly outstrips inflation at 5.1%, cuts to the baseline budget of R3.9bn over the three years have been made.

"This implies that some activities related to National Health Insurance will be phased in over a longer time frame," the Budget Review said.

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Shunted: Public transport grants and subsidies have come under fire, with the Passenger Rail Agency of SA losing R13.2bn over the medium-term period. /Sizwe Ndingane/The Times

LABOUR FEDERATION WARNING

Cosatu sees public-wage cuts as a 'huge disaster'

Claudi Mailovich
Senior Political Writer

Finance minister Tito Mboweni taking a scalpel to the public wage bill is a "huge disaster" for union federation Cosatu, which says the way it was done is "clumsy" and "reckless".

Mboweni said in his budget address there would be huge budget spending cuts in the medium term. A R160bn drop in pay costs of national and provincial administrations and other public bodies would account for the bulk of R261bn in savings expected. The government had indicated to the Public Service Co-ordinating Bargaining Council on Tuesday that it intended to withdraw from the existing wage agreement.

Matthew Parks, Cosatu's parliamentary co-ordinator, said after Mboweni spoke that Cosatu was shocked when the government took the decision to the bargaining council, the first time the ANC's alliance partner heard about the drastic step. He said the decision to take it to the bargaining council collapsed the space in which to engage seriously. "We basically feel our members, nurses and teachers, are being thrown under the bus. The only fixation of this budget is around fixing the wage bill."

Parks said Cosatu recognised the fiscal crisis SA faced, and it made proposals to address all of the crises at state-owned enterprises (SOEs), such as Eskom, as well as on the public-sector wage bill, state spending and corruption, but the ANC failed to take it seriously.

He said the only way to see the budget was as an "attack on workers", but Cosatu would keep engaging as its members' jobs were on the line.

Cosatu was the first ANC-aligned structure to endorse President Cyril Ramaphosa's bid to become ANC president. Parks said: "We are the one's defending him while people in Luthuli House and the ANC are sabotaging him. It doesn't help us when the government does not reciprocate that support. Our support is not a blank cheque," he said.

ANC spokesperson Pule Mabe said Cosatu was part of the tripartite alliance and they continue to engage with each other. The ANC was "firmly" behind Mboweni's realistic budget. "We did not promise people things that are not possible. We acknowledge we are leading in very difficult times," he said.

DA finance spokesperson Geordin Hill-Lewis expressed scepticism. "I don't believe those public-wage cuts are actually achievable," he said. But Mboweni did "quite a good job" with very little breathing space.

EFF leader Julius Malema said his party would oppose pay cuts. He said the current agreement should be honoured, and there should be proper engagement when the next round of negotiations started.

IFP deputy president Mzamo Buthelezi said his party backed the budget though it was not satisfied with everything in it.

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THE BUDGET

Not even health spared

● *Cuts imply that some activities related to NHI 'will be phased in over a longer time frame'*

Tamar Kahn
Science & Health Writer

In a tough budget that has seen the Treasury cutting spending across government departments, not even health has been spared the axe.

A total of R3.9bn is to be cut from its baseline over the medium-term expenditure framework, a marked departure from the Treasury's determination in prior years to protect the sector from cuts.

It signals a sharp reality check for the government's plans for achieving universal health coverage by 2023-2026.

The spending cuts imply that some activities related to National Health Insurance (NHI) "will be phased in over a longer time frame", said the Treasury in its Budget Review.

"We've been under tremendous pressure to cut expenditure right across government because of the size of the [budget] deficit," said Treasury chief director for health and social development Mark Blecher.

The Treasury had targeted underspending programmes for cuts to try to protect service delivery, he said. The Treasury has shifted R1.4bn out of the NHI indirect grant, managed by the national health department, due to slow spending on contracting with GPs and mental health and oncology services.

Blecher said the underspending was due to limited capacity in the health department. The Treasury has consequently set aside R56m over the medium term to strengthen its capacity to phase in NHI.

The first piece of enabling legislation for the NHI reforms planned by the government is contained in the NHI Bill, being processed by parliament. It proposes establishing a central NHI fund that will purchase services on behalf of eligible patients, but details of how it will be financed have yet to be spelt out.

The Treasury declined to be drawn on why it has still not released its financing proposals for NHI, which health minister Zweli Mkhize previously said would be published by the time the bill was submitted to parliament on August 8 2019.

The Treasury has proposed a below-inflation increase in the value of medical tax credits, in line with its announcement two years ago that it would be squeezed to help fund the rollout of NHI.

The value of the medical tax credits will rise by just R9 for the first two medical scheme beneficiaries, to R319 per month, and by R6 per month for the remaining beneficiaries to R215 per month. Consolidated government health expenditure is set to rise from R222bn in 2019/2020 to R230bn in 2020/2021, and will then rise to R244bn in 2021/2022 and to R258bn in the outer year.

A TOTAL OF R3.9BN IS TO BE CUT FROM ITS BASELINE OVER THE MEDIUM-TERM EXPENDITURE FRAMEWORK

The health budget thus grows at an average rate of 5.1% over the medium term, slightly ahead of the Treasury's inflation forecast of 4.5% for this year.

The department of social development faces a R2.3bn cut to its baseline, but SA's most vulnerable citizens have been protected and welfare grants will increase in line with inflation. The cuts are due to lower inflation forecasts and delays in the implementation of the extended child support grant for orphans. The Social Assistance Amendment Bill, intended to improve the social protection of orphans and relieve pressure on the foster-care system, has yet to be finalised by parliament.

Most grants will increase 4.5% in the coming year.

More than one in three South Africans is the recipient of a welfare grant, which reach almost 18-million people. This figure is markedly higher than 16.4-million people who have jobs, and is forecast to rise to 18.9-million by 2022/2023. Spending on social grants as a percentage of GDP is expected to hold steady over the medium term at 3.5%.

The government's total spending on social grants is projected to rise from R175.156bn in 2019/2020 to R187.836bn in 2020/2021, and then to R201.347bn in 2021/2022 and 216.027bn in 2022/2023, growing at an average rate of 7.2% over the medium term.

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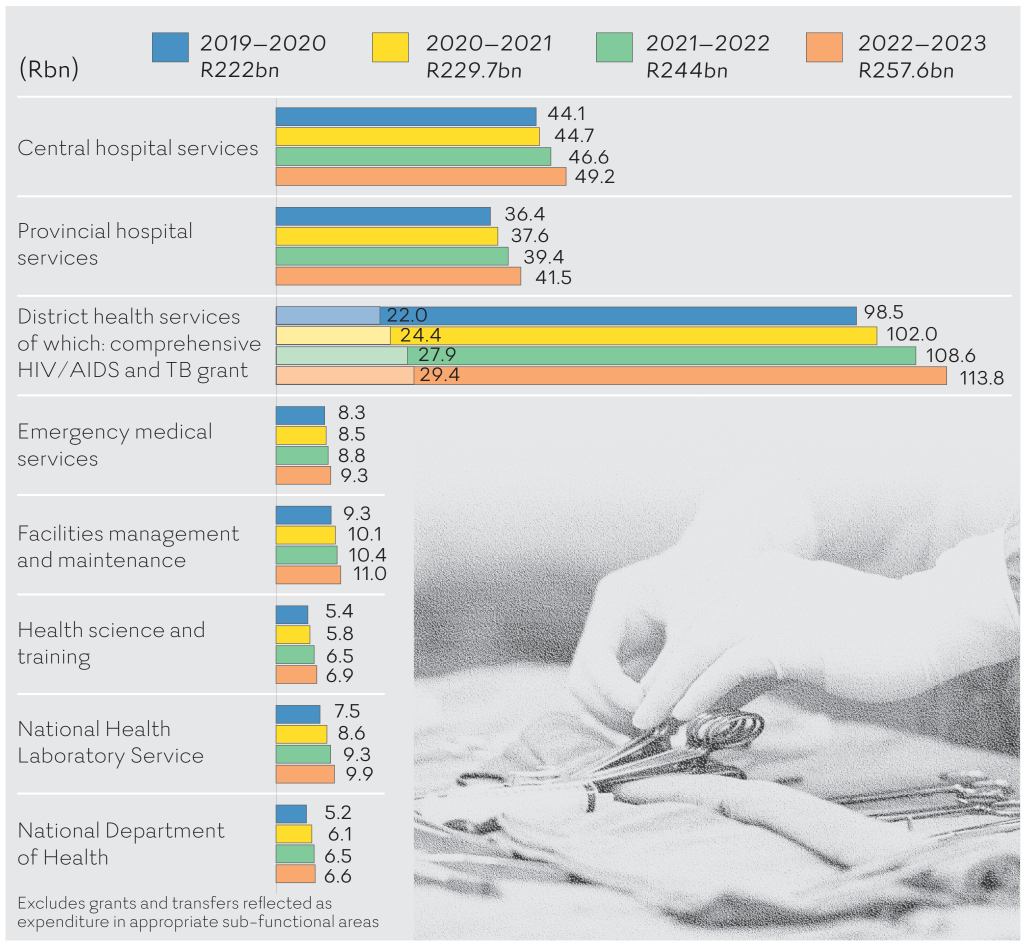
HEALTH EXPENDITURE



Graphic: KAREN MOOLMAN, RUBY-GAY MARTIN Source: NATIONAL TREASURY

STATE CAPTURE

NPA, SIU and Hawks will get an extra R2.4bn to combat corruption

Genevieve Quintal
Political Editor

In an effort to up the ante on combating corruption, the National Prosecuting Authority (NPA), Special Investigating Unit (SIU) and the Hawks would get an additional R2.4bn in the 2020 budget, finance minister Tito Mboweni announced on Wednesday.

"This will enable the appointment of about 800 investigators and 277 prosecutors, who will assist with, among other things, clearing the backlog of cases such as those emanating from the state-capture commission of inquiry, headed by deputy chief justice Raymond Zondo.

State capture and corruption have played major roles in crippling the economy.

The NPA has been allocated R1.2bn over the medium term in the 2020 budget. It received no additional funding in the 2019 budget, despite an announcement that a new special investigative directorate would be established.

STATE CAPTURE

The new directorate, which focuses on, among other things, serious corruption relating to state capture, was set up in the middle of 2019.

The NPA, seen as politically abused for a decade, has been largely undercapacitated and underfunded. NPA head Shamila Batohi said in July 2019 that the new investigating unit would need about R200m over the next three years.

According to the 2020 budget, the NPA will be allocated R369m in 2020/2021, R412.7m in 2021/2022 and R444.3m in 2022/2023.

The money will be used to increase capacity in the prosecuting authority, operationalise the investigative directorate and rejuvenate the aspirant-prosecutor training programme.

In the period ahead, the NPA is planning to appoint 277 new employees.

This increased capacity is intended to enable it to increase the value of recoveries relating to corruption or related offences by the Asset Forfeiture Unit from R1.6bn in 2019/2020 to R1.8bn in 2022/2023; increase the number of people convicted of corruption in the private sector from 57 in 2019/2020 to 166 in 2022/2023 and increase the number of government officials convicted of corruption from 202 in 2019/2020 to 243 in 2022/2023, according to the budget.

The Zondo commission was granted an extension to March 31 2021 to finalise its work by the high court in Pretoria this week.

In the 2019 budget, it was allocated an extra R272.9m. However, this year there is no additional funding. The directorate for priority crimes investigation, known as the Hawks, will also be allocated R958m to allow it to appoint additional investigators, primarily to address the backlog of corruption cases.

Money has also been set aside for the establishment of five additional specialised commercial crimes courts so that they have a presence in each province. An additional R120.2m has been allocated for this in the medium-term expenditure framework period.

The SIU will be receiving R225m to appoint forensic investigators and operationalise the special tribunal.

The tribunal started sitting in 2019 and was established to fast-track the settlement of civil claims — and the recovery of stolen funds — arising from SIU investigations.

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SCHOOLS, COLLEGES AND UNIVERSITIES

Badly performing projects bear the brunt of education austerity

Tamar Kahn

The tough spending decisions taken by the government loom large in education, which sees deep budget cuts to poorly performing programmes that will delay plans to expand student accommodation and improve school infrastructure. Plans to expand free school meals to more needy children have also been scaled back.

The Treasury plans to reduce its noninterest expenditure by R156bn over the next three years, and education is among the biggest casualties, with a R7.1bn cut to its baseline over the medium term.

The lion's share of these cuts is to infrastructure spending (R5.2bn), but the allocation to financial aid for students attending technical and vocational and training colleges (TVET) has also been scaled back due to lower than anticipated enrolments.

The revised infrastructure spending plans will affect higher education institutions and schools. "These reductions are expected to cause revisions to infrastructure plans and delays in project completion," the Treasury said in its Budget Review.

The Treasury has slashed R2.3bn from the infrastructure allocation to TVET colleges and R621m from university infrastructure. It has also cut R1.85bn from the education infrastructure grant and reduced the school infrastructure backlogs grant by R122.8m, which is likely to delay progress in ensuring all schoolchildren learn in safe classrooms with appropriate sanitation facilities.

The national school nutrition programme grant has been cut by R123m over the medium term, which is not expected to affect meals for children in quintile 1-3 schools, but will delay plans to extend the service to children in quintile four and five schools.

Consolidated government spending on basic education will not keep pace with inflation, growing on average by just 3.8% a year over the medium term. The basic education budget is set to rise from R262.5bn in 2019/2020 to R293.2bn in 2022/2023.

Higher education sees its budget allocation rise 4.6% over the next three years, increasing from R112.1bn in 2019/2020 to R128.4bn in 2022/2023.

The Treasury expects inflation to average 4.5% over the period.

The budget documents cast harsh light on the department of higher education & training's progress in expanding access to SA's 50 TVET colleges, with the Treasury cutting R900m from the National Student Financial Aid Scheme's (NSFAS) budget for TVET student bursaries over the medium term.

NSFAS provides financial assistance to eligible undergraduate students at universities and TVET colleges.

The higher education & training department has long struggled to meet the National Development Plan's goal of reversing the current situation in which more school leavers enrol at universities than TVET colleges.

NSFAS expects to fund 1-million university students and 870,000 TVET college students over the medium term.

Its budget allocation is set to increase at an average annual rate of 7.3% over the period, from R33bn in 2019/2020 to R40.8bn in 2022/2023.

Early childhood education, which is funded via the department of social development, gets a boost, however, with an increase in the subsidy rate per child financed by savings at the SA Social Security Agency.

The subsidy per child is set to increase 23.8% over the medium term, rising from R15 a child in 2020/2021 to R18.57 a child in 2022/2023.

The budget allocation for the early childhood development grant rises from R1bn in 2019/2020 to R1.5bn in 2022/2023.

The government plans to provide access to early childhood education to almost 700,000 children under the age of four by 2022/2023.

OFFICIAL STATISTICS

Stats SA is not underfunded and can remain credible, says Treasury chief

Linda Ensor
Parliamentary Writer

Stats SA has been allocated R3.45bn for this financial year, with a sharp rise projected for the following year to enable it to conduct the census in 2021.

The body charged with producing the country's official statistics was allocated R2.5bn in the 2019 budget and projected an allocation of R3.3bn for the 2020/2021 year.

A rise to R4.8bn is projected for next year.

Stats SA produces a raft of important statistics on consumer inflation and unemployment, among other data, and publishes surveys on poverty and inequality. These are used to inform private sector planning and the government's policymaking and budgeting.

The 20-member Stats SA council must sign off on all official statistics or they are "effectively rendered meaningless".

Last week, before the tabling of the budget, the Stats SA council threatened to quit en masse if the agency did not get more funding.

Stats SA is at "a tipping point", chair David Everatt said in a statement. Lobbying "behind the scenes" for the past year had not produced results, he said. The statement prompted an urgent meeting with minister in the presidency Jackson Mthembu.

Treasury director-general Dondo Mogajane said at a media briefing that Stats SA had been informed early on in the Treasury's budget preparation process of its proposed budget allocation, so it was not true that its allocation was a result of pressure. Over the next three years Stats SA would receive R154m to address compensation challenges, of which R40m would be in the first year.

An additional R150m had been allocated to poverty surveys and R4.2bn for Census 2021. "There is no underfunding of any kind. There are processes to address the shortcomings and shortfalls that they have.

"We think that Stats SA will remain a credible institution that will produce credible statistics that can inform our planning as we move forward as a country," Mogajane said. He noted that the budgets of government departments had been slashed and Stats SA had not been spared.

Finance minister Tito Mboweni slammed the Stats SA council for running to the press as "bad etiquette" and an indication of "wrong upbringing".

He said: "You can't negotiate with me in public. You go through the process."

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THE BUDGET

Tax hikes avoided as Mboweni tiptoes between the landmines

Yesterday finance minister Tito Mboweni delivered his budget speech to Parliament. This is an edited version.

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 15 years following democracy, economic growth averaged 3.6% a year. The gross debt-to-GDP ratio declined from 46% to 26%.

In the five years from 2003 to 2008, growth averaged around 5%, and South Africa was amongst the fastest-growing major economies. The unemployment rate improved by five 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.*" [Out of Africa there is always something new.]

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."

Economic context

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

Looking for inspiration A long road ahead

. / Esa Alexander

In 2020, global economic growth is expected to strengthen to 3.3%. 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% in 2020. The coronavirus is a source of uncertainty to this forecast.

With growth of 3.5%, 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% and inflation will average 4.5% in 2020.

Over the next 18 months, the economy should get a number of jump-starts. These include:

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; and
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%.

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

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 on 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; and
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!"

Prudent fiscal policy

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% of GDP.

Expenditure is projected at R1.95-trillion, or 36% of GDP.

This means a consolidated budget deficit of R370.5bn, or 6.8% of GDP in 2020/21.

Gross national debt is projected to be R3.56-trillion, or 65.6% of GDP by the end of 2020/21.

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 taxpayers, 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% less in tax. Someone earning R100,000 a month will pay about 1.5% 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 R1m 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 750ml spirits, including whisky, gin or vodka, will rise by R2.89;
● A packet of 20 cigarettes will be an extra 74c;
● A 25g of pipe tobacco will cost 40c more; and
● A 23g 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% 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 25c/l, of which 16c is for the general fuel levy and 9c is for the Road Accident Fund (RAF) levy.

Despite this increase, the liabilities of the RAF are forecast to exceed R600bn 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 R1.75bn over the next few months. This will be complemented by more focused 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 25c.

Reducing structurally high spending

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%, 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 R156.1bn 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 R261bn. These are partially offset by additions and reallocations of R111bn. Of this, more than half, or R60bn, is for Eskom and South African Airways.

Programme spending adjustments

Let me unpack the R261bn in baseline spending reductions.

The first part is adjustments on programme spending of about R100bn. Some of these were announced in the MTBPS.

Adjustments are mainly in conditional grants for provinces and municipalities.

For human settlements, adjustments amount to R14.6bn over the MTEF. There are also adjustments of R2.8bn to the municipal infrastructure grant.

Over the three years, public transport spending is adjusted by R13.2bn, 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 R5.2bn over the medium term, while health is adjusted by R3.9bn 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.

The wage bill

The second part is adjustments on the wage bill by about R160bn 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.

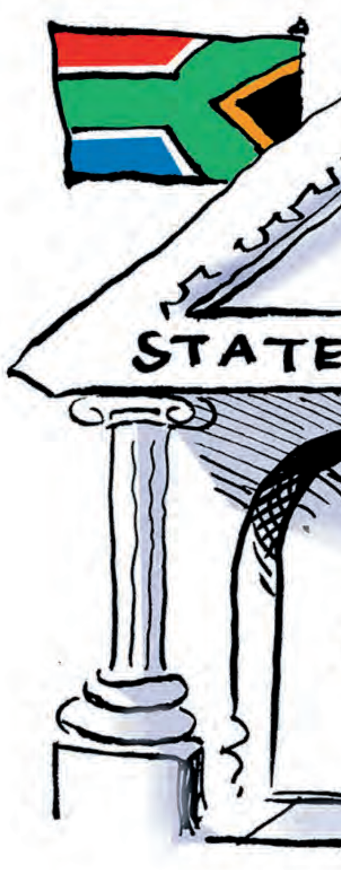
We cannot go on like this. Classroom sizes are growing, hospitals are getting fuller and our communities are becoming increasingly unsafe.

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

/ All cartoons: Brandan Reynolds

THE BUDGET



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 R37.8bn 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.

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 acting on fruitless and wasteful expenditure. Last year, this house amended the Public Audit Act to empower the auditor-general to:

1. Refer matters to a public body for investigation and for prosecution;
2. Take binding remedial actions; and
3. Recover money directly from the responsible culprits.

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 subsidence and travel system;
2. Replacing the cellphone policy; and
3. Requiring economy class travel for all domestic flights, except for exceptional circumstances.

Minister [Naledi] 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; and
4. Establishing a fully-fledged Diplomatic Academy.

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 reiterate the current inflation target band of 6% to 3% 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% and the forecast for inflation to be about 4.5% 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.

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.

Learning, health and social development

Consequently, the largest spending areas will be learning and culture, which receives R396bn, followed by health, R230bn, and social development with R310bn.

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 health care 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 re allocate 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% of nationally-raised funds are allocated to national government, 43% to provincial government and 8.8% to local government.

R500m has been provisionally set aside for disaster management to respond to the impact of recent floods and the ongoing drought.

The infrastructure fund

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 at least R200bn. The government has committed R10bn over the next three years. The public can now find information on infrastructure projects on the VulekaMali internet portal.

Youth employment

[There are] 8.2-million young people between the ages of 15 and 34 not in education, employment or training. The 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% 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.

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 R1,860 per month;
2. R80 increase in the war veterans grant to R1,880;
3. R40 increase for the foster care grant to R1,040 per month; and
4. The child support grant will increase by R20 to R445 per month.


/ Esa Alexander

Changing the way we provide social grants has generated about R1bn a year in efficiency savings, which will be partly used to raise the daily subsidy per child.

Modernising network industries and restructuring the SOEs

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

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 R230bn over 10 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.

South African Airways

The SAA Sword of Damocles has now fallen on us.

SAA has been placed in business rescue which will lead to a radically restructured airline. Over the medium term, the government has allocated R16.4bn 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.

Rail

The 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.

Opening up our markets to trade with 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 R1.25m. We will phase out the administratively burdensome process of emigration through the South Africa Reserve Bank.

Re-imagining our industrial strategy

To implement the reimagined industrial strategy:

1. An Innovation Fund will be capitalised with R1.2bn over the next three years;
2. Industrial business incentives worth R18.5bn will create and retain approximately 56,500 jobs;
3. An additional R107m is reprioritised for the refurbishment of 27 industrial parks in townships and rural economies; and
4. R6.5bn is allocated for small business incentive programmes of which R2.2bn will be transferred to the Small Enterprise Development Agency.

Together with the department of trade, industry & competition, we are considering various proposals from ITAC related to scrap steel and poultry.

Lowering the cost of doing business

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 in 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.

Supporting agriculture and tourism

Over the medium term we will support agriculture and tourism. The government has allocated R495.1m to the department of agriculture, land reform and rural development to improve compliance with biosecurity and support exports.

An additional R500m 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.

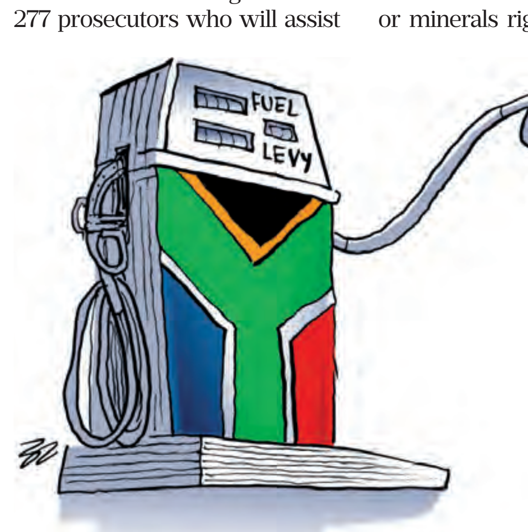
Enforcing justice

Fighting corruption is a priority of this administration.

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

This will enable the appointment of 800 investigators and 277 prosecutors who will assist with, among other things, 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 [Bheki] Cele and [Ronald] Lamola to ensure that the law takes its course. I hope all South Africans join me in condemning this.



Initiatives to grow the economy

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 the government, the scheme sources R8 from the private sector. In a single year, the Help to Buy scheme has supported nearly R1bn in new lending.

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. 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.

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 R30bn, which converts to about US$2bn 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.

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.

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 R426bn 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 eThekwini is progressing in that direction. Cape Town shall join them soon. Meanwhile Lanseria has been identified as a potential smart city.

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.

Strengthening regulatory oversight

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.

Conclusion

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.

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