**UNREVISED HANSARD**

**NATIONAL ASSEMBLY**

**WEDNESDAY, 24 June 2020**

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***PROCEEDINGS OF THE NATIONAL ASSEMBLY***

The House met at 15:00.

House Chairperson Ms M G Boroto took the Chair and requested members to observe a moment of silence for prayer or meditation.

The HOUSE CHAIRPERSON (Ms M G Boroto): Hon members, let me take this opportunity to acknowledge the presence of the President of the Republic, the hon Cyril Ramaphosa, who has joined our hybrid plenary through the virtual platform. Welcome, hon President. [Applause.]

The SPEAKER: Thank you, ... [Inaudible.]

# INTRODUCTION – ADJUSTMENTS APPROPRIATION BILL AND TABLING OF DIVISION OF REVENUE AMENDMENT BILL

**INTRODUCTION – DISASTER MANAGEMENT TAX RELIEF BILL AND TABLING OF DISASTER MANAGEMENT TAX RELIEF ADMINISTRATION BILL**

The MINISTER OF FINANCE: Madam Speaker, the Governor of the South Reserve Bank, members of the executive committees for Finance, hon members, fellow South Africans, today I table for the consideration of this House:

1. The Division of Revenue Amendment Bill;
2. The Adjustments Appropriation Bill;
3. The Supplementary Budget Review;
4. The Disaster Management Tax Relief Bill; and
5. The Disaster Management Tax Relief Administration Bill

# Introduction

We are in the midst of a fast‐evolving pandemic. In South Africa and around the world, we have made the decision to protect each other. We have quickly adapted to the new situation. We are learning the new protocols to wear masks in public; to regularly and frequently wash our hands, to maintain a safe social distance. As a result, millions have stayed safe. We remain deeply concerned about the path of the virus, but in common with several other

countries around the world that adopted a stringent, early lockdown, we have flattened the curve and saved lives.

As the wise farmer will tell you, when the tempest is raging, you must protect your plants from damage. Our Aloe Ferox, like our people, is protected. Mr President, you have been the most caring farmer looking after our Aloe Ferox.

The storm is not over. However, if we follow the health guidelines and make the right decisions to prepare for a new global reality, things will soon get better. The storm shall pass. enough, the days will grow calmer and our national Aloe Ferox shall go into the new day healthy and strong.

# The purpose of the supplementary budget

The Public Finance Management Act, read together with the Money Bills Amendment Procedure and Related Matters Act, empowers the Minister of Finance, to table an adjustments budget when conditions change. The historic nature of this pandemic and the severe economic downturn, it has occasioned, has made it necessary to table such an adjustment. We will table a second adjustments budget in October, together with the Medium‐Term Budget Policy Statement.

This Supplementary Budget does two things. First, it brings an Adjustments Appropriation Bill and a Division of Revenue Amendment Bill to the House. It also formalises the two tax Bills to give effect to our response. These Bills ask Parliament to approve the response package for covid‐19. Second, Mr President, it lays a path for the direction you gave us on 21 April to, and I quote: “... not merely return our economy to where it was before the coronavirus, but to forge a new economy in a new global reality”.

This Supplementary Budget sets out a roadmap to stabilise debt, by improving our spending patterns, and creating a foundation for economic revival.

Most of our energies and resources have been focused on covid‐19, as we fight this pandemic. We have quickly adopted temporary countercyclical fiscal and monetary policy measures. After the storm ends, we must work just as quickly to emerge with a sustainable fiscus.

We have many strengths. These include our young and ambitious people, our institutions, a robust and vibrant democracy, an independent judiciary and our commitment to social justice progress; as well as our economic strengths. This country has a diverse industrial base, a flexible exchange rate system, stable

inflation, and deep domestic capital markets that allow us to borrow, in order to fund some of the gaps.

However, debt is our weakness. We have accumulated far too much debt. This downturn, severe as it is, will add more to the debt. This year, out of every rand that we pay in tax, 21 cents go to paying the interest on our past debts.

This level of indebtedness condemns us to ever higher interest rates. If we reduce debt, we will reduce interest rates for everyone and we will unleash investment and growth. So today, with an eye on the future, we set out a strategy to build a bridge to recovery.

[Interjections.] ... hippopotamus - that gap between revenue and the ever-increasing expenditure.

This hippo is eating our children’s inheritance. We have to do everything that we can to close its mouth. This is our Herculean task that we have to undertake.

# In-year adjustments

* 1. **The economic outlook**

Let me begin by outlining our updated fiscal and economic forecasts for the current fiscal year. Covid-19 has turned the global economy upside down. In the February Budget, we expected that the global economy would expand by 3,3% in 2020. We now expect a global contraction of 5,2% this year. This will bring about the broadest collapse in per capita incomes since 1870.

Throughout the world, tens of millions of workers have lost their jobs. South African unemployment increased to about 30,1% in the first three months of this year.

The South African economy is now expected to contract by 7,2% in 2020. This is the largest contraction in nearly 90 years.

Inflation will remain low in 2020, in line with the outcome of this morning. Commodity price increases and a weaker oil price have softened the blow, but as a small open economy, reliant, to a large extent, on exports, we have been hit hard by the decline in global demand and the restrictions to economic activity.

# Fiscal, Monetary and Other Measures

South Africa has responded to this economic shock with an unprecedented set of measures. Never before has government worked together so closely with the private sector, labour, community and the central bank. Standing as a united people, it is clear we can

achieve anything. Government’s response to covid‐19 has provided an economic support package that directs R500 billion straight at the problem. This is one of the largest economic response packages in the developing world.

The South African Reserve Bank has reduced interest rates and made it easier for banks to lend to their clients and therefore, supports the economy. The South African Reserve Bank has also supported liquidity in the domestic bond market. The Bank has stated that it stands ready to take additional action, should the need arise. More than 2 million customers have received around R30 billion in relief from their commercial banks. Insurers and medical aid schemes have provided premium holidays. Landlords have provided rental relief. All in 100 days. This is indeed a remarkable achievement.

# Revised Fiscal Framework for 2020-21

Turning to the emerging fiscal framework for 2020. Projected total consolidated budget spending, including debt service costs, will exceed R2 trillion for the first time ever.

Gross tax revenue collected during the first two months of 2020 was R142 billion, compared to our initial forecast for the same

period of R177,3 billion. Put another way – we are already R35,3 billion behind on our 2020-21 target.

As a consequence, gross tax revenue for the 2020-21 fiscal year is revised down from R1,43 trillion to R1,12 trillion. That means that we expect to miss our tax target for this year by some R300 billion.

Part of this revision is because the measures announced earlier this year give taxpayers outright relief of some R26 billion and delays in tax collection of approximately R44 billion. These proposals are contained in the Disaster Management Tax Relief Bill and the Disaster Management Tax Relief Administration Bill that I table today.

Taken together, the measures and adjustments we present translate into a consolidated budget deficit of R761,7 billion, or 15,7% of GDP in 2020-21. This is compared to the deficit of R370,5 billion, or 6,8% of GDP projected in February. This increase is mainly due to the revised revenue projections and pay-outs from the Unemployment Insurance Fund. The narrower measure, known as the main Budget deficit, is projected to be 14,6% of GDP.

Our early projection is that gross national debt will be close to R4 trillion, or 81,8% of GDP by the end of this fiscal year. This is compared to an estimate of R3,56% trillion or 65,6% of GDP projected in February.

Without external support, these borrowings will almost entirely consume all of our national domestic saving, leaving no space for investment or borrowing by anyone else. For this reason, we need to access new sources of funding throughout the world. Government intends to borrow about US$7 billion from international finance institutions to support the pandemic response. We must make no mistake; these are still borrowings and not revenue. They must be paid back in the future.

# Health and frontline services

The Supplementary Budget proposes R21,5 billion for covid‐19‐related health care spending. It also proposes a further allocation of R12,6 billion to services at the frontline of our response to the pandemic. Allocations have been informed by health experts, who have been modelling this disease. It is clear that we have a big struggle ahead of us.

This money partly supports increased screening and testing, allowing us to open up more and more of the economy.

We have successfully increased our covid‐19 bed capacity to above

27 000; identified 400 quarantine sites with a capacity of around

36 000 beds across the country and deployed nearly 50 000 community health care workers to screen millions of South Africans. We have tested over 1,3 million people.

Provincial governments will add at least R5 billion for the education catch‐up plan, social welfare support for communities and provision of quarantine sites by Public Works departments and responses in other sectors. We salute all the brave and outstanding health care and essential service workers who are leading this fight. We also salute the police and the Defence Force for their efforts.

We understand that tariffs have been agreed with private hospitals to supplement public sector capacity. The Solidarity Fund has also come to the support of government’s efforts. We would like to thank all the volunteers at the front who have volunteered to be part of these processes.

# Protecting the most vulnerable

Over 18 million South Africans have received a temporary covid-19 grant. The roll out of the short‐term Special Relief of Distress grant will temporarily support those without an income. An additional 1,5 million people have received these already. To support vulnerable households, an additional allocation of R25,5 billion to the Department of Social Development is proposed, for a total relief package of R41 billion. All these measures will come to an end in October.

We have implemented health and hygiene measures in 7 000 early childhood development centres, and appointed about additional 1 800 social workers.

# Driving job creation

The figures from yesterday show that the unemployment rate in our country is our single greatest challenge. The economic support package sets aside R100 billion for a multiyear, comprehensive response to our jobs emergency.

The President’s job creation and protection initiative will be rolled out over the medium term. It will include a repurposed public employment programme and a Presidential Youth Employment Intervention. In this year, an amount of R6,1 billion is already

allocated, and a further R19,6 billion has been set aside for this purpose.

# Unemployment Insurance

As of mid‐June, the Unemployment Insurance Fund, UIF, has provided R23 billion in covid‐19 relief to over 4,7 million workers affected by the pandemic. This has required a huge upgrade and repurposing of the UIF system to deal with the increase in mostly online applications, and to build in protections against fraud. Indeed, the fraudsters have also been hard at work. We thank all involved for the upgrade. There were many individuals from the private and NGO sector who volunteered their time to assist the UIF system.

There are still challenges, but we are confident that the team is working tirelessly to iron them out.

# Changes to the division of revenue

The division of revenue presented in the 2020 Budget is revised as follows: the national share for 2020-21 increases from R758 billion to R790 billion, the provincial share decreases from R649 billion to R645 billion and the local government share increases from R133 billion to R140 billion.

Local government is at the heart of our response to the pandemic. Accordingly, an additional R11 billion is allocated to local government through the equitable share. A further R9 billion will be reprioritised within allocated conditional grants to fund additional water and sanitation provision and the sanitisation of public transport.

Municipalities will adjust their budgets to take into account the sharp decline in revenue, as indicated, as a result of the situation that we find ourselves in. We urge communities to hold councils accountable for the spending of this allocations.

National Treasury will also monitor the spending patterns through monthly and quarterly reports.

# Covid‐19 loan guarantee scheme

Madam Speaker, after a slow start, including all the detailed and technical legal preparations, the loan guarantee scheme is expanding rapidly. In its first month of operation, the scheme lent over R10 billion. Many more applications are being processed, as we speak, and lending is expected to rise significantly.

Now that we have moved to an advanced Level 3, most of the economy is going to open for business. We must help businesses to get moving! The loan guarantee scheme now also includes a business restart option. This means that all businesses, even above the R300 million turnover level are now free to apply for this facility. That is why we prefer to call it a business restart.

We are also finalising amendments to the repayment holiday and turnover limit, as indicated, and relaxing terms and conditions to support lending. This has been done the South African Reserve Bank, the National Treasury and Banking Association.

# Building a bridge to the future

I now turn to the second part of this Supplementary Budget, which is to put before the House the steps we are taking towards the Medium-Term Budget Policy Statement.

# The Path Forward

The gospel according to the Matthew 7:13 and 14 springs to mind:

“Enter through the narrow gate. For wide is the gate and broad is the road that leads to destruction, and many enter through it. But

small is the gate and narrow the road that leads to life, and only

a few find it.”

We are faced, as a nation, with a choice between these two gates. As South Africa responds to the current health and economic crisis, a fiscal reckoning looms. The public finances are dangerously overstretched.

The wide gate is a passive country that lets circumstances overwhelm it. If we remain passive, economic growth will stagnate. Our debt will spiral upwards and debt‐service costs will crowd out public spending on education and other policy priorities. We already spend as much on debt‐service cost as we do on health in this financial year. Eventually, the gains of the democratic era would be lost.

The wide gate opens to a path of bankruptcy and a sovereign debt crisis happens. This maybe indicates what a sovereign debt crisis is. In short, a sovereign debt crisis is when a country can no longer pay back the interest or principal on its borrowings. We are still some way from that, but if we do not act now, we will shortly get there.

The results are devastating in the event of a sovereign debt crisis. Interest rates sky‐rocket. Spending has to stop in many instances. Inflation takes hold and people grow much poorer. This is what happened to Germany in the 1920s, to Argentina and to Zimbabwe in the recent period, and to Greece in the past few years. Argentina experienced a situation where their ships were attached. Greek civil servants and pensioners had their salaries and pensions slashed. It is a situation in which we do not want to find ourselves.

Another type of debt crisis is when a country undergoes a restructuring of its debt in order to avoid a default, as was the case for Ukraine in 2000, Pakistan in 1999 and Uruguay in 2003. A country could also be insolvent to pay its debt over the long term, as has been the case in a number of countries. We want to go through the path of sustainability and go through the narrow gap.

# Debt stabilisation through zero‐based budgeting

Cabinet, under the leadership and guidance of the President Ramaphosa, has found the narrow gate. Government shall go through it.

Government will narrow the deficit and stabilise debt at 87,4% of GDP in 2023-24. Cabinet has also adopted a target of a primary surplus by 2023-24.

This is about the same time that our Aloe Ferox will flower for the first time. As any farmer will tell you, patience and focus are required.

The Medium-Term Expenditure Framework process will be guided by the principles of zero‐based budgeting from July onwards. This means that budgeting from now on will be based on clearly set out policy priorities and therefore, amounts will be accordingly allocated. There has been a lot of discussion in the media about the fate of the Land Bank. I can confirm today that we will be recapitalising the Land Bank to the tune of R3 billion.

The Land Bank is far too important and we will need to support them. We will also have to work with them through their restructuring process to ensure that we come out with a bank that is strong and sustainable.

# Aligning spending to the structural reform agenda

A firm policy basis has been laid by the policy documents towards an Economic Strategy for South Africa, which was accepted by Cabinet last year. While some of the measures have been delayed by the current situation, we think that the time to push forward has arrived. Deputy Minister Masondo will co-ordinate the implementation of the restructuring programme. He is going to co- ordinate the Vulindlela process. He will open the process.

One of these is to shift away from the electricity supply system that was introduced in 1923, when the Queen’s grandfather, King George was the King of England and also the Head of State of the Union of South Africa. The last few years have shown the inefficiency of this archaic system. Provisional allocations to Eskom were made on the understanding that government’s electricity roadmap would be implemented. However, progress has been very slow. My colleagues are taking the matter further by trying to speed up the process. This should be non-negotiable.

# Fair and fiscally sustainable public sector compensation

This year nearly half of all consolidated revenue will go towards the compensation of workers in the public service. We value the important work public servants do. Minister Mchunu is negotiating with our partners in the labour movement to find a balanced

solution that sets compensation at an appropriate, affordable and fair level. We wish him well in this regard.

# Putting infrastructure at the centre of growth

Finally, building a bridge to a post‐lockdown future will require that we build high‐quality physical bridges, roads, railways, ports and other infrastructures.

Infrastructure has demonstrated throughout the world that this can be the fly wheel by which we grow the economy. Just as we have toiled together to manage the pandemic, let us harness this same unity of purpose and build the infrastructure our nation needs.

Yesterday, the Presidency hosted a successful sustainable infrastructure development symposium, drawing in sector specialists, technical and financial structuring experts and policy departments that have considered 177 infrastructure projects across public and private sectors.

In light of these and other important initiatives, the Government has already committed R100 billion over ten years toward the Infrastructure Fund.

Together with the Development Bank of Southern Africa, we have identified projects that will be funded through the Budget Facility for Infrastructure. We have recently released a paper on Sustainable Finance, and we are working closely with the private sector to green our economy.

But our enormous investment needs cannot be delivered by government alone. The private sector accounts for most of the investment spending in the economy. We must reduce long‐term interest rates to allow business and households to drive faster economic growth.

# Conclusion

The Gospel tells us, as we indicated, that we should try and go through the small gate. our attempt at repurposing the economy is precisely for this purpose. President, Deputy President, I like to thank you very much for your leadership. I like to thank the Deputy Minister of Finance, the Director-General of the National Treasury and his team for this contribution today.

My thanks to the Commissioner of Sars, to the Tenth Governor of the South African Reserve Bank, to colleagues in Cabinet, to the Ministers’ Committee on the Budget, and all MECs of Finance that

have worked with us. My gratitude goes to the parliamentary committees, who worked tirelessly with us to process legislation, accompanying the speech.

Fellow South Africans, we have come to the crossroads and we need to confront the problems that we have head-on. I thank you very much and so submit. Thank you.

The House adjourned at 15:39.