**Report of the Standing Committee on Finance on the 2021 Revised and Proposed Fiscal Framework, Dated 23 November 2021**

Having considered the 2021 Medium Term Budget Policy Statement (MTBPS) of the Minister of Finance on the 2021 revised fiscal framework and the 2021/22-2023/24 proposed fiscal framework, the Standing Committee on Finance reports as follows:

## 1. INTRODUCTION

1.1. The Minister of Finance (Minister), Mr. Enoch Godongwana, tabled the 2021 revised fiscal framework and the proposed 2021 medium-term framework on 11 November 2021.

1.2. The Deputy Minister of Finance, Dr. David Masondo, virtually briefed the committees of finance and appropriation of both Houses on 16 November, accompanied the National Treasury team. On the same day, the Committees received an analysis and submissions on the revised and proposed frameworks from the statutory bodies, the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC).

1.3. The Committees invited public comments and submissions on these frameworks and received written and oral submissions (on 17 November) from the South African Breweries (SAB), SMME Industry Council (SMMEIC), the Congress of South African Trade Unions (COSATU), the South African Institute of Chartered Accountants (SAICA), the Organisation Undoing Tax Abuse (OUTA), the Healthy Living Alliance (HAELA), and Amandla.Mobi. It also received only a written submission from Mr. Peter Meakin.

## 2. POLITICAL OVERVIEW

**2.1.** The Deputy Minister, Dr David Masondo, indicated that the COVID-19 pandemic has worsened South Africa's pre-COVID-19 socio-economic challenges of high levels of poverty, inequality and unemployment. He explained that the purpose of the 2021 MTBPS is to provide the nation with progress made with the implementation of the fiscal framework and economic growth, which is an important variable that affects other variables.

**2.2.** The Deputy Minister emphasised the need to balance socio-economic challenges with fiscal sustainability, highlighting that debt as a percentage of Gross Domestic Product (GDP) will reach R3.4 trillion this year and that debt service costs will reach on average R334.5 billion per year and R1 trillion over the medium term. He said that the high levels of debt were crowding-out private sector investment and service delivery and the R1 trillion debt repayments over the medium term could be allocated to other important expenditure items such as health and education. The Deputy Minister cautioned that the high levels of debt were neither sustainable nor in the interest of economic growth. He emphasised that borrowing should be for investment purposes rather than consumption.

**2.3.** The Deputy Minister emphasised that Government is committed to fiscal consolidation and the 2021 MTBPS proposed to maintain restraint on expenditure, with no new commitments in response to the extra revenue received. He then reported progress made by Government with the implementation of structural reforms, which he said were critical for economic growth, despite the challenges experienced. This progress included: the easing of regulatory barriers (i.e. licensing requirements) in the energy sector, which now makes it possible for private power generators to sell electricity directly to customers; the corporitizing Transnet National Ports Authority to improve incentives for efficiency and competitiveness; and the completion of the e-Visa system which is expected to support the tourism sector. He explained that Operation Vulindlela was overseeing the implementation of structural reforms.

**2.4.** The Deputy Minister and the DG stressed that the budget is pro-poor as it focused on the social wage. The stressed that at 60 per cent of consolidated non-interest expenditure, the social wage remains very high by global standards. The DG made some brief comments on the risks to the outlook, which included State Owned Entities' (SOEs) risks, the wage bill, the municipalities in financial distress and the impact of the debt burden.

**2.5.** With regards to the fiscal strategy, the DG said that government remains committed to reducing the budget deficit and stabilising the debt-to-GDP ratio. He said that Government will use part of the higher tax revenues associated with the recent commodity price surge to: narrow the deficit; provide short-term support to the most vulnerable; and cover the higher costs of the public service wage agreement. He added that revenue from mining was already declining now and is expected to over the MTEF.

## 3. BRIEFING BY THE NATIONAL TREASURY TEAM

3.1. The NT team gave more details on the overview by the Deputy and the DG. It explained that the COVID-19 pandemic continued to take a toll on global growth. It said that in developing economies, scarring – defined as medium-term economic performance below pre-pandemic projections – is expected to be pervasive. It said that positive global growth outlook is predicated on several factors including global vaccine access, sustained monetary and fiscal policy support, and stabilising inflation.

3.2. On the domestic economic outlook, NT explained that the South African economy grew faster than expected in the first half of 2021, but this momentum is expected to wane following public violence in July, port and rail disruptions, and the third wave of COVID-19 infections. It said that real GDP is forecast to grow by 5.1 per cent in 2021 and output is expected to return to pre-pandemic levels in 2022, a year earlier than estimated in February. It said that this was largely the result of global demand, higher commodity prices and the easing of COVID-19 lockdown restrictions.

3.3. NT explained that household consumption has improved but has not fully recovered from the pandemic. It said that inflation is contained within the target band, despite upward pressure from food and energy prices. It added that gross fixed-capital investment remained well below pre-pandemic levels and the labour market is weak, with unemployment at 34.4 per cent.

3.4. Reporting on the progress on structural reforms, NT said that the procurement of additional electricity generation capacity through the fifth bid window of the Renewable Energy Independent Power Producer Procurement Programme (REIPPP) is expected to add 6 800 MW of renewable energy to the grid over the medium term. It said that raising the licensing threshold from 1 to 100 megawatts (MW) has made it possible for private power generators to sell directly to customers and this will reduce pressure on the national grid.

3.5. On transport, NT explained that Transnet National Ports Authority has been corporatized to improve incentives for efficiency and competitiveness. It said that this will enable Transnet Freight Rail to allow third-party access to the freight rail network by end-2022 and this will bolster system volume and capacity.

3.6. On tourism, NT said that the now completed eVisa system will be rolled out to 15 countries by March 2022, providing much needed support for the tourism sector. On water, it explained that the National Water Resources Infrastructure Agency is being established to improve the management of bulk water resources. It said that the application process for issuing single-use water licences is being fast-tracked to meet the 90-day target by March 2022.

3.7. On structural reforms in telecommunications, NT reported that work is underway to standardise and improve processes for applications to access property in rolling out towers and fibre to expand digital communications infrastructure – to be finalised by October 2022. On infrastructure, NT reported that a review of public-private partnership regulations completed in May 2021 recommended simplifying the regulations, eliminating delays in approval and implementation, standardising project preparation, and building capacity at all levels of government – to be implemented from early 2022.

3.8. On fiscal strategy, NT explained that Government remained committed to reducing the budget deficit and stabilising the debt-to-GDP ratio. It explained that Government will use part of the higher tax revenues associated with the recent commodity price surge to narrow the deficit, and to provide short-term relief to the most vulnerable, and cover the higher costs of the public-service wage agreement. It said that in line with government's commitment to support vulnerable households, particularly given the impact of COVID-19, additional resources for social protection will be considered if the fiscal situation improves by February 2022.

3.9. NT explained that over the next three years, spending will remain restrained. It said that in order to avoid a widening of the budget deficit, changes to spending will be funded through improved revenue performance or through reprioritisation and reviewing existing programmes.

3.10. It said that infrastructure projects will be financed through the Infrastructure Fund, using the public-private partnerships and other funding arrangements to improve planning and speed up delivery. NT assured that barring major new shocks or unbudgeted spending commitments, staying the course will lead to a primary fiscal surplus in 2024/25, bringing an end to fiscal consolidation at the end of the MTEF period.

3.11. On the fiscal framework, NT explained that the consolidated deficit includes national and provincial government, social security funds and public entities. It said that the consolidated deficit will narrow from 7.8 per cent of GDP in 2021/22 to 4.9 per cent of GDP in 2024/25.

3.12. NT explained that the surging commodity prices have improved the in-year revenue outlook, despite declining surpluses over the medium term. It said that the revised revenue projections fall short of the pre-COVID-19 expectations by R284.7 billion until 2022/23. It explained that further improvement in the tax-to-GDP ratio over the medium term depends on sustained economic growth and greater efficiency in revenue collection.

3.13. NT explained that the in-year adjustment to non-interest spending included a net addition of R59.4 billion to the main budget consisting of R77.3 billion in spending increases, partially offset by projected underspending, drawdowns on the contingency reserve and provisional allocations announced in the 2021 Budget. It said that the 2021/22 fiscal framework include R3 billion in the contingency reserve for additional vaccine purchases, and R11 billion as a provisional allocation to SASRIA for risk coverage in the wake of the outbreak of public violence in July.

3.14. NT said that the higher-than-expected revenue collection has enabled government to respond to the COVID19 pandemic and other social needs with a fiscal package of R37.9 billion in 2021/22. It said that the spending measures include the reintroduction of the temporary R350 social relief of distress grant until the end of 2021/22, with broadened eligibility to include caregivers who receive the child support grant.

3.15. NT said that small businesses affected by COVID-19 restrictions and the July public violence would be given support amounting to R1.3 billion. Other additional funding totalling R950 million was allocated to the South African Police Service and the South African National Defence Force.

3.16. On the medium-term expenditure outlook, NT stated that government would maintain some support to the economy over the MTEF period, including through a small increase in non-interest spending compared with the 2021 Budget projections. It said that the total main budget non-interest expenditure is projected to increase by R31.9 billion in 2022/23 and by R29.6 billion in 2023/24. NT said that there will be an additional provisional allocation of R20.5 billion in 2022/23 for the wage bill adjustments. It also said that there will be higher estimated spending by the National Skills Fund and sector education and training authorities of R1.4 billion in 2022/23 and R1.6 billion in 2023/24, reflecting the projected rise in skills development levy collections. It said that a contingency reserve of R5 billion per year over the MTEF period has been allocated. It added that debt-service costs will continue rising over the medium term given the persistent main budget deficit, weaker currency and higher interest rates.

3.17. On national government gross borrowing requirements and financing, NT stated that Government will continue with its bond switch programme to reduce the redemptions due and manage refinancing risks. It said that US$5.3 billion will be raised from international financial institutions and foreign capital markets to finance foreign currency commitments in 2021/22, and R112.2 billion of government’s cash balances will be used to finance the gross borrowing requirement in 2021/22.

3.18. NT said that the gross loan debt will stabilise at 78.1 per cent of GDP in 2025/26 compared to the 2021 Budget estimate of 80.5 per cent of GDP. It said that this is due to a narrowing budget deficit which will be achieved by controlling non-interest expenditure growth. It stated that rising debt-service costs, estimated at R1 trillion over the MTEF, are crowding-out spending on service delivery functions, highlighting the impact of South Africa’s rising debt stock on basic services. It said that learning and culture remained the largest expenditure priorities, confirming governments commitment to skills development. It added that spending on the health function will contract due to the base effect of the COVID-19 interventions included in 2020/21

3.19. Lastly NT explained that there are significant risks to the medium-term fiscal framework. These were: a slowdown in global and domestic economic growth; the evolution of COVID-19 and slow progress in vaccine rollout; the slow implementation of structural reforms, further credit rating downgrades due to spending pressures; materialisation of contingent liabilities; the pressure on the government wage bill ceiling which could undermine fiscal consolidation measures. NT stated that the fiscal framework does not include any additional support to state-owned companies, but the poor financial condition and operational performance of several of these companies remained a large contingent risk. It said that several entities may request further bailouts.

## 4. OVERVIEW OF THE 2021 REVISED AND PROPOSED FISCAL FRAMEWORK

4.1. Table 1 below shows an estimated GDP growth rate of 5.1 per cent (up from 3.3 per cent projected in the 2021 Budget in February) in 2021, following a 6.4 per cent contraction in 2020. This growth is said to be driven by global demand, higher commodity prices and the easing of COVID-19 restrictions. NT expects real GDP growth of 1.8 per cent in 2022 and 1.7 per cent in 2024, following public violence in July 2021, port and rail disruptions and the third wave of COVID-19 infections. Over the medium term, GDP growth will be supported by the benefits of economic and fiscal policy balance, implementation of reforms and debt stabilisation.

4.2. Risks to the medium term economic outlook include structural constraints in the domestic economy, inadequate electricity supply, pandemic-induced job losses, global factors and changes in commodity prices, policy uncertainty, slow implementation of structural reforms, a further deterioration in the public finances due to additional spending pressures and possible future waves of COVID-19 infections.

**Table 1: Macroeconomic performance and projections**

| **Real percentage growth** | **2020** | **2021** | **2022** | **2023** | **2024** |
|---|---|---|---|---|---|
| | **Actual** | **Estimate** | **Forecast** | | |
| Household consumption | -6.5 | 5.7 | 2.0 | 1.9 | 1.9 |
| Gross fixed-capital formation | -14.9 | 1.2 | 3.1 | 3.4 | 3.5 |
| **Real GDP growth** | **-6.4** | **5.1** | **1.8** | **1.6** | **1.7** |
| CPI inflation | 3.3 | 4.5 | 4.2 | 4.3 | 4.5 |
| Current account balance (% of GDP) | 2.0 | 3.8 | 0.4 | -1.5 | -1.7 |

Source: National Treasury

4.3. CPI Inflation is expected to remain within the set target range of 3-6 per cent over the medium term. The South African Reserve Bank (SARB) has started tightening monetary policy, increasing the repurchase rate by 25 basis points to 3.75 per cent, in November 2021, pushing the prime lending rate to 7.25 per cent.

4.4. The 2021 second Quarter Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons decreased by 54 000 to 14,9 million, while the number of unemployed persons increased by 584 000 to 7.8 million. The rate of unemployment measured 34.4 per cent. NT reported that the fiscal relief package announced in response to COVID-19 and the presidential employment initiative have helped to offset job losses. It however stressed that, sustainable reductions in unemployment will require the effective implementation of the economic recovery plan to crowd in investment and support job creation by the private sector.

4.5. Table 2 below shows that the consolidated revenue is expected to increase to R1.6 trillion in 2021/22 and reach R1.9 trillion in 2024/25. The South African Revenue Service (SARS) collected more revenue in the current year compared to the 2021 Budget due to faster economic growth.

4.6. Consolidated expenditure as a percentage of GDP is expected to decrease from 34.5 per cent (R2.1 trillion) in 2021/22 to 31.5 per cent (R2.24 trillion) in 2024/25. The social wage accounts for nearly 60 per cent of consolidated non-interest spending over the MTEF period. The bulk of this spending is allocated for healthcare, education and social protection.

4.7. Total gross loan debt is expected to increase from R3.9 trillion, or 70.7 per cent of GDP in 2020/21 to R5.5 trillion, or 77.8 per cent of GDP, by 2024/25. NT now expects the revised fiscal framework to stabilise debt at 78.1 per cent of GDP in 2025/26, compared to 80.5 per cent projected in the 2021 Budget. This is due to a narrowing budget deficit which will be achieved by controlling non-interest expenditure growth. Debt-service costs remain the fastest growing spending item.

**Table 2: Consolidated revised fiscal framework**

| R billion/percentage of GDP | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| | Outcome | Revised | Medium-term estimates | | |
| **Revenue** | **1 414.1** | **1 648.8** | **1 695.7** | **1 772.7** | **1 890.9** |
| | *25.4%* | *26.7%* | *26.7%* | *26.5%* | *26.6%* |
| **Expenditure** | **1 971.8** | **2 128.5** | **2 075.0** | **2 126.3** | **2 239.8** |
| | *35.4%* | *34.5%* | *32.7%* | *31.7%* | *31.5%* |
| **Budget balance** | **-557.7** | **-479.7** | **-379.3** | **-353.6** | **-348.9** |
| | *-10.0%* | *-7.8%* | *-6.0%* | *-5.3%* | *-4.9%* |
| **Total gross loan debt** | **3 935.7** | **4 313.9** | **4 744.7** | **5 144.4** | **5 537.6** |
| | *70.7%* | *69.9%* | *74.7%* | *76.8%* | *77.8%* |

Source: National Treasury

4.8. Risks to the fiscal outlook include a slowdown in economic growth, a reversal of the commodity cycle, the evolution of COVID-19 and slow progress in vaccine rollout, slow implementation of structural reforms, a further deterioration in the public finances due to various spending pressures such as pressures on the government wage bill ceiling and future wage negotiations.

## 5. SUBMISSIONS FROM STATUTORY INSTITUTIONS

### 5.1. THE FISCAL AND FINANCIAL COMMISSION

5.1.1. The FFC submitted that the gradual relaxation of COVID-19 economic restrictions, marks the beginning of the much-needed economic recovery in South Africa, enunciated by the 5.1% expected growth rate in 2021. It however warned that it was important to recognise the reality that the country's economic activity remains at the level last seen in 2017; nearly four years backwards. It urged that the structural reforms being implemented by Government must accompany the long walk to economic recovery to ensure sustainable and inclusive growth.

5.1.2. The Commission noted the reforms outlined in the MTBPS – focusing mainly on SOEs restructuring and encouraged other crucial dimensions of structural transformation through fiscal and public finance management for greater productivity and value within the public sector – not cost.

5.1.3. The FFC said that South Africa can and must seek to avoid withdrawing its fiscal support to vulnerable citizens and the domestic economy too early and still signal to the public that its debt levels are sustainable in the long run, by eliminating leakages and executing reprioritisations that are productive and constructive.

5.1.4. The FFC stated that with near-term improved economic growth prospects, total tax receipts are expected to improve from R1.365 trillion as tabled in the 2021 Budget to R1.485 trillion. It said that the country was already reaping the benefits of tax collection recovery used to finance the extension of the Social Relief of Distress Grant in the amount of R32 billion. It said that whereas growth in tax collection associated with this economic recovery is a welcome development, the government must continue to focus on improving tax compliance and narrowing the tax-to-GDP gap. It advised that closing the tax gap must be accompanied by stringent efforts to stem base erosion and profit shifting and broaden governance measures to improve tax efficiency. Incessant, unresolved corruption and widespread fiscal leakages have made the taxpayers and businesses despondent towards tax morality, the FFC observed.

5.1.5. The Commission agreed that the revenue windfall should not be fully committed to further expanding expenditures that have already grown far beyond our means of revenue.

Instead, the revenue windfall should be used to defray as much as possible the structural budget deficit and offload the growing debt-service costs with redemption requirements.

5.1.6. The FFC said that national debt and State-Owned Enterprises (SOEs) remained a glaring binding constraints to growth and risks to fiscal sustainability. It said that debt-service costs were the fastest growing expenditure line item with a 10% annual average growth rate over the 2022 MTEF and accounted for 12% of total consolidated total spending in 2021, rising to 16% in 2024/25. It explained that the detrimental effect of debt-service costs crowding-out social programmes could lead to the total collapse of basic and social services as funds intended for core spending are diverted to servicing debt. The Commission acknowledged the difficulties in moderating debt growth within a subdued economic environment, but recommended improvements in cost-efficiencies of spending and the closing of fiscal leakages to offset the growing deficit and debt.

5.1.7. The Commission welcomed the R500 billion MTEF allocation to the government infrastructure investment, but noted that government has a poor track record of impacts and outcomes. It said that many of the funded infrastructure projects are characterised by cost overruns, wasteful contracting, maladministration, malicious compliance and noncompliance, completion delays and poor workmanship.

5.1.8. The Commission further welcomed the R59 billion upward adjustment effected to the 2021 budget made possible by the windfall tax collection in the mining sector. The Commission agrees that the revenue increase should not be committed to spending automatically, thereby distracting the need to stay within the path of fiscal sustainability by eliminating leakages and executing reprioritisations that are productive and constructive.

5.1.9. When it comes to provincial and local government allocations, the Commission notes the R20 billion upward adjustment made to the provincial equitable share the projected negative growth rate in local government allocations over the 2022 MTEF. While expenditure moderation is necessary for public finances and debt stabilisation, the executive must keep Parliament updated on its impact on access to and quality of basic services. The Commission reiterates its stance on the need for the executive to report timeously on how social services are affected by slow budget growth and historical budget cuts.

5.1.10. The FFC said that SOEs continue to pose a serious risk to fiscal sustainability. It noted that the equity injection/ recapitalisation of R3 billion to Denel in the 2021 MTBPS and the nearly exhausted drawdowns on Eskom's credit guarantee facility. It observed that SOE recapitalisation continued despite the government's commitment to end the fruitless bailouts. It said that it the difficult position under which the government finds itself concerning SOEs, but bailouts undermine the fiscal integrity of the budget and exacerbates sovereign credit risks for the country. There is a need to find a lasting solution to the SOE governance and performance crises by dealing with the underlying accountability failures, capacity inadequacies, and corruption.

5.2. PARLIAMENTARY BUDGET OFFICE

5.2.1. The PBO provided the Committees with an analysis of the MTBPS and the underlying socio-economic conditions. It said that the Covid-19 pandemic continues and its health, social and economic effects will continue to unfold over the medium term. It said that according to Minister of Heath, South Africa will be hit by a fourth wave during the 2021 festive season. It explained that this creates even more uncertainty with regard to the forecasts in the 2021 MTBPS. At the same time, there remains a global consensus that public sector action in the form of fiscal and monetary stimulus remains vital to avert further economic collapse, it said. It critiqued the 2021 MTBPS for proposing to impose tough fiscal consolidation, including lowering of social expenditure (Heath, Basic Education and Social Protection) in real terms over the medium term.

5.2.2. It said that the efficiency, effectiveness and performance of government’s key plans have been poor and targets are unlikely to be met. It observed that the supply-side structural reforms are unlikely to have an impact adequate to enhance growth in the medium term and have to be complemented by measures to stimulate demand in the economy. It said that as in previous years, it is concerned about the credibility of the fiscal framework.

5.2.3. The PBO stated that revenue collection so far for 2021 has been better than expected and has improved the fiscal framework but this revenue increase is not expected to continue. It said that the question of where relief and recovery for the poorest households and businesses will come from is an important question that the 2021 MTBPS leaves unanswered.

5.2.4. The PBO told members that the bi-annual MTSF report (compiled by the Department of Planning Monitoring and Evaluation (DPME)) at the end of March 2021 provided an assessment of government's progress in several key policy areas. It said that this report found that skills and experience remain serious concerns in the public service. It said the report further found that the country continues to lag behind in the development of education and skills. For example, with regard to mathematics and physical science where the quality of education is assessed by the number of learners who achieved more than 60 per cent, only 13.2 per cent and 15.3 per cent was achieved in 2020, the PBO said. It added that research has shown that it may take a number of years to recover from the resultant loss of learning due to Covid-19. The PBO said that if the country chooses not to do anything drastic, recovery will be achieved only in 2032.

5.2.5. With regards to health, the PBO said that the child under-5 severe acute malnutrition case fatality rate was 7.1 per cent for the period of October 2020 to March 2021, while the MTSF target is to achieve less than 5 per cent by 2024. It said that the MTSF bi-annual report further said that only about 10 per cent of land has been transferred to black owners since 1994, as programmes of restitution and redistribution and policies to improve security and fairness of tenure have floundered due to lack of funds and high levels of corruption and inefficiencies.

5.2.6. The PBO said that the Department of Human Settlements' Housing Needs database showed that over 1.7 million households are located in informal settlements and the slow pace of upgrading of these settlements is prolonging the harsh living conditions experienced by these communities and entrenching their vulnerability. The PBO submitted that the MTEF spending priorities in the 2021 MTBPS had to take into account these developmental challenges, as they will further delay the achievement of the MTSF Priorities.

5.2.7. The PBO explained to members that the medium to long-term policy priorities, including proposals for post-Covid-19 recovery includes the NDP, vision 2030, the seven priorities of the 2019-2024 Medium Term Strategic Framework (MTSF), the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP). It explained that the District Development Model (DDM) aims to build capacity for improving planning, budgeting, monitoring and evaluation over a longer period. It said that an analysis of progress made with the implementation of these plans shows that in most instances government is unlikely to achieve most of the targets that have been set. Government's actions to address the slow implementation have mainly been the reprioritisation of budgets in the short term, the PBO said, adding that reprioritising budgets has not yielded the required results, therefore government may have to reconsider its adopted approach.

5.2.8. It said that the general findings from spending reviews conducted in 2020/21 suggested the need to improve the design to ensure the development of policies that are affordable in the current context, and avoid overlapping mandates.

5.2.9. The PBO stated that the 2021 MTBPS proposes to refund departments for compensation of employees (COE) budgets that were reprioritised in 2021 by allocating funds provided for infrastructure, part of the contingency reserve and other provisional allocations and to import skills, while cutting overall personnel numbers. The PBO argued that the approach in the 2021 MTBPS means that the government will continue to only focus on COE for cost containment, while health services and the provision of education and protection services are under pressure in terms of personnel. The PBO further took concern that the MTBPS will continue with the Presidential employment initiative, which is a duplication of other employment initiatives.

5.2.10. The PBO explained that according to the MTBPS allocation to pay for financial assets (SOE support) will be reduced, however, an unallocated reserve of R73.2 billion is provided for over the MTEF in addition to the contingency reserve. It also mentions growing the community development function by an average of 5.5 per cent over the MTEF, while this function is not performing and shows historic underspending, the PBO added. It also critiqued the continuing increased funding for conditional grants, which it said are administered poorly and are not performing.

5.2.11. Other issues raised by the PBO were that the 2021 MTBPS does not address the bigger picture with regard to stability in South Africa and the risks to the economy and public finances as a result of this instability. It said that the MTBPS is focused on a too narrowly defined approach to fiscal stability, and the unlikely outcome that it could support business confidence. It told members that other very important risks to the MTBPS were left out, such as the possible recurrence of the type of damage incurred by the July 2021 social unrest.

5.2.12. The PBO said it remains concerned that 2021 MTBPS lacks evidence – or a commitment – to show that such a narrow focus on supply-side structural reforms will not further exacerbate the severe structural problems of the economy. We worry that mere structural reforms are being proposed where policies and actions are required to affect large-scale changes to the structure of the economy.

## 6. PUBLIC STAKEHOLDER SUBMISSIONS

6.1. CONGRESS OF SOUTH AFRICAN TRADE UNIONS

6.1.1. COSATU stated that South Africa's economy is in its deepest recession in 100 years, with unemployment that has exceeded 44%, many key SOEs collapsing, the fiscus losing billions of Rands to corruption, wasteful expenditure and tax evasion, and local government that is marked by dysfunctionality and the deterioration of basic services. Cosatu said that there was little in the MTBPS that speaks to how these crises will be overcome. It described the MTBPS as largely a timid response to some of the most difficult challenges facing South Africa in decades.

6.1.2. Cosatu said that the thrust of the MTBPS was that paying nurses and teachers less will somehow resolve all other problems. It warned that this approach has been tried and failed repeatedly and may weaken the state whilst suffocating the economy. Cosatu said it had hoped that the MTBPS would deal with the fundamental crises facing workers, the economy and the state.

6.1.3. Whilst being disappointed with the overall thrust of the MTBPS, Cosatu stated that it is pleased that the MTBPS responded to several of COSATU's key expectations which included: acknowledging the need to respect collective bargaining and engage organised labour on matters affecting workers; doubling the Presidential Employment Stimulus Programme to R74 billion; the release in November- policy proposals to allow distressed workers limited access to their pension funds and table a Bill to effect this in the 2022 Budget; the allocation of R500 billion in the MTEF and R100 billion over the 10 years for infrastructure; the pending amendment of Regulation 28 of the Pension Funds Act to allow pension funds to invest in infrastructure; the boosting of SARS' capacity which has yielded higher tax returns; the employment of an additional 18 000 health workers; and the commitment by the Ministry of Finance to table the Public Procurement Bill shortly at Nedlac.

6.1.4. Cosatu stated that it hopes that Government will table a bold Budget in February that will: include a bold stimulus plan to inject badly needed capital into the economy, stimulate growth, boost local procurement, save and create jobs; expand the Presidential Employment Stimulus Programme; capacitate the UIF to ensure workers receive payments timeously; retain the R350 Covid-19 Special Relief of Distress grant and raise it to the food poverty line; respect collective bargaining and protect public servants' wages from inflation; slash the exorbitant packages paid to politicians and executive management; provide relief and support to struggling businesses and economic sectors; capacitate SARS to tackle tax and customs evasion; increase taxes for the wealthy: income, inheritance, estate and luxury imports; capacitate the National Prosecuting Authority, the South African Police Service and the Courts to prioritise corruption cases; strengthen the ban on politically exposed persons and their dependents from doing business with the state; establish a single public procurement system to reduce corruption, wasteful expenditure, effect savings and support local manufacturing; accelerate support for Eskom and bring on board additional generation; include plans to rebuild Transnet, PRASA, Post Office, SABC and DENEL; produce clear plans to rebuild dysfunctional municipalities and basic services; ensure the reversal of debilitating budget cuts to key service delivery and economic investment departments, e.g. the CCMA, Health and Basic Education; and reverse head count decline in frontline posts, e.g. SAPS and teachers.

6.2. SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

6.2.1. SAICA raised concern that although the correct challenges are being identified and acknowledged as regards to fiscal policy and design, interventions are either based on broad assumptions (e.g. government will cut expenditure, wage bill won't increase or economy will grow) or a pervasive lack of accountability enforcement. It said that those empowered with the duty of oversight such as National Treasury and Parliament seem to either underestimate or not enforce the powers they have in ensuring effective oversight.

6.2.2. SAICA warned that foreign and local stakeholders, including investors and the public, can only make and implement decisions to support the policies of government where they are confident that government is able and politically willing to implement what it says it will and hold those accountable for implementation.

6.2.3. SAICA said that the main budget expenditure ceiling provides an upper limit within which departments prepare their budgets, yet these ceilings are consistently not adhered to. SAICA submitted that while Government cannot control revenue, it can control expenditure. It said that when the country finds itself under revenue and debt pressures and it sets goals to improve such metrics, it should adhere to them to instil public and investor confidence.

6.2.4. SAICA stated that there seems to be little deep understanding or consensus as to why the public service wage has continued so quickly to crowd-out other spending or even if it is an overall cost problem, pointing out at the recent public-service wage agreement breaching the budget ceiling for compensation of employees by R20.5 billion and the head count of government employees being up 0.7% from a year earlier. SAICA urged Government to ensure that wage negotiations are within the budget framework.

6.2.5. SAICA stated that the debt redemptions (which will almost triple over the next three years: R65 billion in 2022 to R155 billion in 2023), should be elaborated upon, other than stating that they will be done by "reducing non-interest expenditure". It submitted that debt reduction will only occur if budget surpluses are realised. It stressed the importance Government's commitment to fiscal sustainability through reducing expenditure.

6.2.6. SAICA submitted that the Presidency should be annually reporting on Ministers' progress in implementing performance contracts and consequence management taken against those who are not performing. Similarly, mayors and councillors should be held to account as should the executive leadership and SOE executives, it said.

6.2.7. SAICA raised concerns about the R9 billion deficit in the budget of SARS over the next three years. It submitted that due to the importance of SARS to the success of the budget outcomes, priority should be given to providing it with the funds that it requires to function optimally.

6.2.8. SAICA noted that by 2023/24, contingent liabilities are expected to exceed R1 trillion. It said that with no mention of any reforms regarding the SOEs, it was highly unlikely that the risks to the fiscus as a result of SOEs will not realise.

6.2.9. Finally, SAICA submitted that the lack of accountability for mismanagement of public funds is the single biggest problem in government. It said that Parliament needs to respond to the ineffective and inefficient spending by government in a far more decisive and sustainable manner by using its oversight powers to ensure, among others, that local municipalities do not fail and that all other government departments fulfil their respective obligations.

6.3. SOUTH AFRICAN BREWERIES

6.3.1. SAB commended the Minster in his maiden MTBPS for emphasising the seriousness of South Africa's long-standing macroeconomic issues of poverty and unemployment and the prioritisation of the national budget to dealing with these issues in a substantial manner. It also commended the Minster for acknowledging that business remains constrained by persistent obstacles such as electricity shortages, inadequate broadband spectrum and red tape. It said that the lack of progress in implementing reforms, including increasing the competition in electricity supply has constrained business growth.

6.3.2. SAB submitted that the nature and shape of excise taxes have been muddied with uncertainty since South Africa's revised alcohol excise tax regime was announced in 2002. It decried the consistent increases of excise duty above inflation and outside of the current excise policy principles. It said that every year on Budget Day, the alcoholic beverages industry always holds its breath for the upward annual excise adjustments. It said that every year, excise duties are increased by more than the inflation rate. SAB warned and submitted that these increases stimulate the growth of the illicit alcohol market, while stifling the legal market.

6.3.3. SAB pointed out that in February 2021, for instance, the excise tax increase of 8%, was almost double that of inflation at 4.2%. It said that there is something not right in this approach and it needs to be urgently addressed and resolved. SAB submitted that the entire economy has suffered, and the beer industry has been particularly hard hit. It said that the beer industry has not received specific economic and tax relief from the government in order to continue to sustain its businesses throughout the length of the pandemic.

6.3.4. SAB urged the National Treasury to grant, in the medium term, a below or no inflation increase in excise duty in order to allow for its sector to recover and also as a means of tackling the growing illicit market that was further exacerbated by the alcohol bans during the lockdown.

6.3.5. SAB further noted that the tax base for increases in specific excise duties has changed from consumer price inflation (CPI) to the growth in household consumption. It said that this may decrease the ability of the alcohol industry to plan excise costs as household consumption growth is far more volatile and also forecasts are not easily available to the industry, unlike CPI. It added that household consumption has tended to grow faster than CPI, which would create greater cost pressures for the beer industry.

6.4. ORGANISATION UNDOING TAX ABUSE

6.4.1. OUTA said that the government continues with guarantees for failures like SAA, despite it being incompetent. It pointed out that productivity is low due to unqualified people in positions of authority. It said that digital platforms are costly and ineffective. It submitted that nothing new in the MTBPS stands out to attract investment or build confidence. It also said that the increased government spending primarily goes to the public sector wages. It submitted further that long-term trade-offs were needed for Budget 2022 to change the country trajectory.

6.4.2. On local government, OUTA submitted that extreme measures were required to contain the collapse of municipalities. It said that many rural municipalities are intermittently without water and / or electricity, not including load shedding. It said that a lack of universal access to water & sanitation is fast becoming a threat to the country's fragile socioeconomic stability. It said that 23 municipalities (full or partial default) are not honouring Eskom debt agreements. It said that SCOPA had intervened intensively because provincial COGTAs and Treasuries failed to effectively implement Section 139 of the Constitution. It added that at local government level, R3.47bn in fruitless & wasteful expenditure was incureed in the 2019/20 financial year.

6.4.3. On SOEs, it said that there is R787 billion worth of SOE debt guaranteed by government; R73.4 billion in SOE loans maturing in the next 3 years (Eskom, SAA, RAF, SANRAL, Denel). It pointed that guarantees with conditions for SOEs with 'strategic importance' constitute a fiscal liability like any ordinary bailout – especially since these SOEs are failing.

OUTA said that it welcomed moves to allow more private investment to productively use public infrastructure e.g., Transnet owned railways & Eskom owned transmission lines.

6.4.4. On SANRAL and e-tolls, OUTA said that only 15% of motorists pay e-Tolls, yet government is holding onto this failure. It said that there was R9.7 billion in unpaid e-Tolls accrued over time. It said that according to its calculation, since 2011/12 R23 billion has been dedicated to SANRAL to provide for the Gauteng Freeway Improvement Project (GFIP) costs and debt that escalated over time. This, it said, is enough to have paid for the entire project budget. OUTA said that there is a lack of transparency in how this scheme is being reactively financed

6.4.5. On the wage bill, OUTA questioned Government's priorities given the 1.5% increase for 2021 that equates to R20.5bn this year and the same amount to be subtracted from infrastructure next year. OUTA submitted that capital expenditure must be prioritised over current expenses in order to secure returns. It said that remuneration should be determined as a function of performance outcomes and public satisfaction with associated service delivery – not NEDLAC negotiations. OUTA said it believed that many senior officials in government departments and the SOEs get astronomical salaries, and questioned how this can be rationalised in the current socioeconomic situation.

6.4.6. On debt and the deficit, OUTA noted that debt servicing costs will become the largest portion of spending from 2022 and become R365.8 billion n in 2024/25. It said that the temporary windfall in tax revenues has helped Government provide social support without further eroding the fiscal position, but this will not be possible in the future unless tax abuse and evasion drastically decrease, and tax revenue increases without increased rates of taxation on productive economic activity. It that curbing base erosion, as in illicit financial flows, will take more than SARS modernising its processes and upskilling its audits. OUTA submitted that sound fiscal policy must be felt at grassroots level and that the financial management legislation must be applied more aggressively, e.g., blacklisting in order to achieve this.

6.4.7. OUTA made the following recommendations:

6.4.7.1. Debt and Deficit: Reforms should focus on improving competitiveness, productivity, investment and employment; however, they see insufficient movement in that direction.

6.4.7.2. Local government: Municipalities showing examples of best practice, including consistently producing clean audit outcomes, should be used as existing examples.

6.4.7.3. SOEs: All funding for SOEs should be transparent. De-regulation of Energy & Transport sectors is welcome and support a National Water Resources Infrastructure Agency, but also propose an Independent Water Regulator.

6.4.7.4. SANRAL and e-tolls: Cabinet should take a decision on the future of e-Tolls. Avoiding this major policy decision is not best practice, more debt accrues as a result.

6.4.7.5. Remuneration: Capital expenditure should be prioritized over increasing current expenditure such as public sector remuneration.

6.5. SMMEIC

6.5.1. SMMEIC comprises of 12 Business Associations representing more than 15 000 SMMEs. It said that as an association, it wants to assist in creating more sustainable SMMEs as this will assist to create more jobs, reduce unemployment, and expand the tax base of the country. SMMEIC emphasized the role that is played by SMMEs in the economy, advocating for their support through, among others, the budget that is allocated for SMME support and development. It also emphasized the need to reduce red tape, regulatory barriers, and inefficiencies caused by delays in accessing business permits and licenses.

6.5.2. It further emphasized the need to ensure access to affordable financing for SMMEs. It said that suretyship that looks past the registered entity, holding entrepreneurs liable for all debt for factors very often beyond their control is damaging to livelihoods and puts business owners' assets (house, car, furniture, etc.) at risk. It submitted in this regards that a new suretyship insurance or guarantee scheme funded by SMMEs is needed in order to solve this challenge. SMMEIC decried the manner in which the 2020 R200 billion guarantee scheme was handled, highlighting the requirement barriers and the risk averseness of the banks charged with disbursing it.

6.5.3. SMMEIC stated that the available budget allocated to support SMMEs can be better aligned for impact. It said that the Small Business Department should consider consulting business associations in budget planning, needs assessments and focus areas when drawing up plans that affect SMMEs. It also submitted that it should get a seat at NEDLAC to represent the voice of small businesses. SMMEIC further made comments on local economic development and municipalities.

6.6. HEALTHY LIVING ALLIANCE (HEALA)

6.6.1. HEALA told the Committee that South Africa is founded on fundamental human rights principles and guarantees of the progressive realisation of health for all South Africans. It said that twenty-five years into democracy, the COVID-19 pandemic and economic lockdown have exposed the state's lack of capacity to achieve these goals. It explained that the pandemic illustrated the far-reaching effects of an unhealthy population, demonstrating that health is not merely "the absence of disease" – it is a threat to South Africa's economic livelihood, national security, and future prosperity.

6.6.2. Heals stated that good health is essential for individuals to realise their full potential, and a healthy population is vital for economic growth. It urged the state to utilise the tools at its disposal to create a healthier food environment for all South Africans. It said that the health promotion levy is a proven public health strategy to reduce sugar consumption and contribute to a reduction in related- non-communicable diseases, such as diabetes, high blood pressure and obesity. It specifically urged the National Treasury to act with urgency and double the health promotion levy to 20% to save lives now and in the future.

6.6.3. It said that over the past 50 years, South Africans, like much of the world, have increasingly consumed ultra-processed foods and beverages, a trend in both urban and rural areas. It explained that multiple studies have shown that a regular sugary drinks habit can increase a person's risk of developing type 2 diabetes, heart disease, and other chronic non-communicable diseases. It added that globally, being obese has been shown to increase a person's risk of dying from COVID-19 by almost 50% and more than doubles the risk of being hospitalised. It said that in South Africa, COVID-19 found ideal conditions to wreak havoc: obesity is one of the top five risk factors for early death and disability, and obesity-related health conditions, such as heart disease and diabetes, are among the leading ten causes of death. It told members that a 2016 modelling study estimated that a health promotion levy of 20% would save 72 000 lives over the next two decades, predicting healthcare cost savings of R5 billion in healthcare costs over the same period.

6.6.4. HEALA explained that the levy has already incentivised beverage companies to reformulate their products to reduce the sugar content of the drinks they sell. Further, despite contrary claims, there is no evidence of a negative impact on employment in the sugar and beverage industries, HEALA contended. It said that most of the problems of cane-growers emanated before the HPL due to drought, cheap imports, high input costs, etc. It said that researchers are also learning that the levy may positively influence many in our communities to cut back on the number of sugary drinks they consume. Citing a study published in the journal Public Health Nutrition, HEALA said that the health promotion levy led to a 60% reduction in sugary beverage consumption among those surveyed in Soweto. It added that in Langa outside Cape Town, the University of the Western Cape researchers found that adults between 18 and 39 reduced their overall sugar intake by over a third after South Africa introduced the levy.

6.6.5. HEALA submitted that if NT had doubled the current health promotion levy to 20%, South Africa could have earned an estimated R4 to R5 billion in extra revenue. It said that this estimate is based on current consumption and 2.5 billion in revenue raised in 2019-2020. It added that NT itself proposed a levy of 20% on sugary drinks two years before the country introduced the health promotion levy. It said that NT's failure to enact its original proposal of 20% has cost South Africa billions in the short term, but the long-term costs are far more significant. The human rights principles enshrined in the South African Constitution give the state the power to protect and improve South Africans' health. HEALA called on NT to double the health promotion levy to the original proposed 20%.

6.7. AMANDLA.MOBI

6.7.1. Amandla.mobi stated that it represented over 500 000 members who were primarily low-income black women who have signed its campaign demanding that government increases the Child Support and pensioners' grant.

6.7.2. It said that its submission presented the demands and voices of those who the budget will most impact, the millions and millions of people struggling to put food on the table, the majority of whom are Black women from low-income backgrounds. It said that this constituency also faces the greatest barriers to engaging with Government and Parliament.

6.7.3. Amandla.mobi stated that the majority of people are not informed nor can they participate in National Treasury's public consultation for the budget speech each year, as it requires internet access and an email. There was also a lack of transparency as to how public comments influence the budget, it said. It submitted that Parliament is unfortunately not much better, even when some of the poor are able to participate in the public hearings.

6.7.4. Amandla.mobi stated that since October 2018, the Pietermaritzburg Pensioners Forum has participated in the joint finance committee's public hearings, either in person or through video messages. It decried the fact that to this day, they did not feel as though their demands have been addressed. It also stated that the former Finance Minister had committed to a meeting with the Pietermaritzburg Pensioners Forum, but failed to meet with them despite them travelling all the way to his offices in Tshwane.

6.7.5. Amandla.mobi welcomed the Finance Minister's pronouncements that "Once again, our people responded to the Freedom Charter's clarion call that; The People shall govern" in his MTBPS speech. It however pointed out that this pronouncement was contradicted by the National Treasury and the Minister's actions of ignoring the voices of the people. It said that within days of being appointed, the Minister stated that he was against the basic income grant. Amandla.mobi further stated that in recent weeks, it has emerged that National Treasury has been secretly trying to push through a plan to scrap the R350 grant and derail basic income support, and put in their place a 'Family Poverty Grant' which would exclude millions.

6.7.6. Amandla.mobi said that nearly 1000 people submitted messages to the Minister before the MTBPS. It said that the majority of these messages reinforced the following demands, which were also outlined in its written and oral submissions to the finance committees- that:

6.7.6.1. The R350 SRD grant would have to be increased and kept until it is turned into a permanent Basic Income Support valued at least at the Upper-bound Poverty Line, which is currently R1335 per person, per month, for people aged 18 to 59 with little to no income;

6.7.6.2. Significant increases be made to other social grants, such as increasing the Child Support Grant to R950 per child and expanding to include pregnant mothers, increasing the Old Age Grant to R2500, and increasing all other grants by at least R300;

6.7.6.3. Cuts to social spending be reversed and public institutions such as the CCMA, NPA etc. be properly funded;

6.7.6.4. The rich would have to be taxed more by introducing a wealth tax and increasing PIT for those earning over R1 million annually;

6.7.6.5. Taxes rates on sugary drinks, tobacco, alcohol and carbon taxes be increased;

6.7.6.6. National Treasury must make sure that the majority of people are aware of and can access channels to participate in budget public consultations. At the very least, by January 2022, National Treasury should provide a cell phone number for public comments by Please Call Me, SMS and WhatsApp, as calling a landline is expensive, and public comments through Treasury's website require internet access and an email.

6.7.7. Lastly, Amandla.mobi urged the finance committees to hold National Treasury to account and answer why they have not met with the Pietermaritzburg Pensioners Forum, and what they will do to make public participation in budgets accessible for the majority of people.

6.8. MR PETER MEAKIN

6.8.1. Mr Meakin stated that all of the last 13 MTBPS's have made excuses about prevailing economic difficulties, about brilliant new plans to improve things and about borrowings, repayments, inflation and so on. He observed however, that every year things have gotten worse.

6.8.2. He said that he had scrutinised what successful countries such as Hong Kong and Singapore were doing right. According to him, their policies are resolute in making things much cheaper than anywhere else through tax reductions. He said that in doing so, Hong Kong and Singapore's sum of all tax rate percentages are 32% and 46%, respectively, compared with South Africa's 88%.

6.8.3. He said that according to the IMF, Singapore rose from 10th to 3rd wealthiest ($98512) in terms of GDP per capita between 1994 and 2020 and Hong Kong, from 18th to 12th ($59656). In comparison, he said, South Africa fell from 68th to 93rd ($13 289). He pointed out that neither Singapore nor Hong Kong have any agriculture or mining sectors, that South Africa has.

6.8.4. He stated that he wrote to Minister Godongwana about how to turn his tentative Basic Income Grant (BIG) into a full time secure and independent workplace for 11 million unemployed market gardeners. He said that this is a new-style BIG in the form of agricultural villages; a Bigger Income Garden and resemble retirement villages but are overseen by farmers "with skin in the game", not carers. He said that working a forty-hour week, each unemployed person can earn ±R8000pm in growing for 25 families on 1000sqm allotments.

6.8.5. He reiterated his call for the replacement of hard-earned income taxes and VAT on wages, salaries, interest, profits, dividends, rents, capital gains, pension and consumption with land rents, rates and taxes type user-charge, excluding improvements.

6.8.6. Mr. Meakin submitted that changes to land taxes can be a big bang event, urging that in the 2022/23 budget, an announcement be made that on 1st April 2023, all income tax payments will cease and ratepayers will instead pay a standard multiple of their municipal rates and taxes invoices to match the 2023/24 budget.

## 7. RESPONSES TO PUBLIC SUBMISSIONS BY THE NATIONAL TREASURY

7.1. NT noted that public comments were on:

7.1.1. Economic growth and reforms: (DIFFERING VIEWS)- Higher economic growth in 2021/22 will be temporary as pre-existing structural economic constraints remain salient. Government expenditure as a share of GDP has increased in the previous decade; however, economic growth has slowly trended downwards. This implies structural bottlenecks remain a drag on economic growth. The MTBPS provided a few new ideas or interventions to grow an economy: no new allocations were provided to stimulate a stagnant economy. Massive stimulus package is needed that would help battered businesses, save and create jobs and thus increase state revenues to reduce the debt trajectory to a sustainable level.

7.1.2. Revenue and tax proposals: future tax policy should focus on widening tax bases rather than increasing tax rates. Priority should be given to providing SARS with the funds that require it to function optimally.

7.1.3. Expenditure: credibility of the expenditure ceiling; increase social grant spending; prioritise spending towards infrastructure and the provision of essential basic services.

7.1.4. Fiscal policy: 2021 MTBPS does not address how the poorest households and businesses will be supported and provided relief; credibility of the fiscal framework, as fiscal policy has been generally characterized by slippage; short-term reprioritization would hinder the implementation of government's medium to long-term policy priorities; fiscal consolidation has resulted in real per capita reductions and a suboptimal composition of expenditure.

7.1.5. Other matters: expedited action to restructure SOEs is required, as they remain long-standing due to their burden on the fiscus; focusing solely on reducing expenditure to ensure debt sustainability is insufficient, a growth-led strategy should rather be followed.

7.2. On economic growth and reforms, NT responded that more debt funded spending does not necessarily result in more growth. It stated that since 2008/09 government expenditure as share of GDP has increased, although growth slowed significantly over the same period. It said that debt rose, and the increasing debt service costs have crowded-out other forms of public expenditure including infrastructure and social spending.

7.3. NT emphasised that policy uncertainty and high levels of public debt deter private investment, employment and growth. It said that structural constraints (e.g. lack of electricity) severely inhibit the ability of additional government spending to have a positive impact on growth. It added that low potential growth limits the scope for stimulus, stating that potential growth has remained below 2 per cent since 2013 (it has fallen below 1 per cent over the past 3 years). Is said that this suggests that it is unlikely that additional spending will stimulate growth without increasing inflation in the prevailing environment of low trend growth and high debt levels.

7.4. NT argued that higher spending is likely to lead to higher debt-service costs and higher inflation and overall interest rates in an environment of low trend growth. It said that a significant proportion of the fiscal framework is dedicated to the social wage. The composition and efficiency of government spending are critical to seeing improved growth outcomes, it said.

7.5. NT emphasised the need for the implementation of structural reforms for growth to take place. It stated that the country's structural weaknesses such as unreliable electricity supply, high levels of concentration, excessive red tape, and high cost of doing business limit the rate at which the economy can grow and create jobs. It reiterated that Government was making progress on its structural reform agenda and this would make a big difference in both the short and longer term. It said that in the short term, the credibility gains can be reflected in a lower risk premium and reduced borrowing costs, which frees up fiscal space. In the medium term, through improved confidence and investment leading to improved growth and improved debt trajectory and, in the longer term- through a permanently higher growth trajectory (higher potential GDP).

7.6. On comments made on tax issues, NT clarified that the MTBPS does not include announcements on tax policy, as these are reserved for the Budget in February each year. It said that as with many tax policy issues, there are conflicting submissions, but these proposals will all be considered for the 2022 Budget. Is said that in terms of excise duties on alcohol, government has recognised that the excise burdens for wine, beer and spirits are above the policy guidelines of 11, 23 and 36 per cent and the Minister has announced a review of both the alcohol and tobacco excise duty regimes. It said that Government aims to publish discussion documents on these policy areas and then consult with industry and the public.

7.7. NT reminded the Committee that the 2021 Budget stated that there was "no compelling case to increase [personal income] tax rates at this time" and previous budgets highlighted the need to broaden the tax base. Also in the 2021 Budget, additional funds were allocated to SARS to bolster their capacity to reduce tax evasion and improve compliance, NT added. It said that announcements on changes to tax policy will be made in the 2022 Budget, highlighting that compared to other middle income countries, South Africa had the second highest tax-to-GDP rate, at 29 per cent, after Brazil (33 per cent).

7.8. NT stated that Government spending, excluding interest on debt, has grown sharply in real terms, primarily because of increases in public service compensation. It said that South Africa's fiscal multiplier is low due to several reasons, including spending patterns that have historically skewed towards consumption rather than investment. It noted that infrastructure investment multipliers tend to exceed consumption multipliers. It said that to promote growth, the share of capital expenditure of total spending is set to increase. These infrastructure projects will be financed, in part, through the Infrastructure Fund, NT said.

7.9. NT stated that South Africa's fiscal support package of R500 billion announced in 2020/21 was one of the largest among emerging and G20 countries. It explained that South Africa was the only sub-Saharan country that implemented a fiscal package with double figures (10%) of its GDP. It stated that emerging markets adopted fiscal support packages averaging approximately 6% of their GDPs, and African countries only averaged approximately 4% of GDP. The rest of the other sub-Saharan African countries adopted stimulus packages below 5%. NT noted further that these measures were over and above significant monetary policy support to the economy, including through a reduction in the repo rate by the SARB to a 50-year low. It further added that the fiscal support package was introduced despite the fact that the fiscal position was at its weakest in the democratic era.

7.10. On comments made on the credibility of fiscal framework and expenditure ceiling, NT responded that before the global financial crisis, GDP and fiscal metrics were at sustainable levels. However, after the crisis, fiscal policy on average was expansionary between 2009 and 2019, NT contended. It said that despite this, economic growth remained weak and fiscal imbalances widened. It added that this meant that SA was in a compromised fiscal position before the onset of the COVID pandemic with debt and debt service costs at unsustainable levels. It explained that debt-service costs now consumed R1 out of every R5 raised in taxes and are the fastest growing item of spending. It said that this was a direct result of accumulating more debt than the fiscus can carry. It further explained that the expenditure ceiling is breached over the MTEF given the support the economy needs (and can afford to provide) at this stage.

7.11. On social grants, NT assured stakeholders and the Committees that Government is sympathetic to the current pressures on grant beneficiaries. It said that nevertheless, over 46 per cent of the entire population currently receives social grants, representing an unusually high coverage for a developing country. It said that if job creation continues to be poor, the sustainability of the system and the overall fiscal position will become a serious concern. NT explained that the social wage represents 59.5 per cent of total non-interest expenditure, mainly driven by basic education, health and social protection (i.e. social grants).

7.12. It said that the budget provides R37.9 billion in direct in-year relief responding to the COVID-19 pandemic. This included the special COVID-19 social relief of distress grant, whose 9.5 million beneficiaries bring the number of social grant recipients to 27.8 million. NT explained that increasing grants beyond current levels would require tough decisions at the political level on how priorities should be readjusted in government. It further explained that the population is projected to increase from 60 million in 2021 to 71 million by 2040, resulting in a higher number of children and old people depending on child social grants, old age pension grants, basic education and health. It said that the increased spending required from government will place pressure on fiscal sustainability.

7.13. NT explained that additional spending of a permanent nature would require additional sources of funding, either through reprioritisation of existing expenditure allocations or increased taxes that would hurt the working class. It assured that Government is still researching possible new social support options once the special COVID-19 social relief of distress grant ends in March 2022. It said that given the significant financial implications, a final decision must still be made on what is affordable given the current fiscal context.

7.14. NT explained that it continues to expand the tools available for provinces and municipalities to improve spending and build operational and technical capacity. It said that in 2020, NT and the Government Technical Advisory Centre (GTAC) helped train provincial officials to conduct spending reviews to address inefficiency and poor financial management. In 2021, it said it will review provincial infrastructure sector funding policies and propose how grants, incentives and other funding can be best structured to coordinate planning and budgeting. It explained that this is intended to improve coordination between national, provincial and local government – including state entities – to strengthen accountability and service delivery. NT explained further that national government continues to support provinces and municipalities to deliver their mandates and imposes consequences where there is evidence that public finance laws have been violated.

7.15. NT explained that the Financial Action Task Force (FAFT) report identified significant weaknesses in the country's anti-money laundering and counter-financing of terrorism systems. It noted that many of these weaknesses developed between 2009 and 2018, coinciding with the period of 'state capture'. It said that the it will work with the Reserve Bank, the Financial Intelligence Centre and other departments to address the deficiencies identified within the 18-month timeframe established by the FAFT. It explained that as acknowledged in the report, South Africa is rebuilding the institutional integrity and capacity of key agencies weakened by 'state capture.'

7.16. It explained that additional spending allocation of R3 billion is provided to the South African Revenue Service (SARS) to modernise its technology infrastructure and systems, expand and improve the use of data analytics and artificial intelligence capabilities, and participate meaningfully in global tax compliance initiatives. It said that a digitalized SARS is intended to lower costs of compliance, simplify tax administration and improve collections.

7.17. NT noted and appreciated the submissions from stakeholders. It explained that the 2021 MTBPS strikes a difficult balance between providing immediate support for the economy and shoring up the country's public finances. It said that Government has long directed the majority of public spending to address the deeply entrenched poverty and unemployment. It further reiterated that the social wage – combined public spending on health, education, housing, social protection, employment programmes and local amenities – remains high by global standards, averaging almost 60 per cent of consolidated non-interest spending over the next three years.

7.18. NT acknowledged that since the 2021 Budget, South Africa has benefited from a surge in global demand for commodities. It said that higher commodity prices have temporarily increased economic growth and tax revenue. This windfall is welcome, but likely temporary, it said. NT explained that revenue remains well below pre-pandemic projections. It added that the consolidation presented in the MTBPS will be supported by structural reforms that unlock private-sector investment and job creation. Lastly, NT emphasised that restoring the health of public finances is also critical for ensuring that South Africa is able to weather the storms of a future crisis, adding that significant risks remain elevated for the economic and fiscal outlooks.

## 8. COMMITTEE OBSERVATIONS AND RECOMMENDATIONS ON THE 2020 REVISED AND PROPOSED FISCAL FRAMEWORK

8.1. The Committee acknowledges that the 2021 MTBPS was tabled under continued difficult socio-economic conditions of poverty, inequality and unemployment magnified by the COVID-19 pandemic.

**Social grants, social wage and fiscal relief package**

8.2. The Committee notes submissions from stakeholders that are calling for an increase in social grants. As stated in our previous fiscal framework reports, the Committee is empathetic to these calls. In its 2018 and 2019 revised and proposed fiscal framework reports, the Committee stated that it was pleased to receive representations and oral submissions from pensioners and other social grant recipients. The Committee continued to state that;

> "While the Committee is empathetic with their concerns, the MTBPS does not deal with actual increases in grants. This is done through the budget in February each year, so the doubling of the old age pension for December is not possible. We also note that 33 percent of the South African population in 2017 (about 17 million people) were social grants beneficiaries and more than 22 percent of South Africa's households receive grants as the primary source of income, and this is amongst the highest percentages globally. Moreover, in view of the low economic growth rate and the other very difficult economic circumstances, it would not be possible to do this or increase the pension to a living wage of R8000. However, the Committee recommends that in view of the VAT increase, constant increases in the cost of fuel and increases in the cost of living generally, National Treasury considers a higher increase in grants than is usually the case by reprioritising expenditure and not exacerbating the debt-to-GDP ratio, as increases in debt in these specific circumstances will ultimately affect the poor disproportionately the most".

8.3. When the Committee made these remarks, there was no Covid-19 and the calamity that it has brought about, exacerbating our socio-economic crisis of poverty and unemployment and our fiscal outlook. The fiscal situation has worsened in the past financial year with a debt-to-GDP ratio of 70.8 per cent (2020/21) as compared to 57.4 per cent then (2019/20) and 51.5 per cent in 2018/19. Equally, the socio-economic crisis of poverty, inequality and unemployment has also extremely deteriorated. The 2021 Labour Force Survey from Statistics South Africa shows that the numbers of employed persons decreased by 54 000 (2.2 million in Q2 of 2020) to 14,9 million, while the number of unemployed person increased by 584 000 to 7,8 million in the second quarter of 2021 – leading to the country's unemployment measuring at 34.4 per cent (44.4 per cent on the expanded unemployment definition).

8.4. It is on these bases that the Committee welcomes the extension of the special COVID-19 social relief of distress grant which now has about 9,5 million beneficiaries. Although temporary, this has brought the number of social grant beneficiaries in the country to 27.8 million or 46 per cent of the country's population. In the current year, an additional fiscal relief package amounting to R37.9 billion was announced in the 2021 MTBPS and includes R26,7 billion, which covers this extended grant and its administration.

8.5. The Committee agrees with NT that increasing grants beyond current levels would require tough decisions at political level on how priorities should be readjusted in government. The Committee believes that the issue of increasing social grants, as submitted by some stakeholders, needs to be escalated to Cabinet. The Committee welcomes that NT is already exploring possible new social support options for implementation when the special COVID-19 social relief of distress grant ends in March 2022. In the 2021 Fiscal Framework report of the Committee, we stated that "in view of the COVID-19 related job losses, increasing poverty and inequality, the NT and the government should seriously consider a basic income grant after the necessary consultations with the relevant stakeholders". The Committee expects to hear concrete announcements on this when the Minister delivers the 2022 Budget in February.

8.6. In addition to the latter, the Committee notes that the social wage – which is the combined public spending on health, education, housing, social protection, employment programmes and local amenities – is protected in the revised and proposed fiscal frameworks. The social wage constitutes 59.5 per cent (or R1.06 trillion) of non-interest spending over the next three years.

8.7. The Committee notes further that South Africa's fiscal support package of R500 billion introduced in 2020/21 is one of the largest among emerging and G20 countries, while South Africa's fiscal position was at its weakest in the democratic dispensation. As reported by NT, South Africa is the only sub-Saharan country that implemented a fiscal package with double-digit figures (10 per cent) of its GDP. Emerging markets adopted fiscal support packages averaging approximately 6 per cent of their GDP, and African countries only averaged approximately 4 per cent of their GDP. This was done over and above significant monetary policy support to the economy, which included several reductions in the repo rate by the South African Reserve Bank to a 50-year low.

**Risks to the fiscal framework and SOEs**

8.8. The Committee notes the significant risks to the economic outlook as identified in the 2021 MTBPS. These risks include: structural constraints in the domestic economy; inadequate electricity supply; pandemic-induced job losses; global factors and changes in commodity prices; slow implementation of structural reforms; a further deterioration in public finances due to additional spending pressures; and possible waves of COVID-19. The Committee agrees with sentiments from some stakeholders that these risks are real and some of them will likely materialise. The Committee further notes comments from some stakeholders that the risk statement in the 2021 MTBPS may be narrow, leaving out a number of other real risks such as the recurrence of social unrest and inadequate contingency reserves. The Committee recommends that NT takes note of these concerns and seek to broaden its risk identification and analysis so that adequate mitigation measures can be catered for in the fiscal framework.

8.9. The Committee notes the announcement by the Minister that the MTBPS made no additional funding to SOEs. It also welcomes the explanations given to the Committee that this does not mean that no support at all will be given to SOEs when warranted, given their importance to the economy. The Committee has always expressed itself that financial support to SOEs should be accompanied by clear turnaround plans, with conditions attached to any such support. The Committee believes that there are serious capacity and leadership constraints in some strategic SEOs. The Committee further believes that Parliament should receive reports on SOE reform plans given their downside risks on the fiscus. By NT's own assessment in its risk statement, the poor financial condition and operational performance of several SOEs remain a large contingent risk to the fiscus as several of them may request further bailouts. The Committee will confer with the Portfolio Committee on Public Enterprises on a joint briefing on SOE restructuring by the Department of Public Enterprises and National Treasury.

**Structural reforms**

8.10. The Committee notes the progress reported in the MTBPS on the implementation of structural reforms, particularly in energy, transport, tourism, infrastructure and telecommunication, as overseen by Operation Vulindlela.

8.11. The Committee welcomes the easing of licensing requirements in order to enable private producers to produce electricity (of up to 100MW) from renewable sources. While recognising that the progress being made in the implementation the REIPPP programme in the energy sector will relieve pressure on the national grid by introducing about 6800MW of renewable energy over the medium-term, the Committee believes that that programme will only have an impact in the coming years as the independent power producers start supplying electricity to the grid. The Committee believes that the current power crisis requires immediate intervention in order to mitigate the negative impact of power outages on the economy.

8.12. The Committee notes the plans to corporatize Transnet National Ports Authority in order to provide incentives for efficiency and competitiveness. It notes further that Transnet Freight Rail will now enable private sector companies access to the freight rail network by the end 2022 and this will bolster system volume and capacity. The Committee welcomes measures to introduce competition and improve efficiencies and notes that Transnet will still retain ownership of the freight rail network.

8.13. The Committee further welcomes the now completed eVisa system that will be rolled out to 15 countries by March 2022, providing much needed support for the tourism sector. It also notes the establishment of the National Water Resources Infrastructure Agency in order to improve the management of bulk water resources.

8.14. The Committee has over the years emphasised the prioritisation of the auctioning the digital spectrum as this would unlock funds for government, generate inputs into the economy and increase revenue collection. The Committee welcomes the commitment made that the bandwidth auction will take place by the end of March 2022.

**Macro-economic issues**

8.15. The Committee notes the rebound in the country’s economic growth projections. While the country’s GDP contracted by 6.4 per cent in 2020/21, it is expected to grow by 5.1 per cent in 2021/22, a welcome improvement from earlier forecasts of 3.3 per cent in the 2021 Budget. While this projected growth is encouraging, it is important to note that the country’s economic activity remains at levels last seen in 2017 and is therefore four years backwards.

8.16. The Committee notes that growth forecasts are based on assumptions of a rebound in household consumption and gross fixed capital formation, and on the CPI inflation being anchored within its target band of between 3 and 6 per cent. Household consumption is expected to recover from -6.5 per cent in 2020, to 5.7 in the current year, and slow down sharply to 1.8 in 2022, 1.6 in 2023 and 1.9 in 2024. Gross fixed capital formation is expected to rebound from -14.9 per cent in 2020 to 1.2 in the current year, growing to 3.5 per cent in the medium term. The Committee notes therefore that while the economic growth is faster than expected in 2021, it worsens in the medium-term. The Committee reiterates that government alone cannot ensure the necessary economic growth. Parliament, the private sector, trade unions, other sections of civil society and the public all have a role to play. However, government has to lead in this regard and policy certainty is imperative in order to revive business confidence and stabilize investment.

**Fiscal policy**

8.17. The Committee notes that NT’s fiscal strategy remains unchanged as it focusses on fiscal consolidation in order to achieve a primary budget surplus by 2024/25. The Committee believes that after achieving this surplus, fiscal consolidation will be discontinued and Parliament should hold NT to account on this. The Committee further notes that there are strong views about the fiscal consolidation path that NT has followed over the years. Some participants have continuously urged government and NT to reconsider the fiscal consolidation measures and provide credible demand-side interventions in order to stimulate the economy.

8.18. The focus over the MTEF is therefore on fiscal consolidation and reducing the debt-to-GDP ratio. The Committee notes that the gross loan debt will stabilise at 78.1 per cent of GDP in 2025/26 compared to the 2021 Budget estimate of 80.5 per cent. The Committee notes that public debt increased seven-fold from R577 billion in 2007/08 to over R4 trillion in the current year (2021/22). Further, the Committee remains concerned about the increased spending in debt service costs over the medium-term (over R1 trillion), compared to other functions such as social development and health. The Committee recommends that the Minister of Finance reports quarterly on the effectiveness of NT's debt management strategies that would ensure that the level of debt stabilises over the medium term and avoids a sovereign debt crisis.

8.19. The Committee notes that the consolidated deficit – which includes national and provincial government, social security funds and public entities – is projected to narrow from 7.8 per cent of GDP in 2021/22 to 4.9 per cent of GDP in 2024/25.

8.20. The Committee notes further that the revised fiscal framework will breach the 2021 Budget in-year expenditure ceiling of R1.51 trillion by R56 billion, taking the current year expenditure to R1.57 trillion. The Committee welcomes that this increased expenditure responds to, among others, the COVID-19 lockdowns (R37.9 billion fiscal relief package), the social unrests in July and the wage bill adjustments. The Committee further notes that the 2021/22 fiscal framework now includes R3 billion in the contingency reserve for additional vaccine purchases, and R11 billion as a provisional allocation to SASRIA for risk coverage in the wake of the outbreak of public violence in July. The Committee further notes and welcomes the fiscal support to small businesses affected by COVID-19 restrictions and the July public violence, amounting to R1.3 billion.

**Revenue and tax policy issues**

8.21. The Committee notes that in 2021/22, gross tax revenue is expected to be R120.3 billion higher than projected in the 2021 Budget, with corresponding improvements of R69.8 billion and R59.5 billion expected in 2022/23 and 2023/24 respectively. It further notes that over the medium term, tax revenues are expected to increase to R1.72 trillion, or 24.1 per cent of GDP, by 2024/25. The Committee welcomes the projected increase in gross tax revenues. Although attributed to the recent commodity price surge and a temporary windfall, the Committee believes that it improves the country's bartered fiscal position. The Committee notes that these revenues will be used to narrow the budget deficit and to increase non-interest expenditure.

**8.22.** While the MTBPS does not deal with tax proposals, the Committee notes the proposals made by many stakeholders during the 2021 MTBPS parliamentary submissions and the assurance from NT that these proposals will be taken into consideration when preparing tax proposals for 2022.

**Other issues**

8.23. The Committee notes that based on the current agreement, National Treasury has set aside R20.5 billion as an additional provisional allocation for the wage bill in order to cater for the ongoing wage negotiations. NT told the Committee that should a wage settlement not be reached before the next cycle; the current agreement would apply. The Committee reiterates its view that it believes that government needs to strike a deal with labour in order to control the wage bill as the absence of this agreement can undermine government's economic recovery programme.

8.24. The Committee recommends that the Public Procurement Bill be brought to Parliament and the processing of Regulation 28 of the Pension Fund Act be acted on with urgency.

8.25. The Committee notes that the Financial Action Task Force's Mutual Evaluation Report found gaps in the implementation of South Africa's anti-money laundering and terrorist financing measures. The Committee requests a briefing on this report by the National Treasury and the Financial Intelligence Centre.

8.26. In all its fiscal framework and revenue proposals reports, this Committee has repeatedly raised the need to tackle the illicit economy more actively in order to stem the flow of billions of Rands out of the country. The Committee emphatically reiterates this and urges the President to consider establishing an inter-ministerial committee (IMC) to tackle Illicit Financial Flows (IFFs). The rationale behind proposing the IMC is that the work on IFFs cuts across various Ministries including Finance, Justice, Police, Trade and Industry, and Minerals and Energy and various state institutions such as the South African Reserve Bank, the Financial Intelligence Centre, the National Prosecutions and, the Assets Forfeiture Unit, among others. The Committee recommends that the work of this inter-ministerial committee pay particular attention to aggressive tax avoidance including Base Erosion and Profit-Shifting (BEPS) by multi-national companies. The Committee further recommends that the work of the IMC be jointly overseen by the relevant committees of Parliament.

**8.27.** The Committee notes that there were a number of issues raised by stakeholders during its public hearings, some of which belonged to the Appropriations Committees. These include issues on municipalities and social grants. The Committee will refer these issues to the Appropriations Committee.

**8.28.** The Committee thanks all those who participated in its processes.

**Having considered the 2021 revised fiscal framework and 2022/23-2024/25 proposed fiscal framework, the Standing Committee on Finance adopt the 2021 revised fiscal framework and 2022/23-2024/25 proposed fiscal framework as presented.**

The Democratic Alliance (DA) reserve its position.
The Freedom Front Plus (FF+) reserve its position.

Report to be considered.