



2022
MTBPS

SPEECH



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National Treasury
REPUBLIC OF SOUTH AFRICA



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2022

MEDIUM TERM BUDGET POLICY STATEMENT

Check against delivery

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Minister of Finance

SPEECH

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Honourable Speaker;
His Excellency, President Cyril Ramaphosa;
His Excellency, the Deputy President David Mabuza;
Cabinet Colleagues;
Members of Executive Councils for Finance;
Honourable Members;
The Governor of the South African Reserve Bank;
The Commissioner of the South African Revenue Service;
Fellow South Africans:

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

- The 2022 Division of Revenue Amendment Bill;
- The 2022 Adjustments Appropriation Bill;
- The Special Appropriation Bill;
- The 2022 Rates and Monetary Amounts and Amendment of Revenue Laws Bill;
- The 2022 Taxation Laws Amendment Bill;
- The 2022 Tax Administration Laws Amendment Bill;
- The Revised Fiscal Framework;
- The 2022 Adjusted Estimates of National Expenditure; and
- The 2022 Medium Term Budget Policy Statement.

INTRODUCTION

Madam Speaker, the strategic goal of this government is to reduce poverty, inequality and unemployment, in pursuit of a better life for all.

It was former President Nelson Mandela who reminded us that; *“Democracy will have little content, and indeed, will be short lived if we cannot address our socioeconomic problems within an expanding and growing economy.”*

South Africa’s economy has underperformed for many years.

Several long-standing structural impediments continue to hamper growth.

These include:

- unreliable electricity supply,
- costly and inefficient ports and rail network,
- crime and corruption,
- weak state capacity, and
- high levels of market concentration and barriers to entry that suppress the emergence and growth of small businesses.

These challenges undermine our efforts to create jobs, contributing to high levels of poverty and inequality.

Our structural challenges have been exacerbated by new ones, including the global economic slowdown, high energy and food prices; and the destruction caused by natural disasters such as the recent floods.

The 2022 Medium Term Budget Policy Statement aims to address the needs of South Africans and secure our future stability and prosperity.

It provides for spending adjustments to continue rebuilding lives and infrastructure following devastating flood damage earlier this year.

It restores fiscal strength and rebuilds fiscal space, despite the unfavourable economic backdrop.

It enhances the quality of public services such as Education and Health.

It also prioritises the safety and security of our people and invests in future growth by increasing funding for critical infrastructure.

ECONOMIC OUTLOOK

Madam Speaker, let me now turn to the economic outlook.

Many of the risks we outlined in the February 2022 Budget Speech have materialised.

Globally, these include: rising inflation, tightening financial conditions and the ongoing effect of COVID-19, including the more stringent lockdowns in China and their impact on global demand and supply chains. These were made worse by the outbreak of the Russia-Ukraine conflict.

As a result, the IMF's global growth forecast for 2022 has been revised down, from 4.4 per cent to 3.2 per cent, and the 2023 estimate from 3.8 per cent to 2.7 per cent.

This means that the global environment will be less supportive of our growth than we anticipated at the time of the budget.

The outlook contains many risks, notably further slowing global growth and higher inflation if the Russia-Ukraine war escalates.

There is also a possibility of energy rationing in Europe that will impact on global energy prices and output.

A further decline in Chinese economic growth could slow global demand and add pressure to global supply chains, while the tightening of monetary policy could slow global output even further.

These are significant risks in the global environment.

In this context, small open economies like ours need to be especially careful and have solid fiscal buffers in place to weather the coming storm.

Domestically, the robust pace of economic recovery in early 2022 was derailed by floods in various parts of the country, particularly KwaZulu-Natal and the Eastern Cape; industrial action in key sectors, and widespread power cuts.

We now expect real GDP growth of 1.9 per cent in 2022, compared with an estimate of 2.1 per cent in February.

Over the next 3 years, the economy is expected to grow at an average of 1.6 per cent.

This level of growth is too low to support our developmental goals. Accordingly, we must take action to put our economy on a higher growth trajectory.

Growing an inclusive economy

Our approach to growth is based on a clear and stable macroeconomic framework, complemented by the implementation of structural reforms to improve competitiveness, industrial policy to boost manufacturing and measures to strengthen the capacity of the state.

Key elements of our macroeconomic framework are a stable and flexible exchange rate, low and stable inflation, and sustainable fiscal policy.

Since the Budget in February, we have accelerated the implementation of structural reforms to address binding constraints on economic growth and support investment and job creation.

Madam Speaker, the intensity of load shedding is having a disastrous effect on our economy.

We have therefore focused our efforts on reforms in the electricity sector.

Several policy and regulatory changes aimed at creating a competitive energy market, are also underway.

These include the removal of the licensing threshold for embedded generation projects, where the pipeline has grown to 100 projects, representing over 9000 MW of capacity.

The Electricity Regulation Amendment Bill has been finalised. It provides for the establishment of an independent transmission and system operator, which will fundamentally transform the electricity sector.

Reducing South Africa's reliance on a single monopoly utility and unlocking massive new private investment in generation capacity will contribute significantly to long-term energy security.

Madam Speaker, there is a crisis in our logistics sector.

Inefficiencies in port and rail are costing the economy billions and further undermining our efforts to raise growth.

We welcome the end of the Transnet strike and are working with Transnet leadership and all stakeholders to urgently address the challenges in the sector.

Several steps are being taken to introduce greater competition and efficiency into ports and rail.

The National Assembly has passed the Economic Regulation of Transport Bill.

It will establish an independent transport regulator to encourage greater competition and enable regulated access to the network.

In addition, requests for proposals have been issued for third-party access to the freight rail network and private-sector partnerships for the Durban Pier 2 and Ngqura container terminals.

In telecommunications, the auction of high-value broadband spectrum has been completed.

The next step is to complete digital migration to release these frequencies.

The Minister of Communication and Digital Technologies will shortly indicate a new date for analogue switch-off.

In the water sector, we have cleared the backlog of water-use licenses.

The process to establish a water regulator through the National Water Resources Infrastructure Agency Bill is also on track.

The agency will enable effective management of bulk water infrastructure and facilitate private sector investment.

The review of the work visa system has been completed with recommendations to attract skills and investment.

Honourable Members, these reforms are not the totality of our reform agenda.

More must and can be done to unleash the dynamism of our economy. Key to this is the need for a capable, developmental state.

Strengthening state capability

Madam Speaker, a strong and capable state is a necessary precondition for growth.

The state is responsible for creating and maintaining an enabling environment for growth and investment, it provides basic services, and promotes the rule of law.

To do this effectively, the state needs to be responsive to societal needs, prioritise, sequence and coordinate interventions through institutions that are accountable and capable.

Infrastructure investment for enabling growth

Leveraging fixed investments is a critical part of achieving sustainable and inclusive growth. It supports economic recovery, raises the economic potential and creates jobs.

We have seen gross fixed capital formation contract on average by 4.4% annually between 2016 and 2020; from a peak of R796 billion in 2015.

The contraction has been broad-based. Private sector investment, which accounts for nearly two-thirds of total fixed investment, as well as the public sector, have both declined.

We seek to reverse these trends by tackling impediments to investment.

In the private sector, policy uncertainty, constraints to the ease of doing business along with the high cost of doing business are often cited as key constraints to investment.

Our clear and stable macroeconomic framework, progress on structural reform, and supporting enablers to growth will go a long way to removing impediments to investment.

They will also boost confidence and create an enabling environment for the private sector to invest.

With respect to public sector investments, State-Owned Enterprises have an important role to play in the provision of critical economic goods and services in the economy.

Addressing supply side constraints particularly in the energy and transport sectors is critical to support higher and sustainable economic growth.

On general government, we are increasing on-budget infrastructure allocations to remedy the erosion of baselines.

Over the medium term, government consolidated spending on building new and rehabilitating existing infrastructure will increase from R66.7 billion in 2022/23 to R112.5 billion in 2025/26. This includes roads, bridges, storm-water systems and public buildings.

This makes spending on capital assets the fastest-growing item by economic classification.

By delivering on public sector investments, we will crowd- in private investment, improve public service provision and address backlogs; thus, igniting a virtuous cycle of higher investment, growth and employment potential.

We are also committed to improving state capacity, project planning and preparation, procurement practices, and contract management.

This will address chronic underspending of allocated infrastructure budgets, improve value for money and efficacy of our investments.

Climate change mitigation and adaption

Madam Speaker, climate change is reshaping the world around us, including our economic context.

It poses physical risks to our people, infrastructure, the environment and production including of critical goods such as food.

The global response to climate must be coordinated.

For our part, we are finalising negotiations on the pledges by the International Partner Group for the Just Energy Transition.

In addition, the investment plan supporting our energy transition was recently endorsed by Cabinet.

We will take all necessary steps to ensure that our transition that is just.

THE FISCAL OUTLOOK

Madam Speaker, when government finances are saddled with debt it becomes very difficult to meet our development objectives.

For nearly 15 years, the South African government has been tabling higher deficits.

As a result, government debt is projected to be more than R4.7 trillion in the current financial year, compared to R627 billion in 2008/09.

This debt is incurring debt-service costs that will average R355.2 billion per year over the medium-term expenditure framework.

As already outlined, the global economy is slowing, inflation is increasing, and financial markets are becoming more volatile.

The result is that the debt-service costs are estimated to be R5.9 billion higher in 2022/23 than what we thought at the time of the February budget.

Moreover, the possibility of a major price correction in financial markets is a significant risk. This will affect fiscal revenues going forward.

It is for this reason that the medium-term strategy needs to maintain a prudent approach to fiscal policy.

We need to decrease our debt burden and debt-service costs by reducing our annual deficits.

This will stabilise the public finances and reduce the fiscal risks.

Honourable Members, we are making progress in this regard. A consolidated fiscal deficit of 4.9 per cent of GDP is projected in 2022/23.

This will decline to 3.2 per cent of GDP by 2025/26. A primary fiscal surplus of 0.7% of GDP will be achieved in 2023/24. This is one year earlier than projected at the 2021 MTBPS.

We also now expect gross government debt to stabilize at 71.4 per cent of GDP in 2022/23 — two years earlier, and at a lower level, than projected in the 2022 Budget Review.

Among other things, this means that we are proposing that no budget reductions are implemented in the 2023 Budget. In fact, consolidated government spending will exceed R2.2 trillion this year and will rise to R2.5 trillion in 2025/26.

Turning to revenue, since the 2022 Budget, revenue collection has exceeded projections, and the gross tax revenue estimate for 2022/23 has been revised up, by R83.5 billion, to R1.68 trillion.

The higher estimate is largely due to improvements in corporate income tax collections, with strong receipts from the finance and manufacturing sectors.

The better-than-expected revenue collection estimates, including over the medium term, have allowed government to narrow the deficit and mitigate lingering and new risks.

Equally, it allows us to gradually restore the baseline budgets of departments key to the delivery of services, without making unaffordable permanent commitments.

A portion of higher-than-anticipated revenue will be utilised as follows:

- Reducing the deficit in the current financial year and over the MTEF;
- Making additions for infrastructure projects and critical public services such as education, health, and policing;
- Addressing fiscal risks that were previously identified in February. These include higher-than-projected debt service costs, the public service wage bill, and the materialisation of financial risks from some state-owned companies.

Should any of the fiscal risks materialise, this could negatively affect the fiscal position and government's effort to stabilise the public finances.

In-year spending adjustments

Madam Speaker, we are allocating a net addition of R13 billion in spending adjustments for the 2022/23 financial year in the Adjustments Appropriation Bill.

The largest adjustment — R6.3 billion, or 49 per cent of the total — is allocated towards disaster relief, especially the April flooding in several parts of the country.

Other adjustments in the Adjustments Appropriation include:

- R389 million for 24 rural bridges through the Welisizwe Rural Bridges programme;
- R500 million is also set aside to kick off the Home Affairs digitisation project, that will employ 10 000 young people over 3 years.
- R118 million to deal with interim relocation costs and to prepare for the rebuilding of Parliament.

Honourable Members, during the current financial year, wage negotiations have been taking place at the Public Service Coordinating Bargaining Council. On 30 August 2022 government made a final offer which emanated from a facilitation process. This offer includes the following:

- Continuation of a non-pensionable cash allowance for the current financial year. This translates into an average of R1 000 per employee per month until March 2023.
- A pensionable salary increase of 3% for public servants.

Madam Speaker, the offer on the table is in the best interest of the fiscus and public service workers. Implementing it does not undermine the collective bargaining process. We believe that the facilitation process has helped all parties get to this point. Therefore, the spending estimates we are tabling today include this amount.

This offer will be implemented through the payroll system, and back-dated to April 2022-

Expenditure framework

Honourable Members, our budget over the next three years is focused on restoring service delivery and laying the foundation for higher growth.

Medium-term changes to spending plans are driven mainly by government's decision to extend the special COVID-19 Social Relief of Distress grant by one year, until 31 March 2024.

The fiscal framework also includes funding for the carry-through costs of the 2022/23 public service wage increases, as well as for safety and security, infrastructure investment and service delivery.

The SRD grant was introduced in May 2020 as a temporary measure to respond to the needs of the most vulnerable who were affected by lockdown measures. It has been extended several times since then.

Discussions on the future of the grant are on-going and involve very difficult trade-offs and financing decisions.

Despite the provision made in this budget, I want to reiterate that any permanent extension or replacement will require permanent increases in revenue, reductions in spending elsewhere, or a combination of the two.

Madam Speaker, this is what is meant by trade-offs: balancing the need to address one priority over another.

Overall, consolidated government spending is projected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26 at an average growth rate of 4 per cent.

The social wage, totalling R3.56 trillion over the next three years, or 59.2 per cent of the consolidated non-interest spending, will take up the biggest share of the budget in support of poor households and the most vulnerable in our society.

The largest allocations are directed to the education, health and social development sectors.

Moreover, over the next three years, spending increases will be prioritised to improve investment in infrastructure and boost the budgets for safety, security and fighting corruption.

Overall, government's consolidated capital spending will increase, from R95.1 billion in 2022/23 to R145.4 billion in 2025/26. This excludes spending on state-owned enterprises.

We are working closely with the Presiding officers of Parliament to restore and rebuild our Parliament. Over the medium term expenditure framework, we have made allowance for approximately R 2 billion for rebuilding our Parliament.

Division of Revenue and Changes in Funding at Local Government

Madam Speaker, over the next year, we will work with provinces and municipalities to make meaningful progress in achieving our development goals.

Municipalities shape the living conditions of our people. They ensure that people have access to clean drinking water, energy, housing and sanitation.

Yet several municipalities are dysfunctional, experiencing, either financial or leadership crisis, reflected in a general inability to deliver services.

Following a diagnostic review of the local government capacity building system, the National Treasury is coordinating with key stakeholders including the Department of Cooperative

Governance, SALGA and provinces in the design of capacity-building systems towards a more integrated and outcome--focused approach.

Over the next three years, we propose allocating 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government.

This will allow provinces to support basic education and health services, roads, housing, social development, and agriculture.

We are also allocating additional funds to local government to support the delivery of free basic services to poor households, considering the rising cost of the free basic services, as well as rising bulk electricity and water costs.

The 2023 Budget Review will provide more detail on these efforts.

Addressing Risks from State-Owned Enterprises

Madam Speaker, some of our state-owned companies represent critical components of economic activity, especially in transport, engineering and energy.

These companies should be self-sufficient and must contribute to economic growth.

Unfortunately, we face a situation where financial weakness caused in previous years by bad leadership and corruption still needs to be resolved.

Moreover, when unavoidable events such as the recent floods destroy infrastructure and assets, it puts the whole economy at risk.

In the meantime, the road network must function, ports must operate and critical technical projects cannot be halted.

So, as balance sheets are being restored and those who looted and mismanaged then are being held accountable, including through the criminal justice system, we have little choice but to act to keep these key services running.

We are proposing to use higher-than-anticipated revenues in the current year to reduce risks from specific SOEs.

These resources cannot be used to fund baseline increases as they are once-off. Using them in this way will also not expand the fiscal deficit compared to our existing medium-term plans.

The financial support to SOEs recognises their potential to contribute to our long-run growth prospects.

We are thus tabling a Special Appropriation Bill to provide additional funding to Denel, Transnet and SANRAL. These allocations will allow these entities to adjust their business models and restore their long-term financial viability.

Fiscal support to state-owned companies remains a challenging balancing act given the many competing priorities and limited resources. Funding to SOEs will now come with strict pre- and post-conditions. Pre-conditions mean that SOEs will need to comply with these conditions before they receive government support, not after.

Non-compliance to conditions, means no funding.

Transnet is allocated R2.9 billion to ensure the return of out-of-service locomotives. This will be complemented by R2.9 billion from in year spending adjustments to deal with flood damage that affected its operations in Ethekekwini.

Denel is allocated R3.4 billion to support recent progress made to stabilise the entity.

This allocation will be augmented by R1.8 billion in sale of non-core assets and will unlock a committed order book of R12 billion awaiting execution.

SANRAL

Honourable members, the uncertainty surrounding the Gauteng Freeway Improvement Project continues to have a major negative implication for road construction in the country.

We need to move on from the debates of previous years and find solutions to this challenge.

To resolve the funding impasse the Gauteng provincial government has agreed to contribute 30 per cent to settling SANRAL's debt and interest obligations, while national government covers 70 per cent.

Gauteng will also cover the costs of maintaining the 201 kilometres and associated interchanges of the roads and any additional investment in road will be funded through either the existing electronic toll infrastructure or new toll plazas, or any other revenue source within their area of responsibility.

Government proposes to make an initial allocation of R23.7 billion from the national fiscus, which will be disbursed on strict conditions.

ESKOM

Turning to Eskom. For at least a decade, we have spent billions of rands supporting Eskom, with limited improvements in the reliability of the electricity supply or the financial health of the company.

To ensure Eskom's long-term financial viability, government will take over a significant portion of the utility's R400 billion debt.

While the selection of the relevant debt instruments and the method of effecting the relief is still to be determined, the quantum is expected to be between one-third and two-thirds of Eskom's current debt.

The debt takeover, once finalised, together with other reforms will ensure that Eskom is financially sustainable

The programme will allow Eskom to focus on plant performance and capital investment and ensure that it no longer relies on government bailouts.

Importantly, the programme will include strict conditions required of Eskom and other stakeholders before and during the debt transfer.

These conditions will address Eskom's structural challenges by managing its costs, addressing municipal and household arrears due to the utility, and providing greater clarity and transparency in tariff pricing.

In addition, the conditions will be informed by a Treasury led independent review of Eskom's operations, in particular the performance of its generation fleet.

Further details of the programme will be finalised following consultations with all relevant stakeholders and lenders and will be announced in the 2023 Budget.

Modernising procurement

Madam Speaker, we are working to strengthen our procurement and financial accountability system.

We are also adopting best-practices in the procurement of goods and services, including the highest standards of transparency in the tendering processes.

Such modernisation aims to simplify and speed up the process for public infrastructure projects, whilst reducing the scope for looting and corruption.

We are envisaging two changes to procurement governance:

- We expect to introduce the Public Procurement Bill – which will enhance transparency, integrity and promote the use of technology for efficiency and effectiveness in public procurement – to Parliament in March 2023.
- The new Preferential Procurement Regulations of 2022, replacing the now invalid Regulations of 2017, will be promulgated in November 2022 to be effective from 16 January 2023. The regulations empower organs of state with the authority to determine their own preferential procurement policies within the ambit of the Preferential Procurement Policy Framework Act.

Fighting crime and corruption

Earlier this week, President Ramaphosa announced Government's response to the recommendations of the Commission of Inquiry into State Capture.

He committed the government to “a new chapter in our struggle against corruption, to advance the renewal of our society.”

He noted the need for the state to be “ethical and free of corruption as it serves the needs and interests of the people.”

As noted by the Commission, to enable service delivery we should protect honest accounting officers and authorities who make decisions in good faith from criminal prosecution and civil litigation.

In this regard, we will strengthen the auditing and preventative control systems, to enable managers to manage, while putting mechanisms to hold them accountable.

The Commission of Inquiry into State Capture made recommendations aimed at strengthening the institutional, governance and accountability mechanisms.

As has been done with Bain, we will continue to take punitive administrative action against companies and individuals who have actively facilitated corrupt and irregular procurement activities.

Madam Speaker, crime is a safety, economic as well as a social issue. A safe environment is important for full participation in economic and social life. This makes fighting crime a key pillar of enhancing economic growth.

Many South Africans live in fear in their homes, in their places of work and in places of recreation.

In response, we are allocating additional resources to our security forces to take the fight to those that threaten our peace as a nation.

We will support the police to recruit an additional 15 000 constables over the next 3 years.

Avoiding grey-listing by the financial action task force

Honourable Members, we are doing everything necessary to prevent grey-listing by the Financial Action Task Force; the international standard-setting body that oversees global compliance with anti-money laundering rules.

Already we have tabled two bills in Parliament, aimed at addressing weaknesses in our legislative framework.

The Bills are expected to be enacted by the end of this year.

This will be a significant step towards meeting the 40 recommendations made by the Financial Action Task Force.

We are also required to implement laws on anti-money laundering and corruption more effectively.

Investing in building the capacity of our regulatory and enforcement institutions is already bearing positive results. These include:

- The Investigating Directorate of the National Prosecuting Authority has enrolled 26 cases, declared 89 investigations and 165 accused persons have appeared in court for alleged state capture-related offences.
- The Asset Forfeiture Unit has frozen or granted preservation orders to the value of R12.9 billion, and returned a total of R2.9 billion to affected entities;
- The SIU has instituted four High Court cases in relation to contracts worth R62.1 billion; and
- SARS investigations arising from the Commission's findings and evidence have resulted in collections of R4.8 billion in unpaid taxes. SARS is currently engaged in 18 projects involving 222 cases. 11 of those cases are recommendations explicitly for SARS to execute and 8 have been finalised and the others are under investigation.

This 2022 MTBPS proposes additional resources to the budgets of the National Prosecuting Authority, the Special Investigating Unit, the Financial Intelligence Centre and the South African Revenue Service, to further improve the capability of the state to investigate and prosecute sophisticated financial crimes.

In addition, Government will also publish a revised national risk assessment strategy on anti-money laundering and terror financing.

CONCLUSION

Madam Speaker, let me conclude by reiterating what I said in the beginning: our democratic ideals will be given life and sustained by a growing and inclusive economy.

We cannot ignore the relationship between democracy and the economy, and the relationship between politics and inequality.

We are fortunate to have a legal and policy framework, backed by a political vision, that allows us to transform the economic conditions of our people and deliver on the promise of democracy.

This MTBPS reminds us of the urgent need to pursue the reform of our economy in a consistent manner, with the freedom of our people in mind.

We should not take lightly the link that Former President Nelson Mandela and many other leaders after him, drew between a thriving economy, and a fair and just society. This the golden thread that runs through our Constitution and this Medium-Term Budget Policy Statement. We should keep sight of this goal and the balancing act it entails as we do our work.

Madam Speaker, I am grateful to the President and Deputy President for their support and leadership. Thank you to the Deputy Minister of Finance, and the National Treasury team, led by the Acting Director-General.

My sincere thanks to the Commissioner of the South African Revenue Service, and the Governor of the South African Reserve Bank.

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

Lastly, thank you to each and every South African. We serve at your privilege. I thank you.

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