2018

Budget Speech

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Minister of Finance

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Honourable Speaker

Mister President

Cabinet Colleagues and Deputy Ministers

Governor of the Reserve Bank

MECs of Finance

Fellow South Africans

Ndi masiari
Sanibonani
Molweni
Goeie middag
Thobela
Dumelang
Avhusheni

As I begin, let me first table before this august House:

1) The Budget Speech,
2) The 2018 Budget Review, including
    a. Fiscal Framework,
    b. Revenue Proposals, including customs and excise duties,
    c. Estimates of national revenue and replies to the Budgetary Review and Recommendation Reports,
3) The Division of Revenue Bill,
4) The Appropriation Bill, and
5) The Estimates of National Expenditure.

At the very advent of our democracy, as the nation was emerging from more than three centuries of colonial oppression, which President Nelson Mandela described as an "extraordinary human disaster that [had] lasted too long", he urged that out of that experience had to be born a society of which all humanity would be proud.

To our highly expectant nation, he addressed the following words, that:

> "Our daily deeds as ordinary South Africans must produce an actual South African reality that will reinforce humanity's belief in justice, strengthen its confidence in the nobility of the human soul and sustain all our hopes for a glorious life for all."

Indeed, during the past twenty-three years, we have as a people striven to live up to these injunctions conferred on us by that great Leader of our people.

It is correct that as we celebrate the centenary of his birth, we should recall his words, his thoughts and injunctions, indeed his dreams for our nation, in order to remind ourselves of the mammoth journey that still lies ahead of our efforts to build this society, the country, of which humanity would be proud.

Almost twenty-four years later, President Ramaphosa captured the moment and mood aptly, in delivering his inspirational inaugural State of the Nation Address, when he said that a new dawn was upon us and urged us to renew our nation's promise.

Declaring this a year of change, renewal and hope, he urged us to honour both Madiba and Mama Albertina Sisulu "not only in word, but, more importantly, in direct action towards the achievement of their shared vision of a better society."

This was a profound statement, echoing the hopeful and unifying sentiments of the founders of our democracy and the living dreams of the peoples of our country.

The President proceeded to outline an abiding vision for our country that has resonated with all our people, fired all of us with hope and enthusiasm, and ignited a sense of renewal.

Towards the realization of this vision, the Budget we present today is an opportunity to reflect on the state of our nation's finances, and the economy more broadly, but most importantly, to understand how these support our social and economic objectives.

This is the challenge of our time, to build a South Africa in which all people have a decent standard of living, access to economic opportunities and opportunity to pursue their dreams.

It is these core aspirations which the Budget must speak to, enable and indeed, advance.

We stand before you with a profound sense of optimism, purpose and resolve.

All of us should heed the President's call echoing the late, great Hugh Masekela, to lend a hand in addressing society's most pressing challenges.

Fellow South Africans, we have the opportunity to achieve faster and more inclusive growth, to create jobs for our people and a better life for all South Africans.

That opportunity comes from a favourable global economic outlook, with many of our trading partners doing well, and from improved prices for our exports.

That opportunity comes from a fiscal framework which has improved markedly since the October medium-term budget policy statement.

That opportunity comes from a stronger rand and favourable inflation outlook.

That opportunity comes from the strong partnership which has been forged between all the social partners to prevent further ratings downgrades, and remove obstacles to investment, growth and job creation.

That opportunity comes from improving confidence, as business and consumers have responded positively to political developments over the last three months, and are anticipating progressive, ethical and decisive leadership from government.

To take advantage of these opportunities, we must act with urgency to make tangible progress on issues of public governance, inclusive growth and economic transformation.

As Julius Nyerere once said, “we must run while others walk”.

The resolve to grasp the opportunities of the present moment, has already become evident.

Government has demonstrated its resolve to confront allegations of state capture and corruption through the judicial commission of inquiry announced by former President Zuma, and the investigations being conducted by the Hawks, Asset Forfeiture Unit and other agencies.

Responding to an environment of eroding public trust in the early 20th century, former US President Theodore Roosevelt said:

> "There are in the body politic, economic and social, many and grave evils, and there is urgent necessity for the sternest war upon them. There should be relentless exposure of and attack upon every evil man, whether politician or business man, every evil practice, whether in politics, business, or social life. I hail as a benefactor every writer or speaker, every man who, on the platform or in a book, magazine, or newspaper, with merciless severity makes such attack, provided always that he in his turn remembers that the attack is of use only if it is absolutely truthful."

All of us who have the honour to serve as public representatives and officials should be prepared to subject ourselves to public scrutiny.

We have demonstrated our resolve by strengthening Eskom’s board and management with highly capable, ethical and credible leadership.

This leadership has hit the ground running to turn the utility around, by decisively addressing outstanding governance concerns and restoring the confidence of stakeholders to stick with it as it improves its performance and sustainability.

The President’s intervention this week to restore dialogue on mining policy, raises hope that a solution will be found to unlock growth and transformation in this critical sunrise sector.

All stakeholders should be encouraged by the President’s intervention and commitment to set the industry on a new path of investment, inclusive growth and transformation.

We therefore welcome the Chamber of Mines’ postponement of their court action as they join this new process.

Our resolve to ensure the sustainability of the nation’s finances will become evident today, as we table a budget which carefully balances a variety of important priorities, including social investment and protection, economic investment, and the need to stabilize the growth in public debt.

After several years during which economic growth undershot our projections, we now see the improved growth projections for 2018 and subsequent years as a floor, rather than a ceiling.

We are convinced that as business and consumer confidence return, and as government follows through on its commitments to enable growth with prudent, fast and decisive action, we can exceed our growth projections.

With purpose and resolve, we can take advantage of these opportunities, and achieve the faster growth which is needed dramatically to reduce unemployment, poverty and inequality, and relieve pressure on our fiscal framework.

This is a tough, but hopeful budget.

It required us to make difficult but necessary trade-offs, important to ensure that this budget is a platform for renewal, inclusive growth and job creation.

It directs spending to our most pressing national priorities: educating our youth, protecting the vulnerable and investing in enablers of inclusive growth.

It moderates spending and raises the revenues required to contain the growth in national debt, whilst trying to minimize negative effects on growth.

It presents a budget outlook which is markedly improved since the Medium-Term Budget Policy Statement in October; it now projects debt stabilizing as a share of GDP over the medium term.

Budget 2018 charts a path out of economic stagnation, anticipating a steady increase in economic growth which will create a path to prosperity for our people, and improve our nation's finances over time.

There are risks and spending pressures we will need to navigate carefully, but this Budget presents a roadmap to maintaining the integrity of our public finances, while protecting social services.

Economic Outlook

Madam Speaker,

We remain committed to the goals we set ourselves in the Freedom Charter, the Constitution and the National Development Plan (NDP).

These goals are ultimately aimed at addressing the triple challenges of poverty, inequality and unemployment.

To achieve these goals, we have to implement radical socio-economic transformation.

It would be remiss of me not to acknowledge that last year was particularly difficult for our economy.

The year was characterised by slow economic growth, recession, ratings downgrades, and heightened concerns regarding the governance and sustainability of key state-owned companies.

Despite this, the country's economic growth outlook has improved over the past few months because of strong growth in the primary sector of the economy – particularly agriculture – as well as a welcome recovery in investor sentiment and business confidence.

Over the medium term, the growth outlook is higher than projected in last year's MTBPS.

The cyclical recovery is matched by a renewed sense of optimism that the government can and will do its work effectively.

This presents an opportunity for us to do the things required to reignite growth and chart a course towards meeting the objectives of the NDP and fulfilling our constitutional obligations.

Our responsibilities in translating this renewed energy into tangible and sustainable economic benefits for all our people include:

- Creating the right environment for investment,
- Partnering with the social partners to create sustainable employment,
- Dealing decisively with governance and financial failures at state owned companies; and
- Addressing the concentrated and inequitable structure of the economy.

Achieving these objectives will require us to forge a new compact between the social partners.

We need to provide investors with the certainty required to increase investment.

Raising the level of investment and improving the ease of doing business in the country will support job creation.

Private sector investment and job creation are critical to reducing unemployment which remains stubbornly high at 26.7 per cent.

Investment opportunities are occasioned by the following global developments in our main trading partners:

- Stronger domestic demand in the US and the euro area has supported an improved growth outlook.
- The recovery in commodity prices has also supported developing countries growth prospects.
- Sub-Saharan Africa is expected to grow at 3.3 per cent in 2018

Seizing the Opportunity for Inclusive Growth and Economic Transformation

By harnessing these opportunities, we can move our economy towards the targets we have set ourselves in the NDP.

South Africa needs to be bold and coordinated in building sectors where we have comparative advantage and can be truly world class.

These include, but are not limited to: mining, agriculture, tourism, as well as manufacturing and service exports to the rest of Africa and globally.

The 2017 GDP growth projection has been revised upward to 1 per cent, which is higher than the 0.7 per cent expected at the time of MTBPS last year.

We are anticipating growth of 1.5 per cent in 2018, rising to 2.1 per cent in 2020.

While this is a good start, there are immediate policy interventions that we need to make to ensure that we create the right environment for investment, growth and employment.

The first is to finalize the 14 confidence-boosting measures that we committed to in July last year.

Madam Speaker,

I am pleased to announce that good progress has been made in this regard, as detailed in Chapter 1 of the Budget Review.

The gains from progress made by government action are important but insufficient to achieve transformation and inclusive growth.

Together, government, labour, the private sector and civil society have the ability and responsibility to grow the economy inclusively.

The enormous potential of our partnership has been demonstrated by the CEO initiative, which has established a business-led fund committing about R1.4 billion to support high potential SMMEs.

National Treasury invited citizens to contribute suggestions through our Budget Tips competition.

Our runner up tipster, Karabo Tladi reminded us that:

> "Government must ensure that youth are equipped with sufficient skills in business and look critically at the policies that involves funding for youth owned business. If the funding for small businesses could be accessible unemployment will be cut in half through small business initiatives."

Indeed Karabo, government must create an enabling environment for small businesses to thrive, as they are an important lever to create jobs and grow the economy inclusively.

Work is being done to provide crucial funding to innovative small businesses when they need it most.

A fund with an allocation of R2.1 billion over the medium term is being developed between the Departments of Small Businesses, Science and Technology and the National Treasury to benefit small and medium enterprises during the early start-up phase – this is an area that has historically had limited support because of the risks involved.

By enabling new businesses with new ideas to emerge and thrive, we are radically transforming patterns of production in the economy.

Another important constraint for small business is lack of market access and barriers to entry.

To resolve this, our competition authorities continue to do the necessary and important work of addressing barriers to entry and rooting out anti-competitive behaviour which slows economic growth and dynamism.

As the President indicated, the Competition Commission's market inquiry to investigate data prices will be completed by the end of August 2018.

This will support the work being done by the government to improve competition in the telecommunications sector.

By deconcentrating our economy, we are radically transforming the structure of our economy.

Furthermore, there is continued collaboration with our social partners at NEDLAC to improve the country's investment ratings and accelerate economic growth.

While this represents much needed progress, it is inadequate to get the economy growing at the rate we need.

More needs to be done.

We are inspired by the President's commitment in the SONA to convene investment and jobs summits, to bring all stakeholders together around practical initiatives to catalyse inclusive growth and job creation.

Transformation calls for more than growth alone, it requires a fundamental shift in the way that wealth is created and shared.

The structure of the economy needs to be transformed to allow for new ideas, businesses and economic activities to emerge and thrive.

Madam Speaker,

South Africa cannot be so fixated on our domestic circumstances that we ignore fundamental global economic trends, dynamics and debates that will shape the future.

We must continue to chart a path for ourselves that is responsive to global change but equally tailored to addressing the specific needs of our society that will result in truly better lives for all.

Fiscal Framework

At the time of the MTBPS, government debt was shown to be on an unsustainable path.

Debt-service costs were also projected to rise, crowding out social spending.

Despite an improved outlook, government still faces a revenue gap of R48.2 billion in the current year, which carries through to the outer years of the medium-term expenditure framework.

In addition, the December 2017 announcement of fee-free higher education and training entails large new allocations over the medium term.

In response, government has made significant changes to the fiscal framework.

Firstly, new tax measures raise an additional R36 billion in 2018/19, mainly through a higher VAT rate and below-inflation adjustments to personal income tax brackets

Secondly, the expenditure ceiling has been revised down marginally from what was presented in October.

However, the small revisions are underpinned by large reductions and reallocations.

Over the next three years, the spending framework includes:

- Expenditure reductions approved by Cabinet amounting to R85 billion.
- An allocation of R57 billion for fee-free higher education and training.
- Additions to the contingency reserve amounting to R10 billion.

Taken together, and supported by a strengthened growth outlook, these interventions will stabilise public finances.

The consolidated deficit is projected to narrow from 4.3 per cent of GDP in 2017/18 to 3.5 per cent in 2020/21.

The main budget primary deficit closes over the medium term, helping to stabilise the gross debt-to-GDP ratio at 56.2 per cent of GDP in 2022/23, and declining thereafter.

These fiscal proposals will cause economic discomfort, but they are necessary to protect the integrity of the public finances.

Acting now to strengthen the fiscal position will improve the outlook for the economy and increase space for future investment growth.

It is the right thing to do.

We dare not borrow irresponsibly, leaving it to future generations to repay.

Our fiscal interventions also demand greater efficiency in the use of funds across the public sector.

Government recognises the need to shift spending away from consumption towards higher investment.

Over the past decade, the public sector has invested R2.2 trillion in economic and social infrastructure.

Yet weaknesses in project preparation, execution and delivery have resulted in lengthy delays and cost overruns.

To improve this, government has established a Budget Facility for Infrastructure, to standardize and improve the management of public infrastructure projects.

To support higher levels of capital investment and maintenance, the state needs to contain the public-service wage bill.

Government is working to ensure that the current wage negotiations process results in a fair and sustainable agreement.

This process will require careful consideration from all stakeholders.

Tax Proposals

The tax proposals for the 2018 Budget are designed to generate an additional R36 billion in tax revenue for 2018/19.

The main tax proposals for the 2018 Budget are:

- An increase in the value-added tax rate from 14 per cent to 15 per cent,
- A below inflation increase in the personal income tax rebates and brackets, with greater relief for those in the lower income tax brackets,
- An increase in the ad-valorem excise duty rate on luxury goods from 7 per cent to 9 per cent,
- A higher estate duty tax rate of 25 per cent for estates greater than R30 million,
- A 52 cents per litre increase in the levies on fuel, made up of a 22 cents per litre for the general fuel levy and a 30 cents per litre increase in the Road Accident Fund Levy, and
- Increases in the alcohol and tobacco excise duties of between 6 and 10 per cent.

In developing these tax proposals, government reviewed the potential contributions from the three major tax instruments which raise over 80 per cent of our revenue; personal and corporate income tax and VAT.

We have increased personal income tax significantly in recent years, particularly at the higher income bands, and our corporate tax is high by international standards.

We have not adjusted VAT since 1993, and it is low compared to some of our peers.

We therefore decided that increasing VAT was unavoidable if we are to maintain the integrity of our public finances.

The current zero-rating of basic food items such as maize meal, brown bread, dried beans and rice will limit the impact on the poorest households.

Vulnerable households will also be compensated through an above average increase in social grants.

Some relief will be provided for lower income individuals through an increase in the bottom three personal income tax brackets and the rebates.

In addition to VAT, we are increasing excise duties on luxury goods and estate duty on wealthy individuals.

Taken together, we believe these proposals best protect the progressive nature of our tax regime, to minimise the impact on lower-income households.

The National Treasury, in close cooperation with the Reserve Bank, the Financial Intelligence Centre and the South African Revenue Service, is taking several steps to detect, disrupt and deter illicit financial flows.

These measures include increasing capacity, coordinating a national risk assessment and improving information sharing between various agencies.

In line with G20 recommendations, policy measures to deal with transfer pricing and base erosion by multinational companies are been implemented and continue to be tightened.

Having a sustainable tax base is important to ensure that government has enough revenue to meet its spending needs.

Companies can structure affairs to reduce their tax base in South Africa and shift their profits to low-tax countries.

This threatens the sustainability of our tax base and is a challenge that most governments are struggling with.

The implementation of country-by-country reporting will enable SARS to ensure that companies pay their fair share of tax in SA.

We are also investigating options to further curb the practice of excessive interest deductions by companies in order to reduce their tax liability.

The realisation of taxes from the off-shore wealth of taxpayers, as highlighted in the Panama and more recently the Paradise Papers, was evidenced in the over 2000 applications for disclosure by South African taxpayers under last year’s Special Voluntary Disclosure Programme.

It is anticipated that by the end of March 2018 over R3 billion will have been collected in respect of the SVDP that have been processed, with work on remaining applications continuing into the new fiscal year.

Measures to approve material cross-border transactions involving state-owned entities will be put in place.

The digital economy brings about many technological advances that have led to changes in business models.

Today, we update draft VAT regulations to cover foreign businesses selling electronic services to South African consumers.

Working closely with the Department of Trade and Industry, I have approved six special economic zones that will make qualifying companies subject to a reduced corporate tax rate, and enable them to claim an employment tax incentive for workers of all ages.

These measures will promote investment in those manufacturing and tradable services sectors that encourage exports, job creation and economic growth.

Working with the Minister of Science and Technology, Government has streamlined the administration of the research and development tax incentive.

Aside from raising revenue, the tax system is increasingly required to play a role in protecting the natural environment and promoting sustainable use of limited resources.

Parliament is currently considering the draft Carbon Tax Bill, which will assist South Africa to meet its climate change commitments to reduce our carbon emissions.

The tax will be implemented from 1 January 2019.

As with greenhouse emissions, the polluter-must-pay-principle must also apply to other activities which harm the environment, like the dumping of plastics into our oceans and threatening of marine life.

Working with the Department of Environmental Affairs, we will shortly publish a policy brief to broaden the scope of environmental fiscal reform, to explore fiscal and regulatory measures to improve water resource management, mitigate the emission of pollutants and encourage recycling to reduce waste, such as plastic, which is polluting our oceans.

Madame Speaker,

Tax morality is a crucial component of a healthy democracy.

It has taken many years and lots of effort to build the foundation of trust that supports our tax morality.

We have seen how quickly that citizens' trust can be eroded by perceptions of poor public governance.

At the SONA, the President has announced his intention to establish a commission of inquiry into tax administration and governance at SARS.

This year, government will respond to the Davis Tax Commission's report on tax administration and introduce draft legislation to give effect to some of its recommendations, including those on the accountability of SARS to the Minister of Finance, and the establishment of a supervisory board, as well as measures to strengthen the Office of the Ombud.

Government will also take steps to implement the customs modernisation programme currently implemented by SARS, to give effect to the new customs and excise legislation passed in 2014.

Medium term expenditure and the division of revenue

Honourable Speaker,

Allow me to now deal with how government will be spending its limited resources.

Consolidated spending will increase from R1.67 trillion in 2018/19 to R1.94 trillion, representing a nominal annual average growth of 7.6 per cent, or 2.1 per cent in real terms.

In aggregate, government will be spending R792 billion on basic education, R668 billion on health and R528 billion on social grants, over the medium term.

This coming fiscal year alone, government has allocated over R200 billion for peace and security and another R200 billion for economic development to build a safer country and to grow our economy inclusively.

The largest reallocation of resources towards government's priorities was on higher education and training, amounting to additional funding of R57 billion over the medium term.

As a result, this is the fastest-growing spending category, with an annual average growth of 13.7 per cent.

Accordingly, this government is proud to implement a major step forward towards our ultimate goal of guaranteeing access to higher education and training for all South Africans who qualify based on merit, not class position.

This follows former President Zuma's response to the Heher Commission of Inquiry into Higher Education and Training.

Government will phase in fee-free higher education and training to students from poor and working-class families.

This means that all new first-year students with a family income below R350 000 per annum at universities and TVET colleges in the 2018 academic year will be funded for the full cost of study.

This will be rolled out in subsequent years until all years of study are covered.

Returning NSFAS students at university will have their loans for 2018 onwards converted to a bursary.

This is an important step forward in breaking the cycle of poverty and confronting youth unemployment, as labour statistics show that unemployment is lowest for tertiary graduates.

Higher and further education and training is being made accessible to the children of workers and the poor.

Basic education remains a key focus in the 2018 Budget.

Over the medium term, R3.8 billion allocated to the *School infrastructure backlogs grant* will replace 82 inappropriate and unsafe schools, and provide water to 325 schools and sanitation to 286 schools.

The *Education infrastructure grant* is also allocated R31.7 billion over the medium term to build new schools, upgrade and maintain existing infrastructure, and provide school furniture.

Meals will be provided at 19 800 schools for about 9 million learners each school day through the *National school nutrition programme grant*, which is allocated R21.7 billion over the medium term.

39 000 Funza Lushaka bursaries, disbursed via the National Student Financial Aid Scheme, at a cost of R 3.7 billion for prospective teachers in priority subject areas such as mathematics, science and technology will be provided over the next three years.

Our social protection systems continue to protect the poorest and most vulnerable and government has continued progressively on the path towards National Health Insurance (NHI).

Over the medium term, the NHI is allocated an additional R4.2 billion, funded through an amendment to the medical expenses tax subsidy.

Overall, government will be spending R205 billion on health in 2018/19 growing to R240 billion by 2020/21.

Government has taken deliberate steps to adjust social grant values above inflation to at least partially cover for the proposed increase in VAT, therefore:

- The Old age, disability and care dependency grants will increase on 1 April 2018 from the existing R1600 by R90 to R1690 and by a further R10 to R1700 on 1st October 2018.
- The Child Support grant will increase from the baseline of R380 to R400 on 1 April and to R410 on 1 October. This is a 6.6% annual increase.
- An additional R2.6 billion has been added since the MTBPS to social grants to enable these changes.

These adjustments resulted in social protection spending increasing by 7.9 per cent per year, much above inflation.

As highlighted by the President in the State of the Nation Address, government will ensure that social grants will continue to be paid without disruption.

The 1st round of projects for the budget facility for infrastructure was received in 2017.

The facility received 64 projects with an estimated funding requirement of R139 billion.

Of the projects received, 38 met the requirement for evaluation. The evaluation process is currently being finalised and projects that meet the criteria are expected to receive approval for funding in the 1st quarter of 2018/19.

The BFI should also assist us in attracting private investment for projects.

Government continues to support South African companies to grow and to become more competitive through incentives in the form of grants, loans and tax allowances.

R18.8 billion is allocated for industrialisation incentives over the medium term of which an additional allocation of R3.3 billion is allocated for the Economic Competitiveness and Support Package to support growth and job creation in support of the Industrial Policy Action Plan.

Government is spending a significant amount on small business support in the medium term.

This money aims to foster and support entrepreneurs like Ayanda and Siyanda who are here today as our special guests.

I would like to invite them please to stand up wherever they are.

They have founded a clothing label called PEX Lifestyle, and describe themselves as “true hustlers, not waiting for government programs or handouts.”

We salute your enterprising spirit and call on the public to support them and others like them.

Of the incentives budget, R4.9 billion is allocated for industrial infrastructure projects over the medium term for special economic zones, government-owned industrial and critical infrastructure projects to promote industrial development and increase investment and exports of value-added commodities.

To strengthen global market access for South African agricultural products the Department of Agriculture, Forestry and Fisheries received an additional allocation of R40 million over the MTEF to upgrade infrastructure and equipment for analytical services laboratories.

This will provide assurance to global trading partners that South African agricultural products meet internationally recognized standards for human safety, thereby facilitating our ability to export unhindered.

In line with the outcomes of Operation Phakisa on Agriculture, Rural Development and Land reform, the Department of Agriculture, Forestry and Fisheries aims to create and support 450 sustainable and profitable black commercial producers participating in prioritised value chains over a five-year period.

An estimated R581.7 million is expected to be reprioritised for the black producer commercialisation programme.

By creating opportunities for black agricultural producers, we are radically transforming the agricultural sector of our economy.

Over the medium term, the Department of Rural Development and Land reform, intends to accelerate the settlement of restitution claims with plans to finalise 2 851 claims at a budgeted amount of R10.8 billion.

Accelerating land reform has become urgent and the Department of Rural Development and Land reform has set aside R4.2 billion for the acquisition of about 291 000 hectares of strategically located land.

The Judicial Commission of Inquiry into State Capture is ready to commence with its work.

Budget allocation for the Commission will be considered during the 2018 Adjustment Budget once its costing is finalised.

The preparations for the 2019 elections are well ahead, supporting one of the crucial pillars of our young democracy.

The challenges relating to the address harvesting and to record proper addresses of eligible voters as prescribed by the Constitutional Court are being resolved and will be concluded in the first quarter of the 2019 financial year.

Provincial and Local Government

Drought

Madam Speaker,

Severe drought conditions are affecting large parts of the country, and it is placing extreme strain on the supply of water to nearly 4 million people in the City of Cape Town.

Some smaller towns in Northern Cape, Eastern Cape including Nelson Mandela Bay and Western Cape are also facing water shortages.

South Africa is a water-scarce country, and our climate is changing in ways that make rainfall patterns far less predictable than in the past.

We need to conserve water.

We have among the highest levels of per capita daily domestic water consumption levels in the world, but also some of the highest levels of inequality in reliable access to water.

National government will continue to work with municipalities to respond effectively to the water crisis.

Government stands ready to provide financial assistance where necessary:

- A provisional allocation of R6 billion has been set aside in 2018/19 for several purposes, including drought relief and to augment public infrastructure investment.
- Government is concerned by the potential job losses in vulnerable farming communities as a result of the drought. We are therefore exploring the option of partially mitigating losses by temporarily increasing intake in the Working for Water programme.
- Allocation for drought response funds for water infrastructure projects and EPWP will be made in the Adjustment Budget
- To provide short term assistance, this budget includes disaster relief grants for provinces and municipalities worth R473 million in 2018/19. Other conditional grants can also be reprioritized to respond to disasters if necessary.

Division of Revenue

Madam Speaker,

Our Constitution requires equitable division of revenue between the spheres of government and sets out criteria that govern the divisions.

Over the MTEF period ahead, after providing for debt-service costs and the contingency reserve, funds available for spending on public services grow by an average of 7.1 percent per annum, increasing to R1.3 trillion next years, and projected to rise to R1.5 trillion in 2020/21.

Over the next 3 years, 48 per cent of nationally raised funds are allocated to national government, 43 per cent to provincial government and 9 per cent to local government.

Of course, we would like to be able to allocate more to each sphere for service delivery, and a larger share to local government, but the reality is that the rising cost of servicing our national debt leaves less resources available to invest in services across all three spheres of government.

Quality of services

The delivery of health services, for which provinces remain responsible, has recently come under the spotlight.

It should be noted that provinces face different challenges when it comes to the delivery of health services, and national government is aware and working towards resolving these challenges, whilst fast tracking the testing of platforms in preparation for the NHI.

It is for this reason that a Joint Health Action plan spearheaded by the Department of Health and National Treasury is highly welcomed by the provinces and will focus on a number of intervention areas including quality of care, medico-legal claims, human resources, information systems and overall infrastructure for the delivery of health services.

Local government financial management

Madam Speaker,

Local governments continue to face significant financial management and governance challenges.

Too many municipalities do not charge tariffs that reflect the full cost of the services they deliver, in particular for water services.

Many municipalities do not collect the funds that are owed to them, and do not adopt credible budgets.

As a result, they are unable to pay their own creditors.

National government already provides extensive capacity support to municipalities, but over the period ahead we will review the effectiveness of these different support measures and introduce a new instrument designed to assist the turnaround of some of the most troubled municipalities.

Urban renewal and Spatial Transformation

Madam Speaker,

Cities are the heart of the national economy and hold the potential to drive our economic renewal.

South Africa's eight metros are home to 39 per cent of our population but account for half of all employment (formal and informal) and 57 per cent of the country's economic output.

The economic importance of cities is likely to increase.

We must take advantage of this dynamic to drive inclusive growth.

The Integrated Urban Development Framework sets out government's policy commitment to improving the productivity of South Africa's urban areas.

Achieving this will require us to re-think approaches to South Africa's urban development challenges, and to find new ways in which to stimulate faster and more inclusive growth.

On a visit[1] to the Bridge City hub in eThekwini, I saw first-hand the transformative potential of coordinated public investment in reviving township economies through public and economic infrastructure investments and catalysing private sector investments.

Let all urban development stakeholders work imaginatively to transform township economies.

Let us think beyond car washes and spaza shops, important as they are, and find ways to foster productive, high value economic activity in townships owned and managed by township residents.

We need to see factories, workshops, tech hubs and locally-owned retail operations being established in our townships.

By revitalising the township economy and reconfiguring our urban centres, we are radically transforming the unequal spatial planning of our cities.

Government is also alert to the potential of our intermediate cities, that are smaller than the metros, but still significant urban centres.

The better to respond to the urban development challenges they face, this Budget proposes to introduce a new, more flexible grant funding arrangement for these cities over the medium term.

Cities will be able to opt to join this new grant, which will require more integrated long-term planning and a greater contribution to infrastructure investment form their own resources.

[1] Minister Gigaba visited Bridge City on 2 May 2017

State Owned Companies

Madam Speaker,

State-owned companies operate network industries, such as electricity and transport, that underpin our country's economic growth potential.

President Ramaphosa made an unequivocal commitment in the State of the Nation Address, to intervene decisively to stabilise and revitalise state owned enterprises and outlined in his response to the SONA drastic measures we are going to take to implement meaningful and far-reforms to our State-Owned Companies.

To date we have managed to:

- Secure Cabinet approval of frameworks on private-sector participation, the appointment of boards and the costing of developmental mandates
- Appoint a new board, chief executive officer and restructuring officer at SAA, and to implement the long-term turnaround strategy for the entity.
- Appoint a new board at Eskom. The Minister of Public Enterprises instructed the entity to conclude all power-purchase agreements with independent power producers.

The 2017 *Medium Term Budget Policy Statement* warned that the liabilities of several state-owned companies were falling due, and without an improvement in cash flows and governance they would be unable to meet these obligations.

State-owned companies are expected to fund their own operations.

As our winning tipster – Luvo Mgxaji – wrote to us, it is not fair for taxpayer money to be used for continual bailouts, caused by operational inefficiency and financial mismanagement.

We agree with Luvo, we have limited fiscal room and are loathe to use it to subsidize inefficiency, rather than address social needs and invest to improve our economic competitiveness.

Government recognizes that the business models of some SOCs are unsustainable, and their capital structures too reliant on debt.

To confront these issues, we will assist them to develop and implement robust turnaround plans.

This needs to be part of a holistic reform programme which considers the role we want SOCs to play in our economic development.

Some will require restructuring with equity investment.

In the coming year, government may be required to provide financial support to several SOCs which could be done through a combination of disposing of non-core assets, strategic equity partners, or direct capital injections.

In this regard, a property audit conducted by the Department of Public Works shows that national government owns up to 195 000 properties, with an estimated value of over R40 billion.

We will work with them on a programme to better utilize or dispose of these properties in the short to medium term.

Government is finalising a framework on guarantees aimed at both reducing the exposure and improving the quality of the guarantee portfolio.

We can and will ensure that all SOCs are run sustainably and contribute to our national development.

Financial Sector Regulation

Financial sector transformation

Madam Speaker,

Transformation of the financial services sector is critical, as the allocation of capital greatly influences patterns of ownership and production in the economy.

In financial services, government has gazetted the Financial Sector Codes and a R100 billion Black Business Growth Fund has been created through the code.

The fund will assist black entrepreneurs to finance big deals – an intervention that is crucial to transforming capital allocation in the economy.

The Financial Sector Summit will also take place in April 2018.

All of these efforts serve to extend access to South Africans who were excluded from the financial system.

Strengthening the regulatory system

South Africa has a strong financial regulatory system and deep and liquid capital markets.

These are critical ratings strengths.

The two new Twin Peaks authorities will be established on or soon after 1 April 2018, and their powers will be phased in to ensure a smooth transition to the new and tougher regulatory system.

Further steps will be taken to strengthen the system, including introducing deposit insurance and introducing a new way of resolving banks that are in financial distress.

Draft legislation will be published shortly.

Work will continue on reforming the legislation for financial markets and the payment system, to ensure that our infrastructure remains globally competitive.

The Treasury is working with the Reserve Bank, Financial Services Board and other government entities towards a regulatory framework for all types of FinTech.

For instance, the emergence of cryptocurrencies is a major development to which our regulatory regime must respond.

New banks

Government supports the expansion of competitive, affordable banking services, and recognises the value of digital banking services in this context.

New technology offers substantial opportunities for new entrants into the financial sector.

In 2017, the Reserve Bank granted three bank licences – two for banks with significant digital banking capabilities and one for a new digitally focused mutual bank.

These licences will ensure banks are able to harness the power of technology and bring competition and innovation into the sector.

We are pleased that one of the new banks has significant direct black ownership.

Welcoming back Old Mutual

We welcome the return this year of Old Mutual, which will move its primary listing back to the Johannesburg Stock Exchange.

We see this as a major vote of confidence in the attractiveness and growth potential of South Africa as a market in its own right, as well as a headquarters for African operations.

There will be regulatory benefits with respect to risk and governance, but most importantly, it is good to welcome home one of our oldest financial services companies.

Steinhoff

Madam Speaker,

Government notes recent exposure of fraudulent accounting practices involving Steinhoff, resulting in large losses for many retirement and institutional funds.

Government regulators, namely, the Financial Services Board, Independent Regulatory Board of Auditor and other regulators have initiated investigations which are currently in progress and are working with overseas regulators to ensure that those at fault are made to account for their crimes.

As President Ramaphosa said during the SONA,

> “We must fight corruption, fraud and collusion in the private sector with the same purpose and intensity.”

It is vital that we subject corporate corruption to the same amount of scrutiny and ensure, among others, that we implement the IRBA recommendations on Mandatory Audit Firm Rotation (MAFR) in order to ensure the rigor of the audit process and independence of Audit Committees and Firms.

Making it easier to invest across borders

Madam Speaker,

A range of reforms are proposed to make it easier for South Africans to diversify and invest into Africa.

The offshore allocation limits for institutional investors are increased by five percentage points across all categories.

This includes the special allocation to African investments, which will rise to 10 per cent.

The limit applicable to HoldCo, also known as Treasury management companies, has also be increased.

Further administrative reforms are contained in Annexure F of the Budget Review.

Improving the treatment of retirement fund members

Government's retirement reform programme will continue in 2018.

Consultations at NEDLAC on annuitisation of provident funds and preservation are still in progress, and it is my hope that an initial agreement can be concluded later this year.

Government has also directed the Financial Services Board to proceed with measures to modernize and improve the governance of all retirement funds, starting with the requirement that all retirement funds must now submit audited financial statements annually.

Other steps include the strengthening of enforcement measures, lowering costs and consolidating funds, and consulting with NEDLAC on more efficient measures to find beneficiaries when funds are not claimed.

Strengthening Public Auditing

During the current financial cycle, we engaged with the Auditor-General and are making proposals to amend the Public Audit Act.

This was occasioned by the worrying trend we see in rising unauthorised, irregular, fruitless and wasteful expenditure.

We will finalise the process this year, to address these issues effectively.

Public Procurement

Madam Speaker,

It is the policy of this government to leverage public procurement to support black economic empowerment, industrialisation and development of small businesses.

Public procurement – worth hundreds of billions of rands annually – is a critical lever to change the production and ownership patterns of the economy to empower black people, women and youth.

For this reason, amendments to the Preferential Procurement Regulations became effective in April 2017.

Key changes include:

- Targeted procurement from designated groups, including township and rural enterprises, black women and youth enterprises, cooperatives and people with disabilities, among others

- Compulsory sub-contracting to designated groups in all projects or contracts above R30 million. Nothing prevents organs of state from applying sub-contracting provisions in projects or contracts below R30 million.

- Designation of sectors, and industries for localization to support industrial development, localization and job creation.

The Public Procurement Bill will be submitted to Cabinet in March 2018 for gazetting for public comments.

It will further enable government to use public procurement strategically to advance transformation, achieve efficiencies, and improve governance.

Treasury will increase collaboration with all law enforcement agencies to strengthen efforts to fight fraud, corruption and abuse of SCM system across all spheres of government in order to restore the integrity of supply chain management.

In recent years, a large number of deviations from normal procurement processes has reduced the credibility of the supply-chain management system.

Deviations can also result in anti- competitive practices that open the door to corruption, and which limit transformation by preventing small businesses from doing business with the state.

In future, deviations will be allowed only in rare, well-justified cases.

Madam Speaker,

Government has a number of ‘evergreen’ contracts, which are open-ended.

Evergreen contracts create barriers to entry, making it impossible for new entrants to participate in the allocation of government contracts.

SMMEs and black-owned companies find it very difficult to participate in procurement opportunities as a result.

We are therefore in the process of reviewing all of these with a view to ending them in the majority of cases.

Madam Speaker,

Payment of suppliers on time is regulated by the PFMA and MFMA.

Next week, the Director-General of National Treasury will issue a directive to all government departments and public institutions, instructing them to pay suppliers on time, or be charged with financial misconduct.

This must be monitored by accounting officers, and National Treasury will strengthen oversight mechanisms in this regard.

We will work with colleagues in all spheres of government to improve performance of public entities on this critical issue.

Value for money and efficiency in spending remain critical in our drive to ensure the effective management of public resources.

We are currently rolling out the strategic procurement framework that provides for a differentiated approach of procurement based on the characteristics of each commodity.

A differentiated approach can achieve efficiencies through economies of scale, reduced duplication, and more transparent pricing.

In considering centralised procurement of certain commodities, we will be careful to avoid compromising competition and support for local economic development where provinces are best placed to procure such products and commodities.

Together with the Department of Public Works, we will embark on an intensive drive to reduce government spend on rental and property leases.

We will review the current three-year rental lease period which is prescribed for government departments, to lower the cost of financing for property lessors.

This will unlock growth and value in the property sector.

Open Budgeting

Management of public finances must continue to remain at the core of a capable and people-centred state.

South Africa continues to set the gold standard for budget transparency.

Citizens should be proud of the independent international recognition of being ranked first in the most recent 2017 Open Budget Survey, together with New Zealand.

We are grateful for the historical contributions of oversight institutions like Parliament and the Auditor-General towards this achievement.

Looking to the future, true to the South African budget reform approach, we are not seeking the easy way out and our efforts will not be superficial.

We are prioritising public participation.

We are taking National Treasury further to the people.

In partnership with a civil society coalition named IMALI YETHU (Our Money), we are investing the necessary resources to forge a genuine partnership in order to tackle very ambitious targets for public participation.

This partnership has given birth to vulekamali (Open! Money), an online budget data portal launched just yesterday aimed at making the use of all our budget information much easier.

We seek to build an active citizenry that engages in discussions that are meaningful, together with government, regarding service delivery and policies that affect every citizen.

Conclusion

Madame Speaker, fellow South Africans.

Given the choices we have had to make, both as a nation and as Government in preparing this Budget, I am reminded of the words of Lerone Bennett Jr., in the "The Road Not Taken", when he said:

> "A nation is an amalgam of critical decisions made at crucial forks in the road. A nation is a choice. It chooses itself at fateful forks in the road by turning left or right, by giving up something or taking something – and in the giving up and the taking, in the deciding and not deciding, the nation becomes."

Given the difficult circumstances we have been in and the choices we had to make in order to steer the course, maintain the trajectory of our policy objectives and sustain our public finances, we have made the tough calls and decisions that affirm our nationhood.

At crucial forks in the road, we made and continue to make the critical decisions that continue to forge our nation.

The budget we present today is not easy and the choices we have had to make are difficult, but Spirella reminds us that:

> "There's no thrill in easy sailing when the skies are clear and blue, there's no joy in merely doing things which anyone can do. But there is more satisfaction that is mighty and sweet to take, when you reach a destination that you thought you'd never make."

Through our liberation struggle, and the advent of our democratic era, we have shown incredible perseverance, humanity, selflessness and courage.

We have shown the ability to find common ground amidst a painful history and deep division, and a fearlessness of youth that has helped us to choose ourselves again and again by giving something up or taking something.

Through this budget, we choose ourselves yet again; we do the things Madiba dared us to do at the advent of our democracy that would affirm humanity's conviction in the nobility of our course and its pride in our efforts and daily deeds.

We must once again embody these core values if we are to meet our current challenges.

We can and must find in ourselves, the ethical leadership of Madiba, the selflessness of Albertina Sisulu, and the humanity of Hugh Masekela.

Let this be the year of renewal, revitalization and a step change in progress in fostering inclusive economic growth which rolls back unemployment, poverty and inequality.

The opportunity is before us.

To take advantage we need to be able to see beyond our individual interests to the national interest, as Madiba so often did, and to find common ground.

Let us work together to create a better life for every citizen and inhabitant of our beloved country.

Let each of us lend a hand.

At this stage, I wish to thank former President Zuma for his leadership during the budget process.

I wish to thank you, President Ramaphosa, for your leadership, counsel and commitment to unblocking obstacles to inclusive growth.

I am grateful to my Cabinet colleagues, who share with me collective responsibility for the shaping and implementing this Budget.

I sincerely thank members of the Ministers' Committee on the Budget for their time, diligence in sifting through budget memoranda, and insights in the debates that helped refine the budget proposals.

I must express my gratitude to our Provincial Premiers and Finance MECs, and Municipal Mayors, for bring invaluable experience on service delivery at provincial and local level, and who share our fiscal and financial responsibilities.

Thank you Deputy Minister Buthelezi for your constant support along this journey.

Our collective thanks are due to:

- The South African Reserve Bank, the South African Revenue Service and the finance family institutions.

- The Financial and Fiscal Commission and its chairperson Prof Daniel Plaatjies, whose advice is critical for the integrity of our intergovernmental fiscal system.

- Honourable Carrim, De Beer and Phosa and the finance and appropriation committees, who have responsibility for considering the Division of Revenue Bill, the Appropriation Bill and today's revenue and expenditure proposals.

- NEDLAC, its Executive Director Mr. Madoda Vilakazi, and representatives of the business, labour and community constituencies on the Public Finance and Monetary Chamber for bringing a holistic perspective to our economic challenges.

I want to sincerely thank the Director-General Mogajane and the team at National Treasury for your expertise, hard work and deep commitment to public service, as well as the long hours that went into producing this Budget.

I must thank my family for their continued support and inspiration.

Most importantly, I would like to thank South Africans who listened to this Budget Speech, for their kind attention, and for their constructive criticism that often helps us to become better at what we are doing.

Ngiyabonga
Ke-a-leboha
Na Khensa
Ndi-a-livhuwa
Ngiyathokoza

Summary of the national budget

R million	2017/18 Budget estimate	2017/18 Revised estimate	2018/19 Budget estimate	2019/20 Medium-term estimates	2020/21 Medium-term estimates
REVENUE					
Estimate of revenue before tax proposals			**1 285 146**		
Budget 2018/19 proposals:			**36 000**		
Direct taxes			**7 310**		
Taxes on individuals and companies					
Personal income tax			**7 510**		
Revenue from not fully adjusting for inflation			6 810		
Revenue if no adjustment is made			14 155		
Partial bracket creep for personal income tax			-7 345		
Medical tax credit adjustment			700		
Corporate income tax			**-350**		
Special economic zones			-350		
Taxes on property			**150**		
Estate duty increase			150		
Indirect taxes			**28 690**		
Increase in value-added tax			22 900		
Increase in general fuel levy			1 220		
Increase in excise duties on tobacco products			420		
Increase in excise duties on alcoholic beverages			910		
Increase in ad valorem excise duties			1 030		
Increase in environmental taxes			280		
Introduction of health promotion levy			1 930		
Estimate of revenue after tax proposals	**1 242 417**	**1 194 585**	**1 321 146**	**1 427 785**	**1 542 655**
Percentage change from previous year			*10.6%*	*8.1%*	*8.0%*
EXPENDITURE					
Direct charges against the National Revenue Fund	**636 178**	**635 937**	**683 691**	**738 283**	**794 512**
Debt-service costs	162 353	163 155	180 124	197 664	213 859
Provincial equitable share	441 331	441 331	470 287	505 020	542 447
General fuel levy sharing with metropolitan municipalities	11 785	11 785	12 469	13 167	14 027
Skills levy and sector education and training authorities	16 641	15 771	16 929	18 299	19 819
Other 1)	4 067	3 895	3 883	4 133	4 360
Appropriated by vote	**767 038**	**775 993**	**814 509**	**883 980**	**950 815**
Current payments	216 813	217 708	225 904	241 732	258 852
Transfers and subsidies	529 374	524 279	569 851	623 194	671 700
Payments for capital assets	15 831	15 078	14 297	14 346	15 349
Payments for financial assets	5 019	18 928	4 457	4 708	4 914
Provisional allocation for contingencies not assigned to votes 2)	-	-	6 000	2 308	2 125
Total	**1 403 215**	**1 411 930**	**1 504 200**	**1 624 571**	**1 747 452**
Plus:					
Contingency reserve	6 000	-	8 000	8 000	10 000
Estimate of national expenditure	**1 409 215**	**1 411 930**	**1 512 200**	**1 632 571**	**1 757 452**
Percentage change from previous year			*7.1%*	*8.0%*	*7.6%*
2017 Budget estimate of expenditure		**1 409 215**	**1 522 183**	**1 652 192**	
Increase / decrease (-)		*2 715*	*-9 983*	*-19 621*	
Gross domestic product	*4 741 206*	*4 699 381*	*5 025 379*	*5 390 083*	*5 808 342*

1) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, National Revenue Fund payments (previously classified as extraordinary payments), and the International Oil Pollution Compensation Fund.
2) Provision for contingencies related to drought relief in several provinces, support to the water sector and public investment projects supported by improved infrastructure planning.
Source: National Treasury

Summary of the consolidated budget

R million	2017/18 Budget estimate	2017/18 Revised estimate	2018/19 Budget estimate	2019/20 Medium-term estimates	2020/21 Medium-term estimates
National budget revenue [1)]	**1 242 417**	**1 194 585**	**1 321 146**	**1 427 785**	**1 542 655**
Revenue of provinces, social security funds and public entities	171 684	159 044	169 570	181 884	194 247
Consolidated budget revenue [2)]	**1 414 101**	**1 353 629**	**1 490 716**	**1 609 669**	**1 736 902**
National budget expenditure [1)]	**1 409 215**	**1 411 930**	**1 512 200**	**1 632 571**	**1 757 452**
Expenditure of provinces, social security funds and public entities	153 912	146 029	158 990	170 385	184 496
Consolidated budget expenditure [2)]	**1 563 127**	**1 557 959**	**1 671 190**	**1 802 955**	**1 941 948**
Consolidated budget balance	**-149 026**	**-204 329**	**-180 473**	**-193 286**	**-205 045**
Percentage of GDP	*-3.1%*	*-4.3%*	*-3.6%*	*-3.6%*	*-3.5%*
FINANCING					
Domestic loans (net)	**151 631**	**201 011**	**173 704**	**174 333**	**185 301**
Foreign loans (net)	**19 585**	**29 774**	**35 932**	**-6 205**	**29 398**
Change in cash and other balances	**-22 191**	**-26 456**	**-29 163**	**25 158**	**-9 653**
Total financing (net)	**149 026**	**204 329**	**180 473**	**193 286**	**205 045**

1) Transfers to provinces, social security funds and public entities presented as part of the national budget.
2) Flows between national, provincial, social security funds and public entities are netted out.
Source: National Treasury