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Budget Speech 2010 by the Minister of Finance Pravin Gordhan

Date: Wednesday, February 17, 2010

Honourable Speaker;

It is my privilege to present the first budget of the administration of President Zuma to this House.

Last week we had the special honour of hosting former President Mandela in Parliament. He exuded his inimitable magic. He reminded us of what we have achieved in our struggle for freedom and in our democratic journey. He reminded us that South Africans are capable of extraordinary things. We are, as you also reminded us, Mr President, an extraordinary people.

Twenty years ago, we showed the world that we could unite around a common cause – a democratic, non-racial, non-sexist South Africa. We showed ourselves, and the world, that we could compete politically and yet find a shared understanding on matters of concern to all of us – building a better South Africa for our children and grandchildren.

Now, we must again use this remarkable national capability to energetically and urgently address the problems of jobs, growth and poverty. As you pointed out Mr President, none of us can rest or sleep peacefully until every South African can say,:
I can see a better future. I can find a job. I can learn a skill. Hard work will enable me and my family to have shelter and food. If my children work hard at school and college, they will have a better future and a thousand opportunities.

Our people need hope. Our people want government to lead. We will lead. Our people want government, business, labour and social organisations to work together to create a better economic future. Our people want to be positively energised so that they can take the initiative to improve their own lives and communities. Our people want action on jobs, growth and poverty. We must build a new common purpose so that we can use all of our talents, skills and resources to tackle our economic and social challenges.

Mr President, you have said we must do things differently. We cannot do the same old things and expect different results. Both South Africa and the world at large must and are looking for different answers and solutions. So the first message of this budget is that all of us, whether you are in Sandton or Upington, in Lusikisiki or Marabastad, we must all be prepared to do things differently.

President Zuma has rightly challenged us to re-examine our plans, and to set a more deliberate, more focused course. Cabinet has agreed on a set of outcomes that will shape our policies and programmes for the years ahead. The public service has begun an organisational restructuring that is driven by the imperative of service delivery. A new engagement between government, the business sector and organised labour is being forged, through which we will mobilise our creativity, our determination, our sheer grit – to build a durable, developmental, just and prosperous nation.

In forging this engagement we will build on the foundations laid over the past two decades. We will also have the courage and humility to do things differently.

South Africa’s structural economic challenge

The key dimensions of our transformation challenge are clear and well-known.
* One in four adults seeking work is unemployed, and almost half our young people have not found work.
* Income inequality is amongst the highest in the world; and half our population survives on 8 per cent of national income.

Closely associated with inequality and economic vulnerability, we confront several social challenges: an HIV and TB pandemic, unacceptably high rates of crime, angry communities and dysfunctional schools.

So we have to do things differently – we have to act now to strengthen the institutions through which public services are delivered, and to transform the structure of our economy, so that all South Africans can share in the opportunities that our country offers.

Economic transformation and social cohesion

We are deeply mindful that economic development and public service delivery are about much more than the numbers through which we measure progress. As development economist Amiya Bagchi has observed, successful developmental states are built not just through public policy and state action, but also through national identity, social cohesion and responsible citizenship – through building social capital that reinforces trust and cooperation, in the place of conflict and fragmentation.

This is surely the central theme in our vision for the next twenty years – that we should succeed in forging a common purpose that dominates over narrow, sectarian interests.

As South Africans, we have learnt over the past twenty years that our shared humanity, our generosity, our resilience and our capacity to deal honestly with each other present a formidable capacity to fight adversity, to find common ground and to move forward. In an important sense this is our most precious national asset – our social capital in the making.

These capabilities now face their sternest test. In the construction of a more just economic order, we must again, in our own way, demonstrate to the world that it is possible to find an agreed way forward – a path in which inequality and narrow selfinterest give way to a longer-term, inclusive, broad-based development path.

We will host a great sporting festival this year, which has been a considerable test of our agility and delivery capacity. We have achieved a remarkable goal in completing the 2010 stadiums in good time. And as we rightly enjoy and take pride in this achievement, we know that we must extend the same extraordinary efforts to addressing our critical social and economic challenges:

* We will be ambitious yet realistic,
* We will be bold yet pragmatic,
* We will be creative and inventive, yet we will build on sound, secure foundations.

In delivering on its developmental mandate, Mr President, in pursuing the social and economic outcomes that we desire, government is ready to forge a new growth path, and to work tirelessly to build a future in which all South Africans can take pride and share in the benefits.

My privilege today, Mr President, is to elaborate on some of the economic and fiscal dimensions of the challenge you have set us, and to share with the House and all South Africans the spending and revenue plans and some of the projects and programmes that the government will undertake over the period ahead.

Global recovery and South Africa's economic outlook

Mister Speaker, in the past year, the world economy has gone through its deepest recession in over 70 years. Brought on by a crisis in the financial sector in developed countries, an estimated 34 million people have lost their jobs. Through a coordinated effort by the G-20, involving extraordinary fiscal and monetary policy interventions, a depression has been staved off.

After declining by 0.8 per cent in 2009, the world economy is expected to grow by 3.9 per cent this year driven largely by the momentum of China's industrial expansion, urbanisation and modernisation.

Yet many commentators caution that these positive trends may be short-lived, and that the world economy may yet experience a second recessionary wave. Employment creation in developed countries remains weak. Large fiscal deficits and emerging asset price bubbles in Asia signal that the recovery is still fragile.

As with the boom period prior to 2008, the global recession will entail sweeping changes to the world economic landscape. Major industries from automobiles, to telecommunications and energy are undergoing restructuring and rapid evolution.

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year. Mining output fell by about 7 per cent, manufacturing by over 12 per cent. Consumption and private investment contracted. About 900 000 people lost their jobs.

Members of the House will recall that in October last year, in tabling the Medium Term Budget Policy Statement, I indicated that recovery from this deterioration would be slow and uneven. We projected that growth this year would be just 1.5 per cent.

However, things are looking slightly better. Our growth expectation for 2010 is now 2.3 per cent, rising to 3.6 per cent by 2012. Household consumption expenditure will improve during the course of this year as confidence improves and household debt levels abate. We expect gross fixed capital formation to record growth of 5.8 per cent, and to strengthen further in 2011 and beyond. The most recent employment statistics show an increase of 89 000 jobs between September and December last year. Consumer price inflation has declined over the course of the last year, and is expected to remain around 6 per cent a year over the period ahead.

These are significant improvements in the economic outlook, but not yet enough to address our challenges of jobs, growth and poverty reduction.

Towards a new growth path

The recent crisis and its aftermath have led to a serious introspection and rethinking of what were thought to be robust and superior economic models. We signalled in last year's Medium Term Budget Policy Statement that South Africa needs a new growth path, and we outlined several key elements in the growth strategies of successful nations. Since then, there has been robust debate on several aspects of economic policy. There is substantial agreement that our key challenges are job creation, poverty reduction and faster economic growth.

So what is to be done?

Allow me to quote from Cosatu's recent statement:
Unemployment remains far higher than in any comparable country in the world, and as a consequence poverty is widespread, and we now have world-record levels of inequality. …[It] is essential that we urgently adopt a completely new growth path to transform our economy into one based on labour-intensive industry and one that meets the basic needs of our people.

We agree with Cosatu. Our economy needs to be transformed to meet the needs of all of our people. We also agree that growth on its own is insufficient to solve our unemployment problem. We need to expand the capacity of the economy to grow sustainably and we need growth that is more labour absorbing.

We also find ourselves in agreement with the CEO of Business Leadership South Africa, who wrote the following in this week's Sunday Times:
The fact is that South Africa is not making sufficient progress because there is no shared vision that prioritises growth as a national goal…

The first step would be for society, led by government, but with business, labour and civil society in close support, to agree on a vision of doubling the size of the economy within a generation.

Mister Speaker, it is time to put aside our differences and recognise that we have a shared vision of a new economy. We have a shared intent to expand income and employment over the period ahead. We have a shared appreciation for the role of investment and enterprise in underpinning growth; and we share a common commitment to improve service delivery and build a competitive economy.

This budget outlines several aspects of a new growth path for our country:
1. A concerted effort to reduce joblessness among young people
2. Support for labour-intensive industries through industrial policy interventions, skills development, public employment programmes and a rural development strategy.
3. Sustaining high levels of public and private investment and raising our savings level.
4. Improving the performance and effectiveness of the state, especially the provision of quality education and training at all levels.
5. Reforms to increase inclusion and participation in the labour market, alongside efforts to improve competition in product markets.
6. Keeping inflation low, striving for a stable and competitive exchange rate, and providing a buffer against global volatility.
7. Raising productivity and competitiveness, opening up the economy to investment and trade opportunities that can boost exports. We need to produce the goods and services that other people desire to have; that we can export to the rest of the world.

Our approach to employment creation includes measures to encourage industries and services that have significant jobs potential, stepped up implementation of the expanded public works programme, investment in further education and skills development, encouragement of small business development and entrepreneurship and a new focus on promoting youth employment.

Industrial policy

Turning an economy around and achieving the kind of transformation required to draw in the millions of unemployed people into the economy is not an easy task. We must be honest; it will not happen tomorrow morning. It will take time and forwardlooking policies that are effectively implemented. It will take hard work. We must have the courage to make difficult choices about investment priorities, industrial policy options, spending priorities, technology alternatives and trade strategies.

Mister Speaker, we operate in a global village where our fortunes are partly dependent on how well we are able to leverage off the global economy. Other countries are not standing still. Brazil, India, China and a host of other middle income countries are actively taking steps to improve their competitiveness, raise their skills levels, invest in infrastructure and to remove obstacles to growth and employment. South Africa must not be left behind.

Let me take this opportunity to commend Minister Davies and his team for the detailed work that has gone into developing an industrial policy action plan. As part of our growth path, it will contribute to transforming our economy toward a more labour-absorbing and dynamic one.

Climate change and concerns over global energy supply present both challenges and opportunities for South Africa. Industries must be helped to manage scarce resources more efficiently and to reduce greenhouse gas emissions through appropriate pricing of energy. This is necessary to enable investment in sustainable technologies. Green economy initiatives will create new opportunities for enterprise development, job creation and the renewal of commercial and residential environments. This must play a part in our new growth path.

Innovation and enterprise development are rightly the key focus areas of the work of the economic and employment cluster, led by Ministers Nkwinti and Pandor. Over the next year, the cluster will oversee the development of sectoral strategies and actions to raise output, employment, productivity and exports.

Measures to promote youth employment

Another component of our employment strategy is to promote job creation for our youth.

Many South Africans, speaking of their own experiences on the streets of our cities, at factory gates and in rural communities, have urged us to take steps to make it easier for young people to find work. Labour market data confirm that employers are reluctant to hire inexperienced work-seekers, while school-leavers lack basic workplace competencies. Furthermore, our bargaining arrangements push up entrylevel wages, pricing out inexperienced work-seekers.

Under the leadership of the Department of Labour, initiatives are in progress to improve information services to help young people access jobs and training opportunities. We propose to support these reforms through a subsidy to employers that will lower the cost of hiring young people without work experience. Under consideration is a cash reimbursement to employers for a two-year period, operating through the SARS payroll tax platform, and subject to minimum labour standards. It will be available to tax-compliant businesses, non-governmental organisations and municipalities. Our preliminary estimate is that about 800 000 people will qualify. The aim is to raise employment of young school-leavers by a further 500 000 by 2013.

Our intention is that young people should benefit from this initiative by early next year. A discussion document setting out further details of the youth wage subsidy proposals will

be tabled by the end of March.
Monetary policy and the exchange rate Mister Speaker, monetary and exchange rate considerations are also important elements both in adapting to global developments and in creating an environment supportive of growth and employment creation.

Let us remind ourselves about what Section 224 (1) of the Constitution says about the mandate of the Reserve Bank:
The primary objective of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.

As required by the Constitution, the Bank should pursue its mandate independently and without fear, favour or prejudice. The Governor and I will consult regularly to ensure that South Africa is prepared to respond with agility and flexibility to changing economic circumstances.

The global financial crisis has illustrated the need for central banks to take a broader view of the economy in managing inflation; including growth, employment trends, asset prices, financial sector stability and competitiveness of the exchange rate. Our inflation targeting framework incorporates such flexibility and allows inflation to deviate from the target in event of shocks. In such cases, the Bank is required to explain clearly to the public the time frame over which inflation will be adjusted back to within the target range without unnecessary instability in output and interest rates.

A credible monetary policy framework that focuses on managing inflation is crucial to reducing long term borrowing costs and providing confidence about the future. These are necessary to stimulate investment, employment and competitiveness – particularly among exporters and import-competing industries. At present our level of inflation is higher than that of our trading partners, which lowers our competitiveness.

Low and stable inflation is also essential to protect the living standards of workers and the poor.
Mister Speaker, I wish to confirm that the Reserve Bank will continue to pursue a target for CPI inflation of 3 to 6 per cent. Governor Marcus and I have agreed that monetary policy should be conducted in a consistent and transparent manner within a flexible inflation targeting framework. The role of the Bank in maintaining financial stability will also be enhanced.

Improved communication with the public about the role of monetary policy in supporting growth will increase the effectiveness of the Bank in achieving its mandate. The Governor and I agree that ongoing assessment, discussion and commentary about our monetary policy by analysts, interested members of the public, interest groups, and the broader research community, is constructive for the emergence of a social consensus in this area over the longer-term.

Mr Speaker, we are agreed that we need a stable and competitive real exchange rate, though in today's world this cannot be translated into a straightforward fixed price of the rand. Government is concerned that at certain times, rapid capital inflows that may be required to sustain investment spending have the unintended consequence of appreciating the currency. We have therefore agreed with the Reserve Bank that we will continue to take steps to counter the volatility of the exchange rate and to lean against the wind during periods of rapid capital inflows, including reserve accumulation and further exchange control reform.

Long term efforts to support the competitiveness of the real exchange rate include lower wage-inflation, lower budget deficits, larger reserves and a more flexible and dynamic economy. Unfortunately, there is no silver bullet in the pursuit of greater competitiveness. Macroeconomic policy, industrial policy, trade, labour market and logistics infrastructure all contribute to creating a more productive economy.

Fiscal policy and the management of public debt

In our fiscal framework, Mister Speaker, we have seen very dramatic changes during the past year, in response to the global recession.

The budget balance has swung from a surplus of 1 per cent of GDP in 2007/08 to a deficit of 7.3 per cent in just two years. This has cushioned the economy against an even larger decline in output and employment. We have ensured that spending on economic and social services is maintained despite the decline in tax revenue.

This countercyclical response has stood South Africa in good stead by limiting the human and economic costs of the recession. Unlike many countries that entered the crisis with already high levels of debt, we do not have to cut spending or raise tax rates in the short term at the expense of social development and economic growth.

The cost of higher borrowing is, however, greater expenditure on interest. Our public debt is expected to rise from 23 per cent of GDP in 2008/09 to about 40 per cent in 2013, and will only stabilise in 2015. Higher government borrowing is only a temporary solution to our economic challenges. As the world recovers from the recession, those countries with low levels of debt will be better placed to take advantage of growth opportunities. Those burdened with high debt levels will find it more difficult to invest and trade due to a substantial tax burden, high interest rates and perceived financial risks.

To ensure that future growth and public service delivery are not compromised by unchecked rises in interest costs, our medium term fiscal framework allows for a gradual reduction in the budget deficit.

Revenue estimates and tax proposals

The past year has been one of the most challenging periods for revenue collection since 1994. As a result of the deterioration in the South African economy, we now expect to raise R69 billion less in tax this year than we budgeted. Consolidated revenue will be

R658 billion in 2009/10, which is R32 billion less than in the past fiscal year.
* Value-added tax will be R22 billion less than the February budget estimate and 5.1 per cent lower than last year.
* Corporate income tax will be R30 billion less than expected, and over 20 per cent less than the amount we collected in 2008/09.
* Customs duties will be R6 billion below target, personal income tax R4 billion lower and secondary tax on companies R3 billion less.

We will continue to face revenue challenges in 2010/11, as tax revenue growth is likely to lag the recovery. Given the gap between spending and revenue, alongside efforts to curb spending growth, government requires more tax revenue. The preferred method of achieving higher revenues is through base broadening, closing loopholes and improving tax compliance. Additional environmental taxes will be explored both to raise more revenue and to meet environmental objectives.

Notwithstanding this, we may have to raise taxes in future to fund our public spending commitments. However, Mister Speaker, the state of the economy and the financial stress of households must be taken into account. We do not propose to raise the overall tax burden this year.

We are instead proposing moderate tax relief for households, to assist in sustaining the economic recovery. Income tax relief for individuals will amount to R6.5 billion, which largely compensates for the effects of inflation. Most of the relief is provided to taxpayers in lower-income brackets.

To support further broadening of access to medical scheme membership, the monthly monetary caps for deductible medical scheme contributions are also increased.

Taking into account the effect of the tax system on savings, the annual tax-free interest income will be increased from R21 000 to R22 300 for individuals below 65 years and from R30 000 to R32 000 for individuals 65 years and over.

As an on-going part of the process of simplifying our tax system, government proposes further measures to reduce red tape and enhance our attractiveness as a viable and effective location from which businesses can extend their African and other worldwide operations. We will also review the tax treatment of financial instruments to ensure appropriate accommodation of Islamic-compliant finance.

The 2009 Budget announced an ad valorem carbon emissions tax on new passenger cars. Based on subsequent consultations, it is recommended that the original tax proposal be converted into a flat rate emissions tax effective from 1 September 2010. The more fuel efficient your car, the less tax you will pay.

Furthermore, it is proposed to increase taxes on fuel by 25.5 cents a litre. This includes a 7.5 cents a litre increase to contribute to the funding of a new multiproduct petroleum pipeline between Durban and Gauteng, and an increase of 8 cents a litre in the road accident fund levy.

While excise duties on tobacco and alcoholic products will be increased in accordance with the present policy stance, we wish to signal a stronger stance in our efforts to combat the abuse of alcohol. The tax burden benchmarks for alcoholic beverages will be reviewed.

Gambling is subject to various forms of taxation at both provincial and national level. These arrangements will be reviewed to ensure efficient tax collection. I propose to review the current treatment of winnings in the hands of gamblers as exempt from personal income tax. Measures will be considered to limit opportunities for money laundering, unlicensed online gambling and other abuses.

Tax administration

Mister Speaker, the House will join me, I know, in paying tribute to the millions of South Africans who pay their taxes on time, and to the many who have contributed to a more efficient tax system by using the e-filing arrangements. SARS will continue to offer a prompt service to those whose affairs are in order. The 3.2 million individuals who submitted their returns on time and received their assessments within 24 hours in the recent tax season will testify to this.

But there are those who evade their responsibility, and further steps are under way to tackle this tendency. Getting everyone to pay their fair share is a critical means of keeping the overall level of tax rates moderate. Government will take further steps to reduce tax avoidance and tax structuring by tightening company car and other fringe benefit rules, and through measures to ensure that employer deductions are fully reflected in the gross income of employees. Steps will be taken against several sophisticated tax avoidance arrangements, such as the use of transfer pricing and cross-border mismatches.

Using third party information, and targeted lifestyle audits, SARS will take a much tougher approach towards cash-based businesses who avoid VAT. Tough action on firms who do not pay over PAYE and other taxes, even though these have been deducted from employees. The taxpayers of South Africa are not lenders of last resort and SARS is not a bank!

SARS has always shown leniency and understanding for those who come forward voluntarily to disclose prior non-compliance. In line with international practice, this will be formalised in a Voluntary Disclosure Programme which will exist for 12 months from November this year. Non-compliant taxpayers may use this window of opportunity to disclose and pay undeclared tax liabilities at a reduced interest charge and without penalties. Consideration will also be given to align exchange control violation penalties with this voluntary disclosure opportunity.

Reprioritisation of spending towards targeted outcomes

Mister Speaker, our moral contract with the taxpayer is that we will take every measure possible to allocate public spending towards the priorities that they support and that spending will be as efficient as possible.

This year's budget is the first to be shaped by the government's new framework of outcomes and associated targets. These were anticipated in last year's Medium Term Budget Policy Statement, which set out the key spending priorities as:
* Improving the quality of basic education
* Enhancing the health of our people
* Making our communities safer
* Fostering rural development
* Creating jobs; and
* Investing in local government and human settlements.

Mister Speaker, the consolidated budget of government for next year is R907 billion and over the next three years, we will be spending R2.9 trillion. The fiscal framework makes provision for an increase in spending over the MTEF period amounting to R87 billion. In addition, about R25.6 billion has been identified through savings. So in total, we are able to add R112 billion to the baselines of departmental budgets.

Of these amounts, over half go to provinces and municipalities for education, health, municipal infrastructure and human settlements, reflecting our commitment to sustaining growth in spending on our key priorities. Honourable Speaker, to achieve the outcomes we have set ourselves in education and health we need better coordination and alignment between national policy imperatives and provincial budgets. A breakdown in this regard is a recipe for failure. We have to find a mechanism that balances the constitutional responsibility of provinces to determine their budgets with the constitutional entitlement of citizens to education and health services.

Real growth in public spending over the next three years is about 2 per cent a year. This is lower than the rapid growth in public spending over the previous three years, but it still provides for substantial increases in our key spending programmes.

Mister Speaker, in October, the government announced an additional R5.4 billion for spending on our HIV and Aids programme to be able to take on more people and improve the effectiveness of our treatment programmes. Taking into account further policy measures to broaden access to those co-infected with TB and women and children with CD4 counts lower than 350, a further R3 billion is allocated in this budget. Presently, about 920 000 people are on anti-retroviral treatment. The budget provides for the number to rise to 2.1 million in 2012/13.

In addition, we will continue to broaden the use of public private partnerships in the health sector, in particular to improve our hospital system. The flagship PPP hospital project will be Chris Hani Baragwanath, for which a feasibility study is now complete.

In addition, the new George Mkhari and Polokwane academic health complexes are being fast-tracked. Alongside longer term reforms to the financing of health care, a closer partnership between the public and private health care systems is a prerequisite for the introduction of a national health insurance system. Our total national and provincial health spending is projected to be R105 billion next year.

Mister Speaker, education spending remains our largest item of spending, giving meaning to our commitment that it is our number one priority. The total budget for education next year is R165 billion.

To roll out workbooks in all 11 official languages to help raise our literacy and numeracy levels and to test all learners in grades 3, 6 and 9, a further R2.7 billion is allocated to the Department of Basic Education.

Expanding and improving capacity at our FET colleges is a vital part of our growth strategy. We have set ourselves ambitious targets to expand the number of young people studying vocational subjects. The budget for FET colleges of R12 billion over three years, has been shifted from provinces to the national department. A further R1.3 billion is allocated to improve the salaries of FET college educators.

Mister Speaker, Parliament, in its report on the Medium Term Budget Policy Statement correctly identified the need for more spending and better coordination in the important area of rural development. In addition to the funds allocated to the Department of Rural Development and Land Affairs for the Comprehensive Rural Development Strategy, we are setting up a new grant to support on-site water and sanitation infrastructure as part of the rural housing programme. An initial R1.2 billion over three years is provided.

The human settlements grant is one of the faster growing items in the budget. Supported by rising spending on water and sanitation, these investments are critical to reshaping our townships, cities, informal settlements and rural areas. The State of the Nation address correctly identified a key gap in the housing market where middle income people cannot access sufficient finance to afford homes. Government and the banks will work together to find appropriate financing support measures so that more people can access home loans.

An additional R3.6 billion is allocated to the Department of Trade and Industry for industrial policy interventions consistent with government's new Industrial Policy Action Plan. In particular, these funds go to support investment and production in the automotive components and clothing and textile industries.

The local government equitable share receives a further R6.7 billion to support municipalities to cushion poor households for the rising cost of electricity and water. An additional R2.5 billion goes to the Municipal Infrastructure Grant. Total allocations to municipalities rise from R55 billion in 2009/10 to R78 billion in 2012/13. We are mindful of the fact that even though transfers to municipalities have increased strongly over the past five years, service delivery problems persist. We are working with the Minister of

Cooperative Governance and Traditional Affairs to resolve these problems, to improve financial management and to ensure that higher spending allocations translate into real improvements in people's lives.

Over the 2009-2014 period, the second phase of the expanded public works programme aims to create 4.5 million short-term job opportunities. An estimated total of R52 billion is available for various expanded public works projects over the next three years. The MTEF allocations include an additional R2.5 billion that will support labour-intensive projects in the social, non-state and environmental sectors, largely targeted at rural areas.

In 2010/11, R89 billion will be spent on social grants. Provision has been made for the phased extension of the child support grant up to a child's 18th birthday. The state old age pension and the disability grant rises by R70 to R1 080 a month. The child support grant increases by R10 to R250 a month. We recognise that the increase in the child support grant is slightly below the inflation rate, but the social benefit and the cost of bringing in two million more children implies that we have to adjust this grant more moderately.

Mister Speaker, the savings exercise that we have undertaken must be seen as a first step to get better value for money. Too often, the culture in the public service and in state owned enterprises is to ratchet up salaries, spend on frills, travel in luxury and spend more on marketing the agency than in fixing the service. Jointly with Minister Chabane's new department, we will be conducting comprehensive evaluations of several key spending areas this year with a view to eliminating ineffective programmes and generally improving value for money. Furthermore, we will investigate the possibility of rationalising some of our entities and agencies to see if we can deliver the same service at a lower cost.

The resources that we have at our disposal belong to the people. If we do not use these wisely and sensibly, our contract with the people is eroded.

Infrastructure investment and development finance

Public sector investment is a crucial component of development as it provides the infrastructure through which we transport goods, power the economy and connect households and businesses to services and markets. Over the next three years, the public sector aims to spend R846 billion on its infrastructure programme. Extensive planning and consultation is in progress on infrastructure programmes for the next 10-20 years, in recognition of our long-term development challenges.

A significant proportion of the public-sector infrastructure investment programme will be undertaken by state owned enterprises and is not directly financed from the fiscus. Eskom's construction of power plants makes up about a third of the total.

Upgrading our transport infrastructure and water supply capacity makes up much of the balance. The costs of these investments are largely met by users, and will in several cases require higher tariffs to be phased in over the period ahead.

We have taken steps to recapitalise our development finance institutions to allow them to step up their lending to municipalities, land reform programmes and businesses in distress due to the economic crisis. Including provisions in this budget, we have made allowance for the recapitalisation of the Land Bank to the value R2.5 billion. A guarantee of R15.2 billion has been approved for the Development Bank of Southern Africa, enabling it to extend capital to poorer municipalities for infrastructure projects. The Industrial Development Corporation is well capitalised and will continue to play a key role in implementing government's Industrial Policy Action Plan.

Public sector remuneration

Mister Speaker, the 2009 round of salary increases has placed immense pressure on the budget. Including the very necessary adjustment to the salaries of professionals, the wage bill has almost doubled in five years. Now that a major revision to public service remuneration is behind us, it will be necessary to moderate salary increases going forward. This is required to ensure that funds are also available for growth in public service employment and so that spending on school books, hospital building and maintenance of infrastructure is not compromised.

Parliament's powers to amend money bills

Last year, Parliament passed the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). This new legislation sets out a procedure for Parliament to amend money bills such as the budget, as well as tax proposals. It also obliges Parliament to consider the broader implications of any change on the economy and on the delivery of public services, so as to balance the power to change the budget with the need for policy certainty and continuity.

The 2010 Appropriation Bill will be the first budget legislation to be processed in terms of the new Act. It will require close cooperation between the executive and the legislature and we look forward to both learning during the implementation process and to working with the responsible committees to meet this important new legislative mandate.

Measures to combat fraud and corruption

A major site of both wastage and inefficiency is in our procurement system. Through a combination of corrupt practices, inefficient procurement, poor planning and, in some instances, collusion by the private sector, we are not getting the kind of value from our purchases that our people deserve. Even where there is absolutely no corruption, we sometimes give contracts to people who cannot implement them and so houses are left without roofs, roads crumble when it rains; water scheme break down and school books fail to get delivered.

Mister Speaker, corruption is an ever-present threat to our ambitions. All South Africans must constantly and consciously work to root out this cancer. If we are to address this scourge, we need improved management capability, governance, enforcement, and oversight in government, and in the business sector. Poorly managed tender processes are all too often open to such abuse. Greater transparency and accountability in procurement systems will therefore be a key focus of reform in the period ahead.

Additional funds have been allocated to bolster efforts to strengthen supply chain management, and the relevant government departments have intensified efforts to bring perpetrators of tender fraud to book. Data matching, the practice of comparing, for example, taxpayer data with social grants registers or housing waiting lists, will become a regular feature of a systematic approach to minimise abuse. We are starting to see the early results of these efforts: officials have been disciplined and others fired, five people linked to supply chain fraud were arrested in KwaZulu-Natal last week and more cases have been handed over to the National Prosecuting Authority. We are expecting more arrests very soon. An inter-ministerial committee on corruption has been established, Chaired by Minister Chabane, to coordinate government's efforts to stamp out corruption.

Regulatory oversight of the financial sector

During the MTBPS speech in October, I highlighted the immediate challenges facing us due to the global financial crisis: that of maintaining financial stability and improving financial regulation. South Africa is an active participant in discussions at the IMF, G-20, the Financial Stability Board and Basel Committee on Banking Supervision. International events have clearly demonstrated the importance of a stable and well-regulated financial sector.

South Africa was spared from the worst of the crisis. While some of the largest global banks were forced to receive bail-outs, our financial institutions did not require such support. I wish to commend the Reserve Bank for the vital role played in supervising our banking sector. I also want to acknowledge the governance and risk management systems of our banks, which proved effective during the global crisis.

Although our institutions have proved to be robust, we must not be complacent. I want to highlight several new initiatives to improve our regulatory system. * The framework for accountability, co-ordination and performance of our financial regulators needs to be strengthened. A formal council of regulators may be instituted to serve this purpose.
* We are reviewing our adherence to global regulatory standards in banking, insurance and securities markets.
* Various changes to the Basel II framework will be effected once the impact assessment is completed.
* We will be expanding the scope of regulation to include hedge funds, private equity

and credit ratings agencies.
* We will improve our crisis contingency plans.
* We will strengthen enforcement mechanisms to counter abuse.

Mister Speaker, I also intend to meet with the chief executives of the major banks in the next few weeks to discuss firm deadlines to respond to the recommendations of the Banking Enquiry Panel of the Competition Commission. I have met with key stakeholders and bank CEOs to revitalise the Financial Sector Charter, which commits the sector to demanding access and empowerment targets.

Building on the 2009 exchange control announcements in the MTBPS, our broad strategy on exchange control reform remains the prudential management of foreign exposure risk. In line with this approach, Government has now finalised reporting measures for prudential foreign exposure limits on banks, which will be introduced at 25 per cent of their total liabilities. In addition, National Treasury will shortly release a framework document to facilitate consultations on reforming exchange control legislation. Our aim is to modernise our policy on inward and outward investment and complete a framework for prudential regulation of foreign exposure for institutional investors.

Budget tips

South Africans have come to know the “Tips for Trevor” campaign that accompanied the budget every year. Introduced by my predecessor, Minister Manuel, the campaign allowed citizens to contribute to the budget process, and I have continued to draw on this advice. We have also used new forms of media such as Facebook. I would like to thank all those that took the time to send in tips, which give us many new and creative solutions to consider.

Resolving the issue of unemployment clearly needs close cooperation between all sectors of society. Nhlanhla Sophoza of Johannesburg sees the country standing at an opportune moment. She says government should allocate more money to skills development “so that when the real economic growth starts kicking in there will at least be a sizeable pool of much needed skills to draw from - let’s be ahead of the pack this time around!”

A young Mr Mahomed from Gauteng asks whether it is possible for training centres to be equipped and affiliated with companies to provide and train those that require hands on experience. Mr. Mahomed, I agree with you and I have passed this tip onto Minister Nzimande.

Over and above the actions of government, labour and the private sector in addressing the issue of youth unemployment, it is encouraging to see South Africans taking strides in doing what they can to provide answers. Vuyisa Qabaka, a young man from Cape Town, wrote in asking for a larger budget for youth development, focusing on entrepreneurship and job creation. However, Mr Qabaka himself is also in the process of developing his own organisation aiming to support youth development, through an online platform of social media. I would like to commend his efforts and wish him every success in launching “Student Enterprises”.

For this year’s campaign, we asked South Africans to send in tips on how government can save money, and many responded with practical ideas.

Siyabulela Mgwatyu from East London calls for close monitoring of projects in municipalities, and of the travel costs to conferences that yield no results. His views are echoed by Johan Uys, from the Western Cape who works for government and so has first hand experience of where money can be saved. He advises that the system of travel allowances for government officials be reviewed.

The review of the Ministerial handbook will address the concerns of many citizens, such as Thembinkosi Buthelezi from KwaZulu Natal, who calls for the benefits of ministers, their deputies, premiers and MEC’s to be reduced.

Sheila Hlakudi from Gugulethu, who is in the audience today, wrote in to ask for a review of the child support grant processes to prevent abuse of it. Ms Hlakudi, I am pleased to announce that government is indeed reviewing the payment system to reduce fraud and corruption.

Advice was again sent through by traditional healer William Makhale of Soweto. He had previously submitted a 97 page handwritten tip for the 2009 budget, another tip for the 2008 MTBPS that was 60 pages long, and has now sent through a 40 page handwritten tip for the 2010 budget. He rightly argues that more public participation in the budget should be encouraged, especially from community organisations and that community leaders should be trained and skilled so that they can educate their communities so that communities can build organisations that drive development. I agree fully.

On the issue of tax, Mr Len Palmer of Johannesburg cautions that under recovery of revenue should be seen as the biggest threat to this country’s stability. He says that this is hampered by the practices of auditors that undertake what he politely calls “creative book keeping” for industry. I want to emphasis the importance of paying taxes, supporting the country’s development. SARS has put in place stringent measures to tighten collections and ensure that nothing slips through the net.

Conclusion

Honourable Speaker, I have been given immense support and guidance by President Zuma and Deputy President Motlanthe. They have held my hand as I took the first tentative steps as a minister. Our cabinet system is one where we take collective responsibility for the policies that our government approves and similarly, we take collective responsibility for our failings. I would like to thank my Cabinet colleagues for their support, and also for the lively engagement on critical issues facing our country. This budget is our collective statement.

I am especially indebted to members of the Ministers Committee on the Budget, the committee responsible for providing political oversight of the budget process. My colleagues have put in an immense amount of work over and above their line responsibilities.

As a newcomer to the executive, I have been able to lean on Deputy Minister Nene to show me the ropes. He brings a steady hand in a challenging environment.

The MECs for Finance have again been generous in sharing their experience and insights and in dealing with difficult challenges this year – I wish to express a personal appreciation for their support and dedication to the cause of sound public finance.

I wish to thank my predecessor and colleague, Minister Manuel, both for the foundation he has laid in managing the fiscus and in the strength of the team that he has left behind.

Our collective thanks are due also to:
* Governor Gill Marcus, who has approached her task with new ideas and great energy. She too has sought to change things, to build on foundations of success and to do things differently to achieve more.
* Commissioner Oupa Magashula and the staff of the South African Revenue Service, who continue to deliver an outstanding service to the public and our country
* The Financial and Fiscal Commission and its chairperson, Dr Bethuel Setai,
* NEDLAC, its Managing Director, Mr. Herbert Mkhize, and representatives of the business, labour and community constituencies on the Public Finance and Monetary Chamber
* The Honourable Thaba Mufamadi and Honourable Charel de Beer who chair the Standing and Select Committees on Finance respectively and to the two chairs of the Appropriations committees, the Honourable Eliot Sogoni and Honourable Teboho Chaane.
* Lesetja Kganyago leads the National Treasury team, a group of talented and committed professionals who continue to define excellence in the public service and remain an invaluable asset both to government and to South Africa.

The staff in the Ministry have made my shift to the Treasury as smooth and painless as possible.

I also thank my family for their support and inspiration; they too are making a huge sacrifice on my behalf.

My sincere thanks to the many South Africans who stop me in public places to convey their good wishes and encouragement.

Honourable Speaker, The economist and philosopher, Amartya Sen, a Nobel laureate, recently wrote a book, “The Idea of Justice” from which I quote: “the idea of justice calls for comparisons of actual lives and iniquities, rather than a remote quest for ideal institutions”.

Our budget today is an attempt to give meaning to this quest for justice. Justice is not measured by the statistics or ratios. It is measured in our ability to upgrade informal settlements, in our ability to improve literacy and numeracy and in our ability to create jobs and opportunities for young people.

Mister Speaker, our nation has been forged through negotiation and consensusbuilding. Our unique ability to put aside narrow self-interest and seek solutions to serve the shared needs of all our people has seen us overcome challenges which to others had appeared insurmountable.

Today, we need that spirit again, to come together, to draw on our collective experience, put aside our differences and work together to chart out a new path for an economy that benefits all of us.

Government can and must provide the policy frameworks and socio-economic conditions to accelerate job creation in the economic recovery period.

For its part business must balance the pursuit of profit with social justice which will ultimately create the conditions for sustained economic growth for all.

Organised labour must embrace and act on behalf of all our country’s workers – both those employed and those desperate for employment. Our people must be an energetic part of this economic renewal and generate a new spirit of entrepreneurialism so that they can also be masters of their own destiny.

The future we choose today will determine the kind of South Africa our children and their children will live in. The prospect of prosperity for all is a struggle worth fighting with all the will and determination that we can muster. We must give real meaning to justice. For with jobs comes dignity. With dignity comes participation. And from participation emerges prosperity for all!

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