#MTBPS
Bulletin
Medium Term Budget Policy Statement

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LETS TIGHTEN OUR BELTS: The Minister of Finance, Mr Tito Mboweni, arrives in Parliament with his team

Stabilising the economy will need sacrifices from all South Africans

Finance Minister Mr Tito Mboweni says South Africa's bloated public sector wage bill needs to be reviewed, as one of a series of initiatives he announced in the Medium Term Budget Policy Statement in Parliament that could contribute to reducing government spending and stabilising debt, writes ***Sakhile Mokoena.***

Members of the National Assembly heard that the economy is not performing well and stabilising it will require difficult decisions and sacrifices from all South Africans. In tabling the Medium Term Budget Policy Statement in the National Assembly, Mr Mboweni said the government has identified spending reductions of R21 billion in 2020/21 and R29 billion in 2021/22, mostly in the area of goods, services and transfers. He added that to achieve this target, "we will need to find additional measures in excess of R150 billion over the next three years, or about R50 billion a year".

"We will need to deal with the challenges of the wage bill, state-owned companies, executive remuneration and benefits and fiscal leakages. Stabilisation involves difficult decisions that imply sacrifices from all of us. Slowing growth in the compensation bill and additional revenue measures will be needed."

The Minister reported that a detailed analysis of spending on public sector wages shows that 29 000 public servants, plus members of the national executive, Members of Parliament, Members of Executive Councils (MECs) and others, earn more than R1 million a year. After adjusting inflation, this is more than double the number of civil servants who earned more than R1 million in 2006/07.

"The average wage increase across government was 6.8% in 2018/19, or 2.2% above inflation. After adjusting for inflation, the average government wage has risen by 66% in the last 10 years," Minister Mboweni said.

Savings from those taking early retirement have not had the hoped for impact, Mr Mboweni said. He promised that government will reinvigorate this programme. Government will also engage in discussions with the relevant bargaining structures and other stakeholders to achieve a sustainable arrangement.

Announcing salary freezes for Members of the Cabinet, Premiers and MECs, Minister Mboweni also encouraged the leadership of Parliament to think about how they can further contain compensation and benefits.

Minister of Finance tables 2019 Medium Term Budget Policy Statement

The Minister of Finance, Mr Tito Mboweni, has tabled the 2019 Medium Term Budget Policy Statement (MTBPS) before Parliament, a statement of intent on how the economy will be managed over the next three years, writes ***Abel Mputing****.*

South Africa's economy is teetering on the brink of disaster and to rescue it, Mr Mboweni said: "We should rock the boat! Shake the baobab tree! Do the unusual, disrupt the comfort zones. Get things moving."

South Africa's economic profile is a mixed bag of a contracting economic growth and some signs of strengthening investment spending. "In the second quarter, growth in gross fixed capital formation rebounded to 6.1%. Mining grew by 14.4%. In real terms, credit growth has been positive since late 2018. Private sector credit extension rose 6.2% in September."

The consolidated budget deficit is now projected at 5.9% of the gross domestic product (GDP) in the current year. "This year, the national debt exceeded R3 trillion. It is expected to rise to R4.5 trillion in the next three years. Clearly, we need to do things differently," Mr Mboweni said.

One of the problems highlighted by Mr Mboweni is that South Africa spends more than it earns. "As a first step, we have identified spending reductions of R21 billion in 2020/21, and R29 billion in 2021/22, mostly in the area of goods, services and transfers," he added.

On the wage bill, he said the negative effect of the public wage bill on the fiscus has raised its ugly head once again. "The average wage increase across government was 6.8% in 2018/19, or 2.2% above inflation. After adjusting for inflation, the average government wage has risen by 66% in the last 10 years. A sustainable arrangement is sought," he proposed.

Strident conditions will accompany SOEs bailouts

As expected, state-owned enterprises (SOEs) were mentioned in the Minister's Medium-Term Budget Policy Statement (MTBPS). Part of the policy considerations going forward, Mr Mboweni said, is to "wean state-owned companies off the national budget". They must learn to stand on their own feet, writes ***Abel Mputing****.*

Top on the list of considerations is Eskom, where gross inefficiency has had a negative effect on the economy as a whole. To turn its fortunes around, the government has announced a comprehensive set of structural reforms for Eskom and the energy sector, "which we are supporting with R230 billion over the next 10 years".

Difficult budget adjustments have been made to "meet unanticipated cash needs of Eskom". The government has, he said, brought forward R26 billion in 2019/20, R33 billion in 2020/21 and R10 billion in 2021/22.

He cautioned, though, that the government cannot continue to throw money at Eskom. For the sizeable support required, it cannot be business as usual. To that effect, Eskom must "run its current plant and equipment better, achieve other operational efficiencies, including a much better cash management and fast-track the separation of the utility into three parts, among other things".

The plan to determine debt relief for SOEs and to ensure that SOEs are sustainable is contained in the Minister of Public Enterprises' paper that was released yesterday, and which states that "going forward, new cash flow support will no longer be equity, but will be in the form of loans".

Citing Eskom's future debt relief scenario, Mr Mboweni said: "I am convinced that the Eskom board and management has made an irrevocable commitment to implement government's decisions and if there is enough progress, we will negotiate the appropriate size of debt relief." He maintained that Eskom is a business and should be run that way.

South African Airways' (SAA's) financial projections are the bleakest, he said. "SAA is unlikely to ever generate enough cash flow to sustain operations in its current configuration." Which, according to him, then begs the question: "How long are we going to be on this flight path? Forever? I think not." In his view, operational and governance interventions are required urgently at SAA. Most pleasing to him is "to learn that there are conversations involving SAA and potential equity partners, which would liberate the fiscus from this SAA sword of Damocles."

Mr Mboweni said stringent conditions will accompany SOE bailouts in future. The Minister said: "State-owned companies that require support from the fiscus will be subject to certain preconditions and principles because government as a shareholder commits itself to the highest standards of corporate governance."

Government tightens fight against tax evasion and illicit financial flows

Mr Tito Mboweni has told Members of the National Assembly that the government is taking steps to strengthen cooperation between the Financial Intelligence Centre (FIC), the South African Reserve Bank (SARB) and the South African Revenue Service (Sars) and other relevant agencies to reinforce the fight against tax evasion and illicit financial flows, reports ***Sakhile Mokoena.***

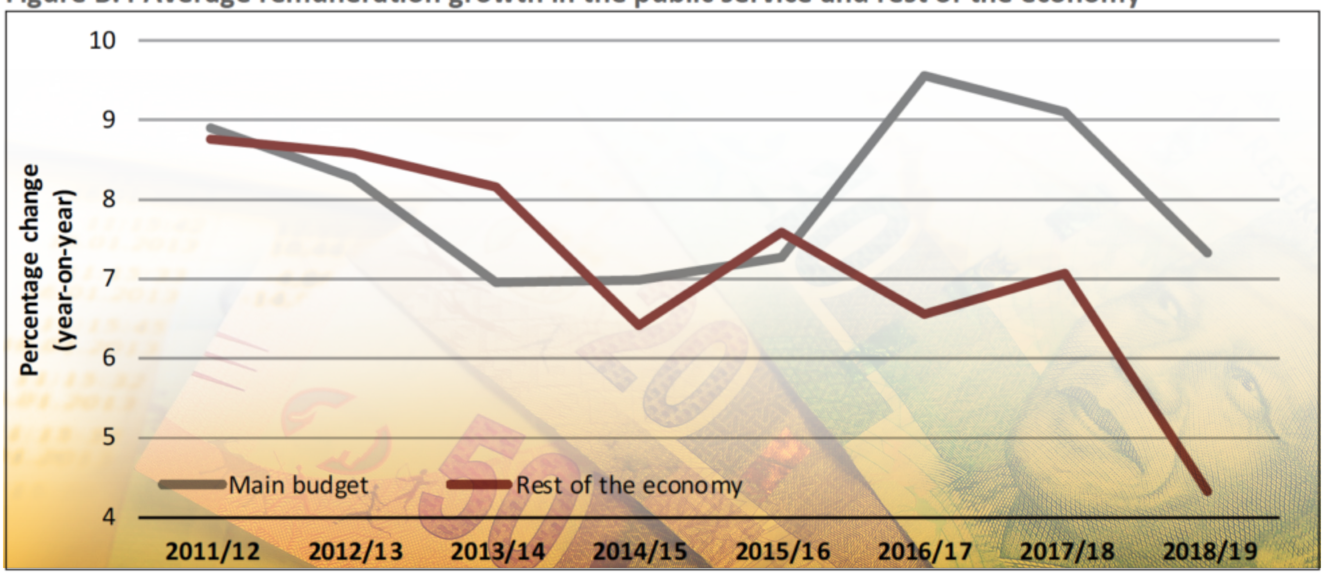
"We will take stronger measures to fight illegitimate cross-border flows and tax evasion. Our approach to money laundering will be reviewed by the Financial Action Task Force," the Minister said.

He added that given budgetary constraints, the government is shifting resources to areas that urgently need to strengthen their capacity and, through reprioritisation, the National Prosecuting Authority will receive an additional R1.3 billion. Sars will receive an additional R1 billion for the next two years. He said these funding shifts will bolster efforts to combat corruption and improve revenue collection.
In relation to Sars: "The Cabinet has approved that we implement the findings of the Nugent Commission of Inquiry into Tax Administration and Governance, and I intend to table a Bill early next year," the Minister said.

Mr Mboweni also commended Sars Commissioner Mr Edward Kieswetter who was appointed in May this year for "taking steps to reinvigorate and re-establish the large business centre, and the litigation, integrity and compliance units".

"We now expect to collect R1.37 trillion this year. This is R53 billion, or 4% less than we expected. Looking ahead, our revenue forecasts are prudent. We assume an elasticity of one, which means a one-to-one relationship between growth in taxes and economic growth, after adjusting for tax measures," the Minister said, adding that without taxes, South Africa will never succeed.

Figure B.4 Average remuneration growth in the public service and rest of the economy



Source: Statistics South Africa