

2017

Budget Speech

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Minister of Finance

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2017 Budget Speech

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Honourable Speaker
Mister President
Mister Deputy President
Cabinet Colleagues and Deputy Ministers
Governor of the Reserve Bank
MECs of Finance
Fellow South Africans

*Sanibonani
Molweni
Goeie middag
Thobela*

I have the privilege to present our Government's budget for the fiscal year 2017/18, and the framework for the next three years.

I am mindful, in the context of our own transformation challenges and the stresses in the global environment, of Oliver Tambo's unwavering vision:

"We seek to create a united, democratic and non-racial society. We have a vision of South Africa in which black and white shall live and work together as equals in conditions of peace and prosperity...[We seek to] remake our part of the world into a corner of the globe of which all of humanity can be proud."

In the words of the Freedom Charter, "South Africa belongs to all who live in it." In drafting our Constitution, this was a central foundational principle, and so the values of freedom, dignity and equality are embedded in our law and our polity.

This is also why our Constitution requires that all who live in our country should have access to housing, medical care, social security, water and education, There should be a progressive

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realisation of access to tertiary education and other elements in a comprehensive set of social entitlements. Wealth and economic opportunities must be equitably shared.

These commitments impose obligations on government – and have implications for the business sector and all stakeholders. We have a shared responsibility to address the social and economic challenges before us.

These South African realities are known to all of us.

- Income growth has been uneven - the bottom 20 per cent have benefited from social grants and better access to services, the top 20 per cent have benefited from the rising demand for skills and pay increases. Those in the middle have been left behind.
- Wealth remains highly concentrated – 95 per cent of wealth is in the hands of 10 per cent of the population.
- 35 per cent of the labour force are unemployed or have given up hope of finding work.
- Despite our progress in education, over half of all children in Grade 5 cannot yet read adequately in any language.
- More than half of all school-leavers each year enter the labour market without a senior certificate pass. 75 per cent of these will still be unemployed five years later.
- Our towns and cities remain divided and poverty is concentrated in townships and rural areas.
- Our growth has been too slow – just 1 per cent a year in real per capita terms over the past 25 years, well below that of countries such as Brazil, Turkey, Indonesia, India or China.

These are our realities. They mirror the stresses of poverty and vulnerability in many developing countries, and the inequality between rich and poor throughout the world.

Even in the developed world, there are serious faultlines and uncertainty:

- Citizens lack of trust in elites
- Growing inequality
- Globalisation benefitting a few
- Stagnant and falling incomes of the middle class.

These, among other factors, are also driving a case for radical transformation of economic models, and a call for inclusive growth.

President Zuma has rightly emphasised that the requirements for transformation and change in South Africa are wide-ranging. Laws and regulations, policies and their implementation,

initiatives of national, provincial and local government, our black economic empowerment charters and the engagement of business, organised labour and civil society partners are all critical levers of change. So is our budget.

This is not a transformation to be achieved through conquest, conflict or extortion, as in our past. We do not seek to reproduce the racial domination that was the hallmark of apartheid nationalism. Our transformation will be built through economic participation, partnerships and mobilisation of all our capacities. It is a transformation that must unite, not divide South Africans. This is the task entrusted to us by Oliver Tambo, Helen Josephs, Walter Sisulu and Rolihlahla Mandela.

We find ourselves at a juncture which requires the wisdom of our elders to help us make the right choices and keep the trust of our citizens.

Summary of the 2017 Budget

Madam Speaker, today's Budget message is that we are once again at a crossroads. Tough choices have to be made to achieve the development outcomes we seek:

- Economic growth is slow, unemployment is far too high and many businesses and families are under stress.
- We face an uncertain and complex global environment.
- At the same time we face immense transformation challenges – we must overcome the inequalities and divisions of our society. All South Africans must share in a more prosperous future.
- We have a plan for a more inclusive, shared economy. Its implementation requires greater urgency and effective collaboration among all social stakeholders.
- Change is difficult, and often contested. In these tough times we draw strength from the resilience and the diverse capabilities of our people, our business sector, our unions and our social formations.

The key features of the framework for the 2017 Budget include the following:

- Expenditure is within the envelope projected in last year's budget.
- An additional R28 billion will be raised in taxes.
- The budget deficit for 2017/18 will be 3.1 per cent of GDP, in line with our fiscal consolidation commitment.
- Government debt will stabilise at about 48 per cent of GDP over the next three years.
- Redistribution in support of education, health services and municipal functions in rural areas remains the central thrust of our spending programmes.

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- Government's wage bill has stabilised. Procurement reforms continue to improve the effectiveness of public spending and opening opportunities for small business participation.
- Our state-owned companies and finance institutions play a substantial role in infrastructure investment and financing development. Their borrowing requirements are taken into account in the overall fiscal framework.

As in past years, Honourable Members, the *Budget Review* and the *Estimates of National Expenditure* provide extensive details of developments in the economy, our fiscal and budget plans and the programmes and activities of government departments and public entities.

But there is a larger purpose, a moral vision and intent behind these plans and programmes. We need to build a new national consensus and a new commitment to deliver, focused on the triple challenges of poverty, unemployment and inequality. President Zuma articulated this intent in the State of the Nation Address, rightly emphasising the radical nature of the socio-economic transformation we need.

Our growth challenge is intertwined with our transformation imperative. We need to transform in order to grow, we need to grow in order to transform. Without transformation, growth will reinforce inequality; without growth, transformation will be distorted by patronage.

Global economic outlook

Madam Speaker, allow me to comment briefly on the international outlook.

After several years of tentative economic growth, there are signs that a more sustainable recovery might be under way.

- Growth in the United States and Europe is steady, although at low levels.
- India and China remain comparatively buoyant, and economies such as Russia and Brazil are set to recover from recessions.
- The International Monetary Fund projects that the world economy will grow by 3.4 per cent in 2017 and 3.6 per cent in 2018.

Many countries face the challenge of ensuring that as growth picks up, its benefits accrue to all in society. The 2008 financial crisis and its aftermath exposed deep fault-lines in the world economy and in the distribution of income. Economic recovery has been slow. In several countries affected by unrest or war, there has been great hardship and dislocation of people. The impact of trends in trade, technology and commodity markets has been uneven. These forces have heightened social and political pressures for change. Global strains manifest in various ways, including the rise of strident economic nationalism and protectionist policies.

Government and business leaders throughout the world have had to reflect on the deficit of trust and loss of social solidarity in their societies. Policies and programmes that strengthen

economic inclusion are being prioritised everywhere. In the words of Pope Francis, *“Reforming the social structures which perpetuate poverty and the exclusion of the poor first requires a conversion of mind and heart”*.

We therefore welcome Germany’s commitment to highlighting Africa and its infrastructure financing requirements as a priority of its term in chairing the G20 countries.

We operate within a connected global economic system. South Africa’s economic performance is affected by global economic trends. We rely on global cooperation to address trade imbalances, the abuse of tax havens and the coordination of financial stabilisation efforts.

South Africa, and the entire African continent, stand to gain from expanding global trade within what Minister Davies has described as a *“more inclusive progressive multilateralism, characterised by real cooperation and solidarity, ... sensitive to the needs of the poorest.”*

South Africa’s growth and transformation

Moderate GDP growth recovery

Our expectation at this stage is that GDP growth will increase from 0.5 per cent last year to 1.3 per cent in 2017, and will continue to improve moderately over the medium term.

- The services sector was the main contributor to growth in 2016, bringing nearly 120 000 new work opportunities.
- Mining continued to underperform while manufacturing output was supported by buoyant sales in petrochemicals, food and beverages and motor vehicles. Mining and manufacturing employment declined by 80 000 jobs in 2016.
- Weak business confidence and low levels of profitability weighed on investment across all sectors.
- Though the policy interest rate has increased by 2 percentage points since 2014, inflation ended the year above the target, with food prices continuing to reflect the impact on agriculture of poor rainfall.
- Lower growth in our trading partners in Africa and elsewhere has contributed to sluggish export earnings.

We expect somewhat higher growth in the coming year on the strength of a number of favourable trends:

- Commodity prices have rebounded
- The exchange rate has recovered from its rapid depreciation last year, which bodes well for capital flows, inflation and business and consumer confidence

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- Drought conditions have abated in most of the country
- Production stoppages associated with industrial disputes have been comparatively low
- Electricity supply has improved, allowing new connections and industrial demand to be accommodated.

But the projected rate of growth is not sufficient to reduce unemployment or impact significantly on poverty and inequality. It falls well short of our NDP goals.

Madam Speaker, we know what to do to get ourselves out of the present low growth trap. *“Ditau ge di shumishana di ka bolaya nare.”* (If lions work as a team they will bring down even a buffalo.)

In order to boost investment in the short term, there are several specific imperatives:

- Finalising legislation relating to mining development and land redistribution.
- Implementing the transition from analogue to digital television, which will release spectrum for broadband services.
- Continuing our independent power producer programme, both in renewables and to take advantage of gas investment opportunities.
- Further strengthening of economic regulatory functions and streamlining investment approval processes.
- Production-friendly industrial relations and prompt resolution of disputes.
- An enabling environment for small enterprises and support through leveraging both public and private sector procurement budgets.
- Focused support on labour-intensive sectors, including agriculture, agro-processing and tourism-related services.
- Strengthening regional ties and trade links.
- Safeguarding South Africa’s investment-grade credit rating.

The 2017 budget allocates funds over the MTEF period to support economic growth in various programmes:

- R3.9 billion for small, medium and micro enterprises and cooperatives.
- R4.2 billion for industrial infrastructure in special economic zones and industrial parks.
- R1.9 billion for broadband implementation.

- R3.9 billion for the Council for Scientific and Industrial Research.
- An additional R494 million for tourism promotion.
- An additional R266m to support the aquaculture sector and realise the goals of the Oceans Economy Phakisa Operation.
- Spending on agriculture, rural development and land reform amounting to nearly R30 billion by 2019/20.

Effective implementation of these and other programmes and initiatives will set us on a higher growth trajectory than currently projected. Progress in engagements between government, the business sector and social stakeholders is imperative.

Transformation for growth

To achieve sustained higher growth, there are also more fundamental, more radical transformation measures that are needed.

These relate, in particular, to economic power.

The relationships between labour and capital, rich and poor, black and white, men and women, town and township, urban and rural, still reflect the entrenched legacy of colonialism and apartheid. Wealth is produced and allocated along lines that remain fundamentally unjust. The ownership of assets and the distribution of income is captured by a minority of the population – a situation that is morally wrong and economically unsustainable.

We agree with President Zuma that a new perspective on economic transformation is required. The principles that should guide our agenda for transformation include the following:

- The litmus test of our programmes must be what they do to create jobs, eliminate poverty and narrow the inequality gap.
- Transformation must be mass-based, benefiting the most disadvantaged South Africans through the creation of new assets, capabilities and opportunities to build livelihoods.
- We have to mobilise both private and public investment in social and economic infrastructure, new technologies and new activities that help build a modern and diversified economy.
- We must continue to confront cartels and collusion robustly and provide new opportunities for access to markets.
- Transformation must re-shape our cities and build linkages across the rural and urban landscapes, where fragmentation and separation characterised past patterns.

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- Transformation must achieve a more balanced structure of ownership and control in our economy.
- Transformation should build on and strengthen democracy, and entrench open, transparent governance and the rule of law.
- Transformation must build self-reliance of South Africans, reject the dependence on debt and protect our fiscal sovereignty.
- Transformation must result in an economy that belongs to all, black and white, where the legacy of race domination is no longer visible.

In 1969 the ANC resolved that *“Our nationalism must not be confused with chauvinism or narrow nationalism of a previous epoch. It must not be confused with the classical drive by an elitist group among the oppressed people to gain ascendancy so that they can replace the oppressor in the exploitation of the masses.”*

Transformation must unleash growth, establish a new economic direction, mobilise investment, empower the masses and create new resources for social change.

We still have a long way to go!

Fiscal policy and the budget framework

Madam Speaker, the 2017 Budget reflects a balance between maintaining our spending commitments, and ensuring long-term health of the public finances. Slow economic growth has held us back and so decisive steps are needed to strengthen confidence, investment and growth.

Acting too quickly to reduce the deficit would harm service delivery, delay economic recovery, and compromise tax revenue collection. But to ignore our fiscal targets would result in interest rate hikes, unsustainable commitments and credit rating downgrades. This is a scenario in which short-term gains would quickly give way to financial stress, capital flight and cutbacks in service delivery.

To ensure a balanced and sustainable recovery, we indicated in the *Medium Term Budget Policy Statement* that we would raise an additional R28 billion in tax revenues. We also need to reduce spending by a total of R26 billion over the next two years.

- The proposed expenditure for 2017/18 totals R1.56 trillion.
- Interest on debt amounts to R169 billion.
- Projected revenues amount to R1.41 trillion.
- The balance of R149 billion, or 3.1 per cent of GDP, will be borrowed.

Government debt now stands at R2.2 trillion, or 50.7 per cent of GDP. Interest payments are a rising share of expenditure. By acting now to stabilise debt, we will ensure that future generations will not pay for today's expenses, 20 or 30 years from now.

Over the medium term, expenditure on public services will continue to grow moderately above inflation. Though the fiscal envelope is constrained, billions of rands have been shifted to meet new needs. A substantial additional allocation to higher education is again proposed, adding R5 billion to the R32 billion previously announced. After debt service and post-school education and training, the fastest-growing spending categories are health, social development, and community and economic infrastructure.

We will continue to safeguard expenditure that protects poor households. But the medium term expenditure limits are tight. Across all three spheres of government, and in state-owned companies and public entities, those responsible for deciding how money is spent have to do so with scrupulous rigour and care. It is only right that if households and firms face tough choices in balancing their income and expenses, the same disciplines must be applied in public expenditure.

Citizens demand accountability to ensure public funds are used for their intended purposes. In Mahatma Gandhi's phrase: *"Democracy is not a state in which people act like sheep."*

South Africans are not like sheep, Honourable Speaker, and so I have received a great variety of "tips" from members of the public.

Ms Mmanyane Phori wrote: *"I still wonder why we do not have TAX as a subject in school. Perhaps the government should educate people from a young age about tax, so that they will have an understanding that there is no government without taxpayers..."* Quite right, Ms Phori!

Tax proposals

For many years we have enjoyed the benefit of tax revenue collections outstripping economic growth. This contributed to our capacity to expand public service delivery. This year, revenue has lagged behind the economy, leading to a R30 billion shortfall by comparison with the budget estimate a year ago. The revenue shortfall is mainly in personal income tax, value-added tax and customs duties. This reflects slower growth in wages, employment and bonus pay-outs last year, amongst other factors.

Our current expectation is that total tax revenue for 2016/17 will be R1.144 trillion, which is an increase of 7 per cent on the previous year.

The tax proposals this year will raise an additional R28 billion, by comparison with revenue estimates based on full adjustment of personal income tax and excise duties for inflation.

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The main tax proposals are:

- A new top personal income tax rate of 45 per cent for those with taxable incomes above R1.5 million.
- An increase in the dividend withholding tax rate from 15 per cent to 20 per cent.
- Limited bracket creep relief, increasing the tax free threshold from R75 000 to R75 750.
- An increase of 30c/litre in the general fuel levy and 9c/litre in the road accident fund levy.
- Increases in the excise duties for alcohol and tobacco, of between 6 per cent and 10 per cent.

Relief will be provided in the affordable housing market through an increase in the threshold above which transfer duty is paid from R750 000 to R900 000. The annual allowance for tax free savings accounts will be increased to R33 000. The medical tax credit will be increased in line with inflation this year. It should be noted though that consideration is being given to possible reductions in this subsidy in future, as part of the financing framework for National Health Insurance.

Further consultations are currently taking place on the tax on sugary beverages. Arising from these discussions, and working closely with the Department of Health, the proposed design has been revised to include both intrinsic and added sugars. The tax will be implemented later this year once details are finalised and the legislation is passed.

The proposed carbon tax and its date of implementation will be considered further in Parliament this year.

Combating tax avoidance

Multinational corporations continue to use inconsistencies in global tax rules to their advantage and to avoid tax liabilities. South Africa intends to sign a multilateral instrument this year which will assist in the updating of treaties and will reduce the scope for aggressive tax avoidance activities.

Applications to the Special Voluntary Disclosure Programme have begun. SARS has already received disclosures of R3.8 billion in foreign assets, which will yield revenue of about R600 million. The programme will be open until the end of August this year.

The automatic exchange of information between tax authorities will come into operation in September this year. Multinational companies will be required to file further information with SARS on cross-border activities from the end of the year. We will continue to work actively with the international tax community and within government to modernise customs administration and combat cross-border revenue leakages, money laundering and harmful tax practices.

Tax administration

An efficient and trusted tax administration is one of South Africa's institutional strengths. SARS has played an integral role in building the democratic state by ensuring that expected levels of revenue are available to fund spending programmes. SARS must continue to develop the skills and capacity needed to enforce legislation and strengthen its efforts to curb tax avoidance and evasion, and address transfer pricing – a component of illicit financial flows.

Madam Speaker, I requested the Davis Tax Committee last year to advise on an appropriate governance and accountability model for SARS. This was last done by the Katz Commission in 1994. In the context of the envisaged Border Management Agency, customs and excise administration has come under review. These are integral functions of our revenue system and the Davis Committee has advised that it would be imprudent to fragment customs administration and customs collection. I agree with this, particularly in the light of SARS's ongoing customs modernization programme which is critical to both our revenue and trade policy imperatives. Let me express my appreciation to the Deputy President and Minister Gigaba for the ongoing engagement on this matter.

Continued strengthening of the capacity of SARS and enhancing its relationships with taxpayers is vital for our fiscal health. We will continue to call on Judge Davis and the Tax Committee for advice on how best to ensure that SARS remains a robust and effective tax collection agency.

The Division of Revenue and intergovernmental finances

Honourable Members, our Constitution requires an equitable division of revenue between the spheres of government, and sets out the criteria that govern this division.

The funds available after providing for debt service costs and a contingency reserve increase by 6.9 per cent to R1.24 trillion next year, and are projected to rise to R1.43 trillion in 2019/20.

Over the next three years:

- 47.5 per cent of available funds are allocated to national government,
- 43.4 per cent to provinces and
- 9.1 per cent to local government.

The division of revenue involves a substantial redistribution of resources from the wealthiest areas in our country – where most of our taxes are raised – to lower-income communities and households. The allocations to predominantly rural municipalities are twice as large, per household, than those to metropolitan councils.

This redistribution of resources is an enabling foundation for a broader transformation of services and opportunities in our cities, towns and rural areas. Development also requires

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effective management of public services and promotion of enterprises and income-generating activities.

Provincial financial management

In the context of our constrained fiscal environment, provinces have already made progress in reducing spending on non-core goods and services and in controlling personnel costs. Spending on non-essential goods and services fell in real terms by 7.1 per cent in 2014/15, 6.1 per cent in 2015/16 and is anticipated to decline by 4.5 per cent annually over the medium term. The proportion of provincial spending on personnel has declined to just under 60 per cent in 2016/17, freeing up more resources to invest in services.

Provinces have also put their public entities under review, to eliminate duplication of activities and ensure effective governance and clear development mandates.

Three new conditional grants will take effect in 2017/18. They will expand access to early childhood development and improve facilities, provide for increased employment of social workers and improve opportunities for learners with profound disabilities.

The Auditor-General has called for stronger leadership within provinces to remedy financial management challenges. Better cash management is needed to ensure suppliers are paid on time. Improved oversight is needed to curb unauthorized expenditure. There must be adherence to procurement rules to limit irregular expenditure.

Strengthening financial management in municipalities

Government continues to invest in improving the financial capability of municipalities. In the period ahead, National Treasury and provincial treasuries have agreed to focus their efforts on four “game changers”:

- The new Municipal Standard Chart of Accounts, which will be implemented from 1 July 2017, contributing to greater transparency and consistency of municipal finances.
- Targeted supply chain management interventions to achieve cost savings and combat fraud.
- Enhanced revenue management, including appropriate tariff-setting, regular billing and effective collection systems.
- Improved asset management, including adherence to 8 per cent of the value of assets being spent on their maintenance.

If we make progress in local financial management, we will transform the lives of millions of people.

The Budget and transformation

Madam Speaker, the budget gives effect to our transformation action agenda by financing government programmes which:

- Ensure that many more people live in dignity every year,
- Radically improve access to services and economic participation across all racial lines,
- Energise growth and create jobs,
- Increase investment and development – at national, provincial and local level – mobilising resources across government, business and other sectors.

A growing economy makes more rapid transformation possible, but it is the fiscal system that is the most direct vehicle for redistribution and inclusivity. The South African budget finances the construction of houses and schools, the education of young people, care for the elderly and incomes of the most vulnerable. About two-thirds of the Budget is dedicated to realising social rights. We have programmes that build infrastructure, support new businesses, empower small farmers, develop human capabilities and incentivise job creation.

The budget is highly redistributive to poor and working families. It also redistributes substantial resources from the urban economy to fund services in rural areas. The formulas used to distribute resources to provinces and municipalities are governed by transparent rules in which equity and needs are the primary consideration.

But budgets alone cannot achieve our transformation goals. We need a powerful combination of:

- Effective and targeted government delivery of economic programmes,
- An energetic coalition with labour, business and civil society,
- A consensus on a transformation programme – with each of us clear about the contribution and sacrifices we have to make to ensure optimal inclusivity,
- A commitment to eradicate gross inequality and share the benefits of growth and restructuring of the economy.

Government can be an important catalyst. But it cannot carry all of the responsibility for ensuring that every citizen experiences a palpable change in wealth, dignity and well-being.

This has to be our collective choice.

Towards a transformation action agenda

Transformation is in part about overcoming the legacy of exclusion and inequality of the past, but it is also about restructuring the economy to take advantage of new technology, market access and investment opportunities.

It is about investing in social capabilities, through better outcomes in health and education and skills development, and through inclusive and responsive institutions.

Let me say clearly and emphatically: sound public finances, the health of our financial institutions, investment-grade credit ratings and our competitive public procurement processes are valued elements in the sustainability and integrity of our transformation path. So also are the clarity of vision and the details of sectoral priorities and programmes set out in the National Development Plan.

Radical transformation and inclusive growth touch many aspects of social organization and economic activity. Renewal and wider participation have to be opened up across as broad a range of industries and social formations as possible. The portfolios of every Member of the Cabinet, every provincial MEC and every member of mayoral committee are involved, while responsibilities arise in every business, every NGO, every association.

And we need to see progress, rapidly. There is growing impatience and ferment among our people. Can we channel this energy into constructive activism and productive collaboration?

Allow me to emphasise five critical priorities in which government is committed to work with the private sector and social stakeholders to propel inclusive growth.

- Improved education is a central priority, and particularly the quality of basic literacy and numeracy achieved in the first phase of schooling. We must increase funding for proven interventions.
- Reform of technical and vocational education and training programmes is vital, so that they effectively meet occupational and industrial needs. We must strengthen collaboration between employers and TVET colleges.
- We must accelerate development of our cities, housing investment, improved public transport and urban enterprise and industrial development.
- South Africa's integration and linkages with its regional neighbours offers significant opportunities for enterprise growth, agricultural development and new industrialists.
- Reform of domestic market structures, promotion of competition, deconcentration of monopolised industries and greater private-sector participation in sectors dominated by public enterprises: these are structural reforms that will bring opportunities for business development, modernisation and a more balanced distribution of wealth and opportunities.

In regard to market concentration, Honourable Members, I need to commend the work of our competition authorities under Minister Patel's leadership. These are difficult regulatory issues, particularly where the activities in question involve large institutions operating in internationally integrated and complex markets.

In the year ahead the Department of Economic Development will finalise establishment of the Tirisano Fund, to be financed from the construction sector settlement. It will boost much-needed skills among black South Africans and support emerging enterprises. An initial amount of R117 million is earmarked for the Adjustments Appropriation this year.

If we transform competitive markets effectively, we will see more rapid growth. If we achieve faster growth, we will see greater transformation, enterprise development and participation.

Economic infrastructure and investment

Madam Speaker, the reform of state-owned companies is an especially important part of the restructuring and strengthening of our economy.

State-owned companies are governed by a strong legal framework, and Cabinet has endorsed a series of measures to reinforce governance and accountability and clarify their development mandates. This imposes substantial obligations and responsibilities on boards and senior managers. We expect the highest standards of ethical leadership and understanding.

With a combined asset base of R1.2 trillion, the SOCs are well-placed to partner with private sector investors in growing the productive capacity and infrastructure of our economy. But they must be financially strong, governance must be sound, and boards and executives must have the necessary competencies to run complex business enterprises.

- Eskom and Transnet have especially large responsibilities as dominant suppliers in major network industries. Their investment programmes are important foundations for more rapid economic growth.
- The South African Post Office is consolidating its mail services and expanding the role of the Postbank.
- PRASA is in the third year of its rolling stock fleet renewal programme.
- The Industrial Development Corporation, the Land Bank and the Development Bank of Southern Africa are financially sound and are steadily expanding their financing of industry, agriculture and municipal infrastructure.

Last week I met members of the board of South African Airways to discuss its turnaround plans. I am pleased to report that the challenges are well understood, and the advisory work that is in progress has clarified the way forward.

We have also held constructive discussions with the new leadership of the Post Office.

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During the next few months, proposals for putting the capital structure of SAA and the Post Office on a sound footing will need to be agreed. I hope that this can be dealt with in the Adjustments Budget later this year.

Honourable Members, the budget continues to prioritise both national and provincial economic infrastructure requirements.

- The Provincial Roads Maintenance Grant is allocated R10.8 billion in 2017/18, taking into account the increase in road traffic volumes.
- SANRAL receives R15.4 billion over the period ahead for strengthening and maintenance of the national road network, which now stands at 21 946 kilometres.
- The Department of Telecommunications and Postal Services receives R1.9 billion over the medium term to invest in high-speed internet connections in public buildings and schools in eight NHI pilot districts.
- The Passenger Rail Agency of South Africa continues to implement its modernisation and rolling stock renewal programme. Over the medium term, R16.7 billion is allocated for 70 new train-sets for Metrorail.
- The development and operation of integrated public transport networks, funded through the Public Transport Network Grant receives R6.2 billion in 2017/18.
- To support higher density housing, subsidies for social housing have been rationalised and R600 million over the medium term is reprioritised to the Social Housing Regulatory Authority for investment in rental housing units.

City development, human settlements and municipal infrastructure

Madam Speaker, sustainable communities require strengthened intergovernmental cooperation between national government, provinces and municipalities. Improved alignment in the delivery of services such as housing, water, sanitation, electrification and public transport is central to achieving the objectives set out in the Integrated Urban Development Framework.

R18.4 billion over the medium term is allocated to the Regional Bulk Infrastructure Grant and R12.5 billion to the Water Services Infrastructure Grant. These allocations continue to prioritise water provision in the 27 most impoverished district municipalities.

R1 billion is added to the local government equitable share in 2018/19, in view of rising household numbers and infrastructure maintenance requirements.

Last year I reported on the progress being made by our metropolitan municipalities in reversing the spatial legacy of apartheid, through targeted investment in high density corridors linking townships back into our cities. This spatial transformation is a massive challenge involving land acquisition and development, infrastructure and transport services, housing

and industrial and enterprise support. Much of this depends on collaboration between government and the private sector.

We will continue to work with our cities to improve the safety and reliability of public transport services. Commuter rail currently provides for over 20 percent of all passengers carried in the cities. This budget provides resources to subsidize 457 million rail passenger trips next year, as well as ongoing support to upgrade rolling stock and improve signalling systems.

All our metropolitan municipalities are undertaking a portfolio of catalytic, integrated urban development projects that will lead the way in reshaping our cities:

- In eThekweni, the Cornubia mixed development node will yield 25 000 housing units, while over R13 billion in private sector investment in the nearby Dube Trade Port has been identified. A R30 billion inner city regeneration programme is under way.
- In Ekurhuleni, development along the corridor linking Tembisa to Kempton Park has been prioritised.
- Cape Town has adopted a transit-oriented development strategy including mixed-use development of the Bellville Transport Interchange, upgrade of the Phillipi East Station Precinct and the redevelopment of the Athlone Power Station.
- In Mangaung, the airport development node is under construction and 8 500 affordable housing units will be built in and around the inner city of Bloemfontein.
- In Johannesburg, there is further progress with the “corridors of freedom” linking Soweto, Alexandra, Sandton and the CBD. This includes the new bridges that can be seen along the M1.

We have also seen substantial investment in township precincts in response to the neighbourhood development partnership grant. 190 projects have been completed and a further 55 are in construction.

- In the Joubertina/Alabama Hub in Matlosana, for example, an NDP investment in transport and health facilities has been accompanied by commercial investment commitments of about R155 million.
- In the Solomon Mahlangu node in Tshwane, which serves over 500 000 people, a R1 billion public investment in roads, parks and trading facilities is expected to leverage R4 billion in private investment.

Encouraging investment in cities and townships requires initiatives of many arms of government. Minister Sisulu will shortly release a White Paper on the reforms necessary to build more inclusive residential property markets, and accelerate the upgrading of informal settlements. The National Treasury is working with municipalities on measures to reduce the cost of dealing with construction permits, obtaining electricity connections and registering property. The Department of Trade and Industry is leading a similar initiative with other

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departments and agencies to make it easier to start a business, pay taxes, get credit, trade across borders, enforce contracts, and resolve insolvencies.

Local initiatives are often the key to progress in tourism and the hospitality industry. Ms Lisa Sheard captured this well in her budget “tip”: *“Tourism encourages ‘pride of place’. Pride of place ensures that the water will run, the streets will be clean, signage will be clear...”* Ms Sheard also wrote that *“Tourism is ‘woman full’. Women excel and dominate... Tourism instils a good and honest work ethic – it will not make you rich and famous quickly, but it can be very rewarding.”*

With transformation, we will see growth. Growth will strengthen the forces of transformation.

Health services

Madam Speaker, the Government is moving towards the next phase of the implementation of National Health Insurance. We are committed to achieving universal health coverage, in line with the vision of the National Development Plan. Eleven NHI pilots have yielded valuable insights, on which we are now able to build. These include:

- The design of contracts with general practitioners,
- More effective chronic medicine dispensing,
- Strengthening district health services through clinical specialist teams, ward-based outreach teams and school health services, and
- Supportive information systems.

In the next phase of NHI implementation, an NHI Fund will be established. Its initial focus will be:

- To improve access to a common set of maternal health and ante-natal services and family planning services,
- To expand the integrated school health programmes, including provision of spectacles and hearing aids, and
- To improve services for people with disabilities, the elderly and mentally ill patients, including provision of wheelchairs and other assistive devices.

The service package financed by the NHI Fund will be progressively expanded. In setting up the Fund, we will look at various funding options, including possible adjustments to the tax credit on medical scheme contributions. Further details will be provided in the Adjustments Budget in October this year, and in the course of the legislative process.

Taking into account the 160 submissions received from the public, the National Treasury and the Department of Health are working together to revise and finalise the NHI White Paper and

the longer-term financing arrangements. There will be consultations with stakeholders over the period ahead on reform of the medical scheme environment, including consolidation of public sector funds.

Over the next few months, I will be working with Minister Motsoaledi, Minister Nzimande and Minister Patel on planning the Limpopo Central Hospital and the new medical school of the University of Limpopo.

Government is committed to increasing investment towards health promotion targeting non-communicable diseases alongside the implementation of the sugary drinks tax, such as diabetes screening and nutrition education.

An additional R885 million has been added to support the implementation of the universal test-and-treat policy for HIV and R600 million for the commissioning of the new Nelson Mandela Children's Hospital.

Education

Honourable Members, the quality of our schools and further education institutions is at the heart of our commitment to our children's future.

Improvements have to begin in the foundation phase of the education "value-chain". We will continue to increase resources for early childhood development, improve our basic education outcomes and step up our support to TVET colleges and universities.

Spending on basic education next year will be over R240 billion, or 17.5 per cent of the consolidated budget. Allocations for school building increase at 12.5 per cent a year. Spending on learning and teaching support materials increases by 9.5 per cent over the next three years.

Financial assistance to students in higher education and colleges

Government recognises the needs articulated by students in universities and TVET colleges.

As the economy grows, we will be able to do more to finance an expansion in tertiary education opportunities and improvements in student funding.

Madam Speaker, in addition to the increases of R32 billion we made in the higher education allocations in last year's Budget and the 2016 *Medium Term Budget Policy Statement*, we have added a further R5 billion in the outer year of the MTEF. Government has provided funds to ensure that no student whose combined family income is below R600 000 per annum will face fee increases at universities and TVET colleges for 2017. All poor students who applied and qualified for NSFAS awards, and who have been accepted by a university or a TVET college, will be supported.

The Heher Commission of Inquiry into Higher Education and Training will complete its work by June this year. The Inter-Ministerial Committee on Higher Education led by Minister

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Radebe is engaging all stakeholders to discuss the issues. Civil society initiatives involving business, churches and other organisations have created space for a diversity of options to be considered. The President has invited stakeholders to participate in processes that are underway so that all views are heard.

Given the magnitude of student funding requirements, it is imperative that we develop a clear roadmap towards a better higher education and training system. It must clearly indicate how society will achieve access, opportunity, financing and support for students in the university and further education sectors.

Several broad principles will assist in finding the way forward:

- Government is determined to address the challenges identified in post-school education and training in a phased manner. Resources will be taken into account in determining the pace with which these can be addressed.
- Government stands ready to engage with education stakeholders and adapt financing arrangements as may be required in future years, within the scope of available resources.
- Universities, students and education stakeholders share responsibility for improving access and quality and the diversity of higher education and training provided, within a framework of consultation rather than confrontation.
- A growing contribution is needed from employers and industry through funding of bursaries, internship opportunities and research programmes, recognising that this is the foundation of future productivity and technology advances

Together, we will find a way forward that meets student funding needs fairly and sustainably, so that rising numbers of graduates can contribute positively to inclusive growth and transformation of the economy.

Social assistance

Honourable Members, social assistance grants provide income support to the most vulnerable in our society. These will be increased in April to compensate for consumer price inflation.

- The old age grant will increase by R90 to R1600 for pensioners over the age of 60, and R1620 for those over 75.
- The disability and care dependency grants also increase by R90 to R1600 a month.
- Foster care grants increase by R30 to R920 a month.
- The child support grant increases by R20 to R380 a month.

Madam Speaker, allow me to commend the work of the inter-departmental task team led by the Department of Women that is coordinating government's support for the provision of sanitary pads to indigent women, including learners and students. The KwaZulu-Natal Department of Education is piloting the rollout of sanitary pads at schools, and I hope we will see complementary initiatives in other provinces.

Public procurement

Honourable members, public procurement will amount to about R1.5 trillion over the next three years.

Let me say that a little differently. We will pay about R500 billion a year for the *delivery* of goods and services. Not transfers, or hand-outs, or cash distributions. The purpose is to acquire the infrastructure and operational inputs required for effective service delivery.

Public procurement is also an important strategic vehicle for developing local industries, broadening economic participation and creating work opportunities.

Last month we gazetted new preferential procurement regulations to achieve the following:

- Where large firms are awarded tenders of R30 million or more, 30 per cent of the contract value must go to small or black-owned enterprises, where feasible.
- Procurement authorities are now empowered to set clear targets to promote black-owned and women-owned businesses, participation of youth and disabled persons and opportunities for rural enterprises and co-operatives.
- South African suppliers will enjoy preference in respect of goods with significant local content, thus supporting job creation.

Madam Speaker, there will be further procurement reforms this year. A draft Public Procurement Bill will be published shortly. It will establish a single procurement authority and will consolidate the currently fragmented regulatory environment, in keeping with section 217 of the Constitution.

The central supplier database is now fully operational. It has made doing business with the state much easier and cost effective. It enables government to know who it is doing business with and to use technology to reduce opportunities for fraud and corruption. Already, large numbers of transactions have been identified for further investigation:

- Public service employees who appear to be doing business with the state,
- Supply agreements that reflect the identity numbers of deceased persons,
- Payments to bank accounts other than those of the relevant suppliers.

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Madam Speaker, in some cases we will find that there are legitimate explanations. But where fraud or corruption is identified, action must be taken. *Letsogo la molao ke le letelele. The law will catch up with you. Molato ga o bole...*

- The OCPO currently manages 71 transversal contracts covering over 23 000 items worth R61 billion. Good progress is being made to find better value for money while expanding and diversifying the number of suppliers.
- Savings of R675 million in 2016/17 on cell phones and vehicle contracts. The vehicle contract alone is expected to save the state between R1 billion and R1.5 billion per year over the medium term.
- In the property leasing sector, we expect savings of between R2 and R3 billion to be realised, while releasing resources for greater employment and contracting in building maintenance and services.
- Collaborative efforts between SITA and National Treasury have led to savings of R2.5 billion over the next three years in the ten largest ICT equipment contracts.
- Working with the Department of Basic Education on cost-effective standards for building design, we have reduced the average cost of new schools from R70 million for 7 500 square meters to R34 million.

I need to emphasise again that suppliers who have met their delivery obligations are entitled to payment within 30 days. We will continue to monitor progress in meeting this commitment.

Financial sector transformation and regulation

Since the global financial crisis in 2008, we together with our partners in the G-20, have been on a long journey to make the banking system safer, and prevent the type of economic crisis that systemically important banks can trigger. We responded with a series of substantial, intrusive and intensive regulatory reforms. Cabinet approved the shift to the Twin Peaks regulatory system to make the financial sector safer and serve SA better, introducing the following structural reforms to our regulatory system:

- In 2012, the new Financial Markets Act introduced a framework for unlisted derivatives, which caused so much damage in the 2008 global financial crisis.
- In 2013, the Banks Amendment Act brought in requirements for increased capital and better liquidity management.
- In 2013, Government took steps to deal with household over-indebtedness starting with abuses in emolument attachment orders, also known as garnishee orders.
- In 2015, Minister Nene tabled the Financial Sector Regulation Bill to give effect the Twin Peaks system. As soon as this bill is enacted, we will be able to establish a

dedicated market conduct regulator to protect customers and ensure they are treated fairly.

- Earlier this year, together with Minister Davies, new restrictions on credit life insurance were implemented, preventing the sale of retrenchment insurance to people without jobs, for example.

As an employer, National Government has investigated 135,000 emolument orders against state employees and reduced the number of deductions by 49,000. We hope all employers will assist their employees in the same way.

As we have seen recently with the Competition Commission investigation, there is evidence of a collusive culture at trading desks in banks. It is precisely to deal with such abuses that we have proposed a dedicated market conduct regulator, and we hope Parliament will pass this Bill as soon as possible. Collusion must be stamped out whether it is in banking, construction or the bread industry. But banks need tougher rules to cover financial market abuses, and the Reserve Bank and National Treasury have initiated work on a more comprehensive Financial Markets Review under the leadership of former Deputy Governor James Cross, to build on the Review conducted in 2014.

Although progress has been made in transforming the financial sector, more needs to be done to broaden access through more affordable financial services, improve market conduct, ensure employment equity at top management levels, provide procurement opportunities and transform ownership.

We live in an era of rapid technological change. Three new banks have been granted provisional licences, including the PostBank, and two new stock exchanges. Their business models are based on technological innovation with potential to bring services more cost-effectively to more people.

I am pleased to announce that we will work with partners at NEDLAC who have requested that a Financial Sector Summit take place in 2017 to consider transformation in this sector.

Partnership for transformation and inclusive growth

Honourable Members, the 2017 Budget has been prepared with a view to strengthening both our economic growth and the transformation of our society. This year's *Budget Review* sets out our point of departure:

“To achieve the vision of the Constitution, South Africa needs transformation that opens a path to inclusive economic growth and development.

Transformation without economic growth would be narrow and unsustainable. Growth without transformation would only reinforce the inequitable patterns of wealth inherited from the past.”

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Although our own transformation imperative derives from a particular historical trajectory, many analysts have pointed to similarities with social fragmentation and inequality challenges elsewhere in the world.

In December last year, the economics profession lost one of its great champions of redistribution as a public policy priority. Tony Atkinson was both a leading author and academic in the field of public economics, and an expert in the study of the distribution of income and wealth. He provided compelling evidence that, in his words, *“less inequality is associated with greater macroeconomic stability and more sustainable growth.”* He argued strongly for active policies to address inequality.

The evidence supports our insistence on a progressive income tax structure, our ongoing work on health insurance and social security reform, our focus on further education and training and our recognition of the structural and technological dimensions of our employment challenge all find resonance in Atkinson’s policy proposals. With an international agenda in mind, he also set out the case for a global individual tax on total wealth, higher official development assistance by rich countries, improved access of households to credit markets and guaranteed public employment for those out of work.

On one important reform, we have taken a giant step forward. We have agreed to implement a minimum wage of R20 an hour with effect from next year. Its implementation will require complementary measures to support workers and employers in vulnerable and low-wage sectors, and enhanced assistance to young and unskilled work-seekers. We also need to seek progress on social security reform alongside phasing in the minimum wage.

Our past efforts have come short of delivering either adequate growth or the social transformation we need. We are at a crossroads now. We need to act urgently to build confidence and support investment. We need to bring all stakeholders onto an inclusive growth and transformation path.

We have proved that we can change course through negotiation, participation and partnership. We have the resilience needed to move forward confidently even in uncertain times.

Last year, impetus was given to several initiatives under Mr Jabu Mabuza’s business sector leadership:

- A fund to support small and medium enterprises has been established,
- A youth employment service programme has been initiated, with the aim of creating a million work opportunities over the next three years,
- Strategic interventions to support black participation in agriculture have been developed.

In the year ahead our focus must be on inclusive growth and a transformation action plan. Bold and ethical leadership is needed from all sectors of society.

In this way we can all embrace a vision of substantive meaningful transformation which will allow us to say we all own our economy.

It is not just at the level of leadership that there are transformation opportunities.

In our communities, there are strong bonds and powerful traditions of caring. These are wonderful social assets, and I believe that all of us can commit to doing more to make the lives of fellow South Africans better.

Obstacles there will be many. Overcome them.

Detractors abound. Disprove them.

Negativity inspired by greed and selfishness will obstruct us. Defeat the bearers of this toxic ethic.

South Africans, wherever you are.... Own this process; defend your gains; demand accountability.

Be an active agent for change. *Umanyano Ngamandla (Unity is power.)*

So, what are the main elements of this budget:

1. While global growth is slightly better, geo-political and economic uncertainties have increased.
2. Our low growth trajectory provides a major challenge for government and citizens.
3. We need to radically transform our economy so that we have a more diversified economy, with more jobs and inclusivity in ownership and participation.
4. Our financial situation is difficult, but we have still produced a credible budget.
5. We need to prioritise our spending better, implement our plans more effectively and make a greater impact.
6. We need to build the widest possible partnership to promote consensus and action on a programme for inclusive growth and transformation.

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Allow me to thank you, Mister President and Deputy President, for your guidance. I would also like to thank my Cabinet colleagues and members of the Ministers' Committee on the Budget for their cooperation and support.

I also thank our Provincial Premiers and Finance MECs, and Municipal Mayors, who share our fiscal and financial responsibilities, and Deputy Minister Jonas and Director-General Fuzile for their integrity and indefatigable commitment to public service.

Members of the House will join me in expressing appreciation to staff of the National Treasury, the South African Reserve Bank, the South African Revenue Service and the finance family institutions.

I am also grateful to 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.

I paraphrase what I said in October last year,

Fellow South Africans, if we make the right choices and do the right things we will achieve a just and fair society, founded on human dignity and equality. We will indeed transform our economy and country so that we all live in dignity, peace and wellbeing.

This is the time for activists, workers, businesspersons, the clergy, professionals and citizens at large to actively engage in shaping the transformation agenda and ensuring that we do have a just and equitable society.

We also need to consider, in the face of such intractable economic hardships and disparities, whether we should supplement our Constitutional Bill of Rights with a "Charter of Economic Rights" – a charter that would bind all of us to an economy which:

- Provides access to decent and well remunerated jobs,
- Facilitates training and retraining of citizens in the face of technological change, and
- Creates a supportive environment for micro, small and medium businesses and co-operatives.

We can draw inspiration from Inkosi Albert Luthuli, when he says:

"I believe that here in South Africa with all our diversities of colour and race, we will show the world a new pattern for democracy. There is a challenge for us to set a new example for all. Let us not side-step this task."

Ours is the collective responsibility, despite many distractions, to live up to the expectations of Oliver Tambo, Walter Sisulu, Beyers Naude, Nelson Mandela, Albert Luthuli, Yusuf Dadoo, Lilian Ngoyi and many others.

In this way we will honour the confidence and trust of our people.

In this way our transformation efforts will serve all South Africans.

In his tribute to the South African soldiers who lost their lives with the sinking of the SS Mendi, the poet S.E.K Mqhayi wrote: *“Kukhonza mnye ukuze kuphile abanye,”* Somebody has to serve, so that others can live.

Can we, in this spirit, say: we have built a better South Africa, with a more inclusive economy, and all citizens living in dignity, advancing economically, over generations to come.

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

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Summary of the national budget

	2016/17		2017/18	2018/19	2019/20
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
R million					
REVENUE					
Estimate of revenue before tax proposals			1 214 393		
Budget 2017/18 proposals:			28 024		
Taxes on individuals and companies			22 891		
Personal income tax			16 516		
Revenue from not fully adjusting for inflation			12 148		
Revenue if no adjustment is made			14 628		
Bracket creep adjustment			-2 480		
New top marginal income tax bracket			4 369		
Dividend withholding tax			6 822		
Increase in dividend withholding tax rate			6 822		
Taxes on property			-448		
Transfer duty rate decrease			-448		
Indirect taxes			5 133		
Increase in general fuel levy			3 197		
Increase in excise duties on tobacco products			656		
Increase in excise duties on alcoholic beverages			1 280		
Estimate of revenue after tax proposals	1 161 996	1 136 891	1 242 417	1 351 031	1 471 514
Percentage change from previous year			9.3%	8.7%	8.9%
EXPENDITURE					
Direct charges against the National Revenue Fund	590 923	588 488	636 178	686 503	740 229
Debt-service costs	147 720	146 281	162 353	180 652	197 320
Provincial equitable share	410 699	410 699	441 331	471 522	506 104
General fuel levy sharing with metropolitan municipalities	11 224	11 224	11 785	12 469	13 167
Skills levy and sector education and training authorities	17 640	15 462	16 641	17 968	19 454
Other ¹⁾	3 641	4 822	4 067	3 892	4 185
Appropriated by vote	721 148	718 935	767 038	825 469	877 396
Current payments	208 454	210 173	216 813	228 749	243 479
Transfers and subsidies	493 383	490 259	529 374	577 675	614 258
Payments for capital assets	14 408	13 746	15 831	14 080	14 450
Payments for financial assets	4 902	4 756	5 019	4 966	5 210
Provisional allocation not assigned to votes	267	–	–	211	14 566
Plus:					
Contingency reserve	6 000	–	6 000	10 000	20 000
Estimate of national expenditure	1 318 338	1 307 423	1 409 215	1 522 183	1 652 192
Percentage change from previous year			7.8%	8.0%	8.5%
2016 Budget estimate of expenditure		1 318 338	1 421 701	1 540 035	
Increase / decrease (-)		-10 916	-12 485	-17 852	
Gross domestic product	4 388 417	4 409 811	4 741 206	5 129 165	5 545 542

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
Source: National Treasury

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Summary of the consolidated budget

R million	2016/17		2017/18	2018/19	2019/20
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
National budget revenue ¹⁾	1 161 996	1 136 891	1 242 417	1 351 031	1 471 514
Revenue of provinces, social security funds and public entities	162 343	160 404	171 684	184 198	197 016
Consolidated budget revenue ²⁾	1 324 339	1 297 295	1 414 101	1 535 229	1 668 531
National budget expenditure ¹⁾	1 318 338	1 307 423	1 409 215	1 522 183	1 652 192
Expenditure of provinces, social security funds and public entities	144 953	137 782	153 912	154 906	162 129
Consolidated budget expenditure ²⁾	1 463 291	1 445 205	1 563 127	1 677 089	1 814 321
Consolidated budget balance	-138 952	-147 910	-149 026	-141 860	-145 790
<i>Percentage of GDP</i>	<i>-3.2%</i>	<i>-3.4%</i>	<i>-3.1%</i>	<i>-2.8%</i>	<i>-2.6%</i>
FINANCING					
Domestic loans (net)	141 735	157 066	151 631	158 702	159 449
Foreign loans (net)	12 362	41 633	19 585	25 368	-19 852
Change in cash and other balances	-15 145	-50 789	-22 191	-42 210	6 193
Total financing (net)	138 952	147 910	149 026	141 860	145 790

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

