

UNREVISED HANSARD

NATIONAL ASSEMBLY

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PROCEEDINGS OF THE NATIONAL ASSEMBLY

The House met at 14:00.

The Speaker took the Chair and requested members to observe a moment of silence for prayers or meditation.

The SPEAKER: Hon members, in the interest of all our safety in the Chamber, please keep your masks on and sit in your designated areas. Thank you. I wish to acknowledge the presence in the Chamber of the hon the Deputy ... the President. [Laughter.] The secretary will read the First and Second Orders together.

APPROPRIATION BILL

(Introduction)

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DIVISION OF REVENUE BILL

(Tabling)

SPECIAL APPROPRIATION BILL

(Introduction)

The MINISTER OF FINANCE: Madam Speaker, President of the Republic of South Africa, Deputy President, Cabinet colleagues, Governor of the SA Reserve Bank, hon members, members of the executive committees for finance, it is my singular honour and privilege to present the 2021 Budget. Today I table before this House the following:

1. The Appropriation Bill;
2. The Special Appropriation Bill;
3. The Division of Revenue Bill;
4. The Budget Review; and
5. The Estimates of National Expenditure.

1. Introduction

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Madam Speaker, last year we outlined the strategy to becoming a winning country. Since then, we have mourned the passing of nearly 50 000 of our fellow South Africans as a result of the COVID-19 pandemic. The damage visited upon us by COVID-19 runs deep and we share in the collective pain of many South Africans who have lost their jobs.

All this notwithstanding Madam Speaker, we are not without hope. Our national icon, the Nobel laureate Archbishop Desmond Tutu, reminded us that, "Hope is being able to see that there is light despite all of the darkness". He observed that sometimes we forget that just beyond the clouds the sun is shining.

The brave and fearless sacrifices of our frontline workers continue to save thousands of lives. We salute all our health care and essential service workers who remain standing at the frontline of our struggle against COVID-19. We also salute the many South Africans who rallied to help others to survive. I must include amongst the frontline workers those that we normally forget. These are the military medical services. These acts of human solidarity and sacrifice reflect a

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patriotic spirit that runs in our veins and inspires us. The President would've said this is in our DNA; in much better English, I suppose.

Often, we speak about how we must leave this earth much better than what we found it so that the future generations can enjoy a better world. Today, I want to leave all of us hopeful and outline how we will leave this economy in a better shape for those who come after us.

2. The Fiscal Framework

Under the leadership of our President, we have crafted a Fiscal Framework that extends support to the economy and public health services in the short term, while ensuring the sustainability of our public finances in the medium term. This is our first reason for hope. The Fiscal Framework we table today entails the following:

- The main Budget revenue is projected to be R1,35 trillion or 25,3% as a share of gross domestic product, GDP, in 2020-21. This rises to R1,52 trillion in the outer year. The outer year being 2023-24 of the Medium-Term Expenditure Framework, MTEF. Mr President, when we were

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writing these numbers ... of R1,52 trillion, I was tempted to ask one member of the House how many zeros are in a trillion but I thought not to do that.

- At the same time, noninterest spending will remain steady at approximately R1,56 trillion over the next three years but will decline as a share of GDP from 29,2% in 2021-22 to 26,2% of GDP in 2023-24.

I requested tips from the public to help in crafting this Budget. Many tips spoke about the limits to increased taxation. Others spoke about the need to cut the number of Cabinet Ministers and I told them that was above my pay cut. That's above my pay level. That's not mine. We agree that tax increases must be kept to a minimum and therefore Gen Groenewald, there's no need for a tax revolt. [Applause.] We have chosen not to introduce the R40 billion in tax measures initially proposed in the October Medium-Term Budget Policy Statement, MTBPS. I will explain why later.

With this framework, we provide the budget for South Africa's vaccination campaign. This campaign allows us to emerge ... [Applause.] ... from the restrictions that we have experienced

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to economic activity. So, the restrictions were meant to help us fight against COVID and now as we gradually fight this ... introducing vaccines ... in time we should be able to return to full economic activity. We are allocating more than R10 billion for the purchase and delivery of vaccines over the next two years. [Applause.] However, we do not stop there. We are increasing the contingency reserve from R5 billion to R12 billion to make provision for any further purchases of vaccines and to cater for any other emergencies. [Applause.]

With this framework, we are on track to achieve our goal of closing the main Budget primary deficits. We shall achieve a primary surplus on the main Budget in 2024-25. This will be an important achievement and will coincide with the end of this Sixth Parliament.

Most importantly, we will stabilise government debt at 88,9% of GDP in 2025-26 and the ratio will decline further thereafter. This is a significant commitment and improvement to the framework as compared to what we presented in October last year and creates a sound platform for sustainable growth. I thought you would clap because this is a significant

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improvement to the framework that we presented in October last year and creates a sound platform for sustainable growth.

[Applause.]

Total consolidated spending amounts to R2 trillion each year over the medium term; the majority of which goes to social services – about 56%. So, when people talk about austerity this and austerity that, you can't. It's not supported by empirical evidence.

Getting our fiscal house in order is the biggest contribution we can make to support our Economic Reconstruction and Recovery Plan. Continuing on the path of fiscal consolidation during these economic times was a difficult decision. However, we are here precisely because we want to make difficult decisions. If you want to make easy decisions, go swimming. However, on this we are resolute. We remain adamant that fiscal prudence is the best way forward. We cannot allow our economy to have feet of clay.

High government debt levels increase the cost of borrowing across the economy. The rising debt levels lead to higher

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future taxation and uncertainty. Servicing this rising debt takes away resources that could have been invested in infrastructure and frays our social solidarity.

Madam Speaker, yes, sometimes it's the Deputy Speaker.

{Laughter.} It reminds me of when hon Sisulu was the Speaker and after ... hon Frene Ginwala, and somebody referred to hon Sisulu as Madam Speaker. {Laughter.}

3. Economic outlook

Madam Speaker, my second reason for hope stems from our much-improved economic outlook. Global economic growth is expected to rebound to 5,5% in 2021 before moderating slightly to 4,2% in 2022, spurred on by the expected roll-out of the COVID-19 vaccines throughout the world and other additional policy measures; deliberate economic policy measures. China is expected to grow at 8,1% in 2021, while India will achieve a growth rate of 11,5% in 2021. sub-Saharan Africa is forecast to grow by 3,2%.

In this context Mr President, the South African economy is expected to rebound by 3,3% this year, following a 7,2%

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contraction in 2020, and average around 1,9% in the outer two years.

4. Progress on economic reforms

Madam Speaker and hon members, I am also hopeful because we are making meaningful progress in the implementation of our structural reform programme. Our structural weaknesses limit the rate at which our economy can grow. Our structural reform agenda, as articulated in the Economic Reconstruction and Recovery Plan, is aimed at removing these brakes on economic growth.

Operation Vulindlela, which I introduced to you last year, has already made demonstrable progress in accelerating the pace of implementation of high impact structural reforms. More often than not we are very hard on ourselves and we say we make decisions that we never implement. This is not the case here. We are implementing. Much of this progress was outlined in the state of the nation address by our President. I want to thank my Cabinet colleagues for their support of Operation Vulindlela and assure members that Deputy Minister Dr David Maseko and the team from the Presidency and the National

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Treasury remain hard at work together with the relevant departments to ensure the continued implementation of the remaining reforms as outlined.

We will not rest until we have fundamentally altered the structure of this economy by lowering barriers to entry, broadening ownership patterns which some people don't want to talk about, raising productivity and lowering the cost of doing business.

We face many challenges as a developing country. We are confronting these challenges head-on. Our country has a network of highways and byways which are the envy of many around the world. The mighty N1 that starts just here in Cape Town to Beitbridge; the scenic R71 that meanders through the misty mountains of Makgoebaskloof and delivers us to the Kruger National Park; and the expansive N4 that stretches from Botswana across our country into Mozambique are part of the lifeblood of the regional economy. Our great dams, bridges and railway lines have supported our economy for decades. However, much of this infrastructure now needs to be repaired.

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Government is committed to a R791,2 billion infrastructure investment. We are already partnering with the private sector and other players to roll out infrastructure through initiatives such as the blended finance system. However, all these efforts to expand infrastructure will be wasted if the end user does not pay a cost-reflective tariff for usage. Let me repeat. However, all these efforts to expand infrastructure will be wasted if the end user does not pay a cost-effective tariff for use. Therefore, the user-pays principle is very important and I would like to repeat it in this House.

Hon President, the other thing is the tendency amongst us, or amongst some of us, to destroy infrastructure. We build today; somebody burns tomorrow. We build a police station; they burn it. Tomorrow they demonstrate that they need a police station. It doesn't make sense. And therefore, we cannot do this anymore. We have to confront the culture of the destruction of our own infrastructure head-on and introduce a new mentality of asset management. The communities must own these assets, and protect and defend them.

5. Medium-term spending plans and job creation

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Madam Speaker, my fourth reason for hope is that this Budget explicitly supports economic transformation and job creation. Our R6,2 trillion spending envelope over the MTEF gives expression to the Economic Reconstruction and Recovery programme. Now, I must once again say that this is not an austerity Budget and I must emphasise this, particularly for those in the democratic movement. This is not an austerity Budget. This is not an austerity ... An austerity budget, as explained by one hon member here, will be a situation where we are now closing social grants; we are now closing schools; we are now no longer spending on anything; that we cut old age pension and everything else like you saw in Greece. That is austerity. This one? Aikona! [No!] [Laughter.] Our fastest-growing area of spending is our investment in the future capital payments ... progress.

The Minister of the Department of Public Service and Administration Minister Senzo Mchunu, is working with our partners in organised labour to achieve a fair public sector compensation dispensation when negotiations resume on a new multiyear wage settlement later this year. I know there are some, when they are not aware that conversations are taking

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place, say we are lying when we say that conversations are taking place. When you are not aware, it doesn't mean it is not happening.

We have cumulatively made R83,2 billion available for the public employment programme since the 2020 Special Adjustment Budget. We are now augmenting this by R11 billion for the Presidential Youth Employment Initiative, taking the total funding for employment creation to nearly R100 billion.

[Applause.] When the President spoke about R100 billion, people said the President was dreaming. Well, it's a good dream because it's being realised now. The key issue is, let's proceed and get the wheels going.

Government plans to finalise 1 409 restitution claims at a cost of R9,3 billion over the next three years to achieve redress and equitable access to land. [Applause.] Within this context, the Department of Agriculture, Land Reform and Rural Development will set aside R896,7 million for postsettlement support. This will include the recruitment of approximately 10 000 experienced extension officers. [Applause.] The reason why I say experienced is so that you don't hire somebody

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immediately from high school as an extension officer, because then they arrive at the Ramaphosa farm to help but they expect him to teach them. [Laughter.] It can't work like that. You have to know what is farming, so that when you go to Minister Mantashe to advise him, don't expect him to advise you on how to grow sheep. You should be able to advise him how to make goods. So, we emphasise experience with regard to the extension workers.

A total MTEF allocation of R7 billion is being made available to the Land Bank. This allocation will help to resolve the bank's current default and re-establish the development and transformation mandate. This amount will not affect the expenditure ceiling but will be offset through other budgetary processes, as will be the case with all other state-owned enterprises.

The Department of Small Business Development has allocated R4 billion over the medium term to support township and rural enterprises. [Applause.]

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The Department of Tourism has reprioritised R540 million over the medium term to establish the Tourism Equity Fund as one of the measures to support the tourism sector in our country. The fund will acquire equity stakes in existing tourism enterprises, and support the expansion of operations and the development of new operations. This is a model that I like. Equity ownership; not just gifts. This I like.

I have now outlined a few of the reasons we have to be hopeful but also acknowledge that much work remains to be done, and here is part of the work that still needs to be done.

6. Debt outlook

An incorrect notion has developed which says that the government is swimming in cash. An incorrect notion has taken hold that government is swimming in cash. [Interjections.] Certainly, compared to October last year, we are in a much better situation. However, our assessment from the Supplementary Budget's time in June last year still stands. Our public finances are dangerously overstretched.

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Our borrowing requirement will remain well above R500 billion in each year of the medium term despite the modest improvements in our fiscal position. Consequently, gross loan debt ... a terrible pronouncement ... gross loan debt will increase from R3,95 trillion in the current fiscal year to R5,2 trillion in 2023-24.

We owe a lot of people a lot of money. These include foreign investors in our bond market, pension funds, local and foreign banks, unit trusts, financial corporations, insurance companies, the Public Investment Corporation, PIC, and ordinary South African bondholders. Therefore, we must shore up our fiscal position in order to pay back the massive obligations we have incurred over the years.

7. Tax policy changes

Madam Speaker, I must advise this House that we now expect to collect R1,21 trillion in taxes during 2020-21, which is about R213 billion less than our 2020 Budget expectations. This is the largest tax shortfall on record.

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In 2021-22, government expects to collect R1,37 trillion, provided our underlying assumptions on the performance of the economy and the tax base hold. I would like to take this opportunity to thank those South Africans who diligently continue to pay their taxes ... [Applause.] ... rendering unto Caesar what belongs to Caesar. In this Budget we make the following tax proposals:

1. Maybe I should make this the last number. Anyway, the corporate income tax rate will be lowered to 27% for companies with years of assessment commencing on or after 1 April 2022. Now, this needs to be explained. This will be done alongside a broadening of the corporate income tax base by limiting interest deductions and assessed losses. We will give consideration to further rate decreases to make our tax system more attractive and competitive. We will do so in a revenue-neutral manner. We also intend to leverage the insights of the Davis Tax Committee as we undertake this reform process. I think I'll have to come back to this in order to explain;
2. The personal income tax brackets will be increased by 5%, which is more than inflation, Gen Groenewald. This will

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provide R2,2 billion in tax relief. Most of that relief will reduce the tax burden on the lower and middle-income households. As an illustration, if you are earning above the new tax-free threshold of R87 300, you will have at least an extra R756 in your pocket as of 1 March 2021;

3. Fuel levies will be increased by 27 cents per litre, comprising 15 cents per litre for the general fuel levy, 11 cents per litre for the Road Accident Fund levy and 1 cent per litre for the carbon fuel levy. This is important to emphasise because we are moving towards a carbon-free environment and we have recently established the presidential co-ordinating committee on climate change;
4. An 8% increase in excise duties on alcohol and tobacco products from today; from today with immediate effect; with immediate effect. [Laughter.]
 - A 340ml can of beer or cider will cost an extra 14 cents;
 - A 750ml bottle of wine will cost an extra 26 cents with immediate effect;
 - A 750ml bottle of sparkling wine will cost an extra 86 cents;

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- A bottle of 750ml spirits, including whisky, gin or vodka, will increase by R5,50;
- A packet of 20 cigarettes will be an extra R1,39 cents;
- A 25gram packet of piped tobacco will cost an extra 47 cents. I'm sorry, one retired President, I'm sorry; and
- A 23gram cigar will be R7,71 more expensive.

There is no increase in the price of traditional beer.

[Applause.] We have to do this, partly in honour of some of the more elderly members of the House. In fact, ever since Trevor Manuel was Minister of Finance, this is one thing which has stayed constant.

It is clear that the excessive alcohol consumption in our country can lead to negative social and health outcomes. Consumers do react to price increases and higher prices should lead to lower consumption of alcohol products with positive spinoffs.

The SA Revenue Service, Sars, has started to deepen its technology, data and machine learning capability. I won't ask

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what is machine learning. It is also expanding specialised audit and investigative skills in the tax and customs areas to renew its focus on the abuse of transfer pricing, tax base erosion and tax crime.

In this coming fiscal year, Sars will establish a dedicated unit to improve compliance of individuals with wealth and complex financial arrangements. This first group of taxpayers has already been identified and will receive communication during April 2021. In support of these initiatives, we request that this House approve an additional spending allocation to Sars of R3 billion over the medium term.

8. Division of Revenue

Madam Speaker, let me now turn to the Division of Revenue. The 2021-22 Division of Revenue stands as follows: 48,7% of nationally raised funds are allocated to national government; 41,9% to provinces and 9,4% to local government. This is after providing for debt service costs, the contingency reserve and provisional allocations that I made mention of earlier.

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The provincial equitable share will be augmented by R8 billion for provincial Health departments in 2021-22 to deal with COVID-19. Of the R10,3 billion for vaccines, R2,4 billion is allocated to provincial departments of Health to administer the COVID-19 vaccine programme. Government will also put in place a no-fault compensation fund to cover claims in the unlikely event of any severe vaccine injuries, allocations to which will be announced in due course.

The local government equitable share is set to increase to 9,7% of the Division of Revenue in 2023-24. We are aware that financial governance remains a challenge for many municipalities. Therefore, the Municipal Systems Improvement Grant is extended for the roll-out of the District Development Model.

Madam Speaker, we hereby wish to encourage collaboration and partnerships between municipal councils, labour, communities and the private sector around the principles of shared risk and shared reward. There needs to be a transition to smart local government and innovation. At the same time, well-

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functioning municipalities require that residents pay for services rendered.

9. Social Development

Provinces will receive R3,5 billion from the Department of Social Development to improve access to early childhood development services. An amount of R6,3 billion is allocated to extend the special COVID social relief of distress grant until the end of April 2021. Mr President, we are responding to your injunction. In addition, R678,3 million is earmarked for provincial departments of Social Development and Basic Education to continue rolling out free sanitary towels for learners from low-income households. [Applause.]

An HON MEMBER: Malibongwe!

The MINISTER OF FINANCE: The regular social assistance grants are adjusted upwards:

1. The old age, disability and care dependency grants are increased to R1 890;
2. The war veterans grant is increased to R1 910;

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3. The child support grant goes up to R460; and
4. The foster care grant increases to R1 050.

Government remains committed to ensuring that deserving students are supported through higher education. The National Treasury is working closely with the Department of Higher Education and Training to work on policy and funding options that will be detailed in the MTBPS. What this means is that deserving students who have been admitted to university will be supported. [Applause.]

10. African and regional economic policy

Madam Speaker, the Budget that we table here today takes seriously our commitment to the continent of which we are a part. Payments to the Southern African Customs Union, SACU, have been revised upwards by R1,9 billion in 2022 and R15,5 billion in 2023-24 to R137,3 billion over the medium term. This is very important for some of the countries in Southern Africa and we must not lose sight of the need to adjust this.

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The African Renaissance and International Co-operation Fund will over the medium term support various projects in Africa, whether it's democracy, economic development, integration and others. An allocation of R148,1 million is therefore set aside for this fund.

The African Continental Free Trade Area, AfCFTA, agreement, part of which came into effect earlier this year, presents us with the opportunity to deepen our trade and financial linkages with our continent. Following last year's Budget announcement on supporting the AfCFTA agreement through a more modern, risk-based capital management flow system, much progress has been made to implement the new system, and new regulations will be published shortly by the SA Reserve Bank.

The National Treasury also continues to work with industry bodies to promote South Africa as a financial hub for Africa. From 1 March 2021, companies with a primary listing offshore, including dual listings, will be aligned to current foreign direct investment rules which the SA Reserve Bank oversees.

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In order to improve access to African markets, our six busiest border posts will be upgraded and expanded. These will significantly improve our infrastructure investments using the PPP model. Public-private partnerships. Starting with Beitbridge, which was built in 1929 and was last upgraded in 1995, these one-stop border posts will harmonise the crossing of borders by people and goods, eliminating the dreadful scenes that we witnessed recently. [Applause.] However, I need to emphasise the PPP model.

Though we face many difficulties, we must not lose sight of our place in the world, as well as our potential and responsibilities. Twenty-five years ago, on 8 May 1996, on the occasion of the adoption of the South African Constitution, former President Thabo Mbeki delivered his seminal – *I am an African* – address from this podium. President Mbeki reminded us that there are moments in time when we must define what we want to be. I quote:

Together with the best in the world, we too are prone to pettiness, petulance, selfishness and short-sightedness. But it seems to have happened that we looked at ourselves and

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said the time had come that we make a super-human effort to be other than human, to respond to the call to create for ourselves a glorious future, to remind ourselves of the Latin saying: Gloria est consequenda - Glory must be sought after.

11. Public Procurement and zero-based budgeting

Our fiscal path requires that we better leverage government's status as the largest purchaser of goods and services in the country. The finalisation of the Procurement Bill is therefore urgent. The National Treasury is fast-tracking the process of this Bill. This Bill addresses fragmentation in the procurement legislation. We aim to table this reform before Cabinet as soon as possible.

Many of the tips that I received spoke of the importance of zero-based budgeting. The National Treasury is finalising the framework to implement zero-based budgeting across the government system. This will be done through spending reviews which have been used internationally to achieve spending efficiencies. These reviews are already underway and will shape this framework. The Department of Public Enterprises and

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the National Treasury will be the first to pilot a new budgeting methodology. The intention is to produce significantly recosted budgets from 2022-23.

12. Addressing Corruption

Madam Speaker, the Department of Justice and Constitutional Development is allocated a further R1,8 billion to improve business processes. This allocation will support our brave law enforcement agents in the fight against crime and corruption. We are bringing the long arm of the law into the digital age through the Justice Modernisation Programme.

The SA Reserve Bank, Sars and the Financial Intelligence Centre are working jointly on combating criminal and illicit cross-border activities through an interagency working group. This group has completed 117 investigations and found R2,7 billion for our fiscus. In other words, they have recovered. Customs and excise operations are reducing the illicit movement of goods across borders, assisted by specialised cargo scanners, resulting in 3 393 seizures valued at R1,5 billion for the fiscal year to January.

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13. Retirement fund reform

We announced in the MTBPS the historic agreement with all National Economic Development and Labour Council, Nedlac, constituencies for the annuitisation of provident funds. This will enable all workers to continue to enjoy tax deductions on their contributions.

The Nedlac constituencies also agreed to accelerate the introduction of autoenrolment for all employed workers, and the establishment of a fund to cater for workers currently excluded from pension coverage, as an urgent intervention towards a comprehensive social security system.

I can announce, once again, that annuitisation for provident funds takes effect from 1 March 2021, and provident-fund members will continue to enjoy a tax deduction on their contributions. In addition, the National Treasury will this week publish draft amendments to regulation 28 for public comment. The proposed amendments to regulation 28, in case somebody misunderstands, seek to make it easier for retirement funds to increase investment in infrastructure.

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14. Summary of the presentation on the fiscal strategy

This 2021 budget framework puts South Africa on course to achieve a primary surplus. By doing this, government debt will stabilise at 88,9% of GDP in 2025.

The path is challenging but achievable. It is the most prudent way to achieve higher levels of prosperity and avoid a sovereign debt crisis.

Madam Speaker, hon members, when the Constitution was adopted 25 years ago, the words, "Nothing can stop us now!" resonated in this House.

As we affirm our commitment to sustainable public finances, we also, at the same time, affirm the supremacy of the Constitution. And all of us, young and old, must abide by the injunctions in the Constitution. [Applause.]

15. Conclusion and thanks

I thank the President of the Republic of South Africa and the Deputy President for their courageous leadership during these testing times. A word of appreciation to the Deputy Minister

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of Finance, Dr David Masedo. Thanks to the Director-General of the National Treasury, the hardworking, Dondo Mogajane, and his dedicated team at the National Treasury. [Applause.]

My thanks go to the Commissioner of the Sars, who continues to collect revenue and help us, the hardworking Mr Edward Kieswetter. He is also goodmannered, by the way. My gratitude goes to the Governor of the South African Reserve Bank, Mr Lesetja Kganyago, and the outstanding staff of the South African Reserve Bank for their support. We normally do modeling together and it is wonderful.

I particularly appreciate my colleagues in Cabinet and the wisdom of the Ministers' Committee on the Budget, Mincombud. I also thank my colleagues in the Budget Council. The Budget Council is the Minister of Finance and the MECs of Finance. I know that there is one of them who does not like to be called MEC, but it is fine. I am grateful to the parliamentary committees who also work tirelessly on the Budget, processing through all the documentation, in order to provide Parliament with a report.

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Finally, to the millions of South Africans who faced, and continue to face, enormous difficulties and challenges, we ask you to take courage, persevere and walk with us. Above all, let us heed the counsel of Archbishop Desmond Tutu: See that there is light despite all of the darkness.

A prosperous future is possible for our beloved country. Gloria est consequenda. [Glory must be sought after!] I thank you. [Applause.]

The House adjourned at 14:52.