BUSA
BUSINESS UNITY SOUTH AFRICA

National Office
Unit FFN09, Block 9 Bentley Office Park
67 Wessels Street, Rivonia, Johannesburg
P.O. Box 652807, Benmore, 2010
Tel : +27 11 784 8000| Fax : +27 (0)86 609 8248
Email : busa@busa.org.za | Website : www.busa.org.za
Registration Number : 2014/042417/08

Parliamentary Office
9 Church Square, 1st Floor Graaffs Trust Building
Cape town CBD
P.O.Box 3867, Cape Town, 8000
Tel : +27 21 465 1633 | Fax : +27 21 461 5470
Email : bpo@busa.org.za

NEDLAC: DRAFT BUSINESS RESPONSE TO THE 2017 NATIONAL BUDGET

24 February 2017

Delivered by Martin Kingston: BUSA Vice President and Chair of BUSA's Standing Committee on Economic & Trade Policy

1. Summary messages

- Business unreservedly endorses and supports the 2017 Budget Speech and Budget Review, presented in the context of challenging domestic and global economic circumstances.

- Business recognises the progress made in social and economic transformation since 1994. We commend Treasury for delivering an exceptionally well crafted and progressive budget for Government that balances key country challenges against the need for accelerated economic growth and employment enabling meaningful and sustainable transformation.

- As Business, we have consistently argued that education and skills development is crucial to addressing poverty, inequality and unemployment. We believe that the increased allocation towards education, as well as health and social support is a critical investment in our collective future. We are therefore supportive of the increased allocations towards these areas announced in the Budget.

- Business acknowledges the emphasis on employment in the Budget speech. Business regards all effective interventions to stimulate employment as crucial, particularly those targeted at increasing the participation of youth, women and poor people in the economy.

- The success of government's programme will depend on achieving the envisaged cuts in expenditure, budget deficit targets and revenue collection. While Business believes that the Budget is a credible plan to place the economy on a sustainable growth path, adherence to its targets is critical. In this regard whilst recognising the critical role of treasury we similarly appreciate that implementation of these proposals requires an integrated, aligned and capable approach from all relevant government departments.

- The macro economic environment gives us reason to be cautious about predicting any significant upturn in the short term.

- Similarly, we acknowledge the unpredictable and complex political environment both globally and in South Africa informed, in part, by the significant and growing inequality that the Minister has highlighted and the need to address that in a sustainable and inclusive manner.

2. Fiscal consolidation

- Business applauds the decisive fiscal action shown by government. Debt service costs continue to be the fastest-growing item of expenditure (growing by 10.5% per annum over the medium-term framework) and accounting for 11.24% of consolidated expenditure. We recognise the need to contain both debt service and absolute debt to GDP ratio.

- We support government in its goals of achieving fiscal consolidation of R26 billion by 2019/20. The projected reductions in the budget deficit would constitute a significant achievement. Business welcomes this ongoing reduction in the budget deficit.

- Similarly, the stabilisation of the debt to GDP ratio over the medium term to 48.2% in 2020/21 is encouraging. We are further supportive of the nature of debt financing, with foreign debt forecast to be maintained at levels lower than 12% over the medium term. This is to be supported as it removes risks associated with potential depreciation of the rand.

- We are, nevertheless concerned about the significant and growing level of guarantees and contingent liabilities [an increase from R469.9 billion in 2015/16 to R477.7 billion in 2016/17] provided in particularly to SOEs and reiterate the Minister's view that appropriate governance and controls needs to be in place to safeguard the operation and associated finances.
- The reprioritization of R5 billion in the outer year of the Medium Term Expenditure Framework (MTEF) towards higher education, in addition to the R32 billion allocation made in the 2016 National Budget and MTBPS is supported as a timely intervention towards stabilising the sector.

3. Tax proposals

- Treasury should be commended for managing to raise gross tax revenue by R28.4 billion in 2017/18 in a manner least disruptive to sustainable economic growth.
- We agreed with Treasury's announcement last year that future tax increases over the medium term would need to maintain an optimal balance between direct taxes such as CIT and PIT and indirect taxes such as VAT. Such increases need to maintain an efficient, diversified and sustainable tax system that should be aligned with Government's economic growth objectives and job creation in line with the NDP.
- In view of this, we are broadly supportive of the taxes identified for increase in the Budget. Business acknowledges the need for a progressive approach to raising the taxes that are needed to address inequality and transformation. Business therefore embraces Treasury's tax proposals, including maintaining Value Added Tax and Corporate Income Tax at current levels.
- With regard to the increase in Dividend Withholding Tax (DWT) from 15 to 20%, after accounting for corporate income tax (paid before the distribution of dividends), the combined statutory tax rate on dividends is now more highly taxed than the OECD average equivalent measure - which may have unfortunate ramifications in limiting investment appetite.

- In relation to announcements with regard to the proposed tax on sugary beverages, business looks forward to engaging government and other social partners with regard to their designs and impacts with a view to limiting any potential negative economic consequences on the industry, jobs and the economy. We remain committed to addressing the obesity challenge that this country faces.

- As business, we have made our opposition to the proposed Border Management Authority known and therefore take significant comfort from Minister Gordhan's view that it would be imprudent to fragment customs administration and collection at this point.

- We note that a carbon tax bill will be processed in parliament during this year. The great challenge for us is that the approach to be followed after 2020 remains unclear. We also note with concern the statement in the Budget review that Government only expects to provide clarity at the end of this year on the alignment of the carbon tax and carbon budget after 2020. o This is problematic as we are currently commenting on a document from Government on the national mitigation system, which includes alignment between the carbon tax and the carbon budget system.

4. Consolidated spending

- Business notes that real growth in non interest spending will average 1.9 per cent over the next three years. Apart from debt service costs, post-school education is the fastest growing category, followed by health and social protection.

- We view this growth in expenditure favourably as it serves as a catalyst for building the foundation for sustainable, inclusive economic growth.

- In our view, Treasury is to be congratulated for identifying areas in a challenging fiscal environment to reduce expenditure to fund much needed investments in the economy. We therefore support the reduction in the expenditure ceiling by R26.1 billion over the next three years by trimming non-core goods and services and compensation budgets.

- Efforts by government to improving efficiencies in spending through centralising procurement in the Office of the Chief Procurement Officer are to be welcomed.
- As far as investment in the economy is concerned, business notes with approval the measures announced in the budget over the period of the MTEF, including R3.9 billion for SMME and cooperative development, R4.2 billion for industrial infrastructure in special economic zones and industrial parks as well as further significant investments in broadband infrastructure, R&D, tourism, the oceans economy and agriculture, rural development and land reform. Business also notes with approval the emphasis on power solutions such as IPPs that the country can afford. In this regard we have made our concerns about the need for affordable, sustainable and appropriate energy trajectory known including our concerns about the potential nuclear build programme.

5. Emergent Risks

- While we are confident that the Budget has helped to place the economy on the path to recovery, we must be mindful of the continuing risks to the outlook in order to avoid complacency.
- The continued volatility of the Rand could continue and lead to further increases in inflation and interest rates. Higher than expected electricity price increases could further serve as shocks to a fragile economy, as could subdued economic growth.
- The risk of a sovereign ratings downgrade remains in place, with potential effects on borrowing costs, currency weakness, disinvestment, consumption and employment. Negative developments in the global economy, including apparent rising protectionism in parts of the developed world, could have further negative implications for export demand, investment and employment.
- Significant risks to the overall fiscal outlook continue to be posed by the overall public sector debt requirement (inclusive of government borrowing and that of state entities such as SoEs). Worryingly, this is R32.8 billion more than forecast in the 2016 Budget. Business agrees with Treasury that operational inefficiencies, poor procurement practices, weak corporate governance and failures to

abide by fiduciary obligations have plagued several companies that are now in serious financial difficulty. Business is fully supportive of Treasury's reform plan for SoEs and stands ready to offer assistance in this regard.

- We believe that the Budget has served to address many of our challenges, and that the strength of our institutions is robust enough to guide us through the economic headwinds. However, this must be coupled with comprehensive implementation of the NDP and cooperation amongst social partners.

6. Conclusion

- The 2017 Budget Review took place in the context of a highly challenging economic and fiscal environment. We believe as Business that the Budget should do enough to avert a sovereign ratings downgrade through reducing the budget deficit and stabilising public debt in a credible and sustainable manner. This is, however, contingent on continued adherence to an enabling macroeconomic environment for inclusive economic growth to take root permitting meaningful and sustainable economic transformation.
- Programmes such as National Health Insurance (NHI) and Comprehensive Social Security (CSS) are acknowledged as imperatives alongside complementing the commitment to education and health. Business supports the view that we need to create the fiscal space to fund the implementation of these programmes, recognising the critical contribution of business to the fiscus and addressing the challenges of poverty, inequality and unemployment. The country needs to enhance the investment environment so that the economy can grow and deliver to developmental objectives. We continue to advise caution in government's policy announcements with significant future expenditure commitments, such as NHI, CSS and the nuclear build programme. Credible cost-benefit analyses must be undertaken as a part of any consideration of fiscal commitments now and in the future.
- We note with approval the recognition by the Minister that the private sector is key to investment and growth in the economy, and to grow investment requires confidence. Confidence in turn requires

policy and regulatory certainty and smart tape versus red tape. Efforts by government to improve policy certainty and implement smart tape are applauded and should be accelerated.

- The success of government's programme depends not only on cost containment measures but also on an uptick in the rate of GDP growth. Without this, the fiscus will continue to be constrained. Business is therefore particularly pleased about the decisive focus provided by the Budget in relation to inclusive economic growth. Commitments to address the regulatory burden, particularly in relation to business registration, small business and doing business generally and in specific sectors is welcomed.
- Business is committed to playing its part in Government's transformation agenda and to acting, in partnership, to grow the size of the economy. This requires that we transform the economy through black economic empowerment and other measures which fully integrate all members of society in contributing to and benefiting from the economic potential of the country. BUSA welcomes the call by government to increase private-sector participation in sectors dominated by public enterprises, and to ensuring that effective regulatory authorities curb the power of monopolies. An environment that enables smaller enterprises across sectors to access the market and thrive is critical to inclusive growth. The emphasis on collaboration, and active business engagement as a mechanism for building sustainable solutions is to be welcomed.
- As Business, we welcome the focus on inclusive growth and the underscoring of the imperative to accelerate economic empowerment efforts in our collective interests as a country. This will grow our economy, create jobs and enable us to deliver on our developmental objectives.