

1. Medium Term Budget Policy Statement (MTBPS)

In line with BUSA's strategic priority advocating for a sustainable tax regime for inclusive growth, BUSA made submissions to National Treasury last week on the MTBPS. The main thrust of our submission is that fiscal space will have to be achieved through greater efficiencies in government, particularly in State Owned Enterprises. The following media release has been issued in advance:

Bold cost containment measures must feature prominently in Finance Minister's Medium Term Budget (19 October 2017)

South Africa's Medium-Term Budget Policy Statement (MTBPS) will have to incorporate bold cost containment measures with appropriate levels of revenue collection if Government's pro-growth policies are to be sustainable over the medium to long term, Business Unity South Africa (BUSA) said today.

Speaking ahead of the MTBPS, which Finance Minister Malusi Gigaba will deliver on Wednesday next week, BUSA CEO Tanya Cohen said while tax increases have, in recent years, been part of the solution to funding the deficit, further increases will stifle the economy – making cost containment and generating efficiencies imperative in the context of South Africa's weak economic growth and declining tax revenues.

"Given that only two options are available to deal with the deficit, namely increased revenue collection in the form of taxes, or reductions in expenditure, the emphasis must fall on the latter. South Africa has simply run out of space to increase taxes significantly in the current socio- economic and political environment without doing undue harm to the economy. Expenditure reduction is therefore the only sustainable avenue to fiscal consolidation. However, this should not be at the expense of social spending but rather through generating efficiencies within government", said Cohen.

Business remains profoundly concerned about continued loss-making by SOEs, bail-outs and providing guarantees by Treasury and perceives this to be an ongoing threat to the fiscal consolidation process and urges government to implement measures to ensure that SOEs are governed independently, responsibly and sustainably.

“State-owned entities such as South African Airways, Eskom and the SABC complete a worrying picture of chronic overspending. There is no doubt that poor governance, corruption and maladministration play a significant role in the dismal financial performance of SOEs, particularly those in the energy sector. Efforts aimed at securing eradicating wasteful and fruitless expenditure and curtailing losses of SOEs require immediate intervention support and implementation.”

“The current fiscal space simply no longer allows for public funds to be channelled to chronically underperforming entities which contribute questionable value to the economy over the long term,” said Cohen.

BUSA stated that Business would expect Minister Gigaba in the MTBPS to demonstrate how the recent bail-outs of SAA amongst others, will ultimately prove fiscally neutral. At the current juncture, other significant spending commitments, particularly National Health Insurance (NHI), Comprehensive Social Security (CSS), or the Nuclear New Build Programme should be approached with extreme caution from a fiscal perspective. While programmes such as NHI and CSS are imperatives, alongside improved access to skills and education provision, fiscal commitments should be on the basis of credible cost-benefit analyses”, continued Cohen.

In its submission to National Treasury of objectives that should guide the 2017 MTBPS, BUSA is advocating for:

- A firm commitment to macroeconomic, fiscal and institutional stability.
- Rooting out corruption, as well as irregular, fruitless and wasteful expenditure.
- Improved and consistent communication on the part of government and its agencies.
- A stable, certain regulatory environment.
- Reliable and affordable infrastructure.
- Coherent policies across departments, ministries and agencies.
- Functioning and competent, fit for purpose SoEs with appropriate governance and oversight
- Improved skills and education to drive competitiveness.
- Clear and tangible progress on the implementation of government initiatives to address economic growth and confidence e.g 14 point plan.
- A strong pact between government, labour and business.
- Positioning business as a national asset, particularly to boost entrepreneurs and small businesses.

“The lack of decisive measures to stabilise debt and address governance challenges will inevitably result in an extended period of enforced austerity that threatens our sovereignty. The main victims of this will, unfortunately, be the poor and most vulnerable. Losing control of our public finances will imperil the capacity of the state to address social developmental concerns. South Africa needs strong

leadership and political will to curb over spending, stabilise debt, avoid further downgrades and address governance challenges in order to restore confidence and credibility. This is a critical moment for Minister Gigaba and the country. As always, business stands ready to play its part in South Africa's path to economic and social development", Cohen concluded