21 February 2018

BUSA media release on the 2018 Budget

BUSA welcomes the incremental and cautious approach to the Budget leveraging off the capability and commitment of social partners.

Business Unity South Africa (BUSA) welcomed the 2018 National Budget indicating that it is generally well balanced, notwithstanding the difficult economic-circumstances under which the Budget is presented.

BUSA stated that the Budget was incremental and cautious, spearheaded by a clear direction given by President Ramaphosa in the State of the Nation Address, where the President stated that as a country we will leverage the capability and commitment of all social partners to leverage our economic potential as inclusively and quickly as possible. “We believe the Minister made correct choices in challenging circumstances, taking advantage of a rising tide of confidence coupled with a more positive economic outlook”, stated BUSA President, Jabu Mabuza.

Expenditure Reduction
BUSA welcomed the expenditure reductions contained in the Budget, amounting to R85 billion over the medium term framework, despite the allocation of an additional R57 billion for fee-free higher education and training. In particular, BUSA noted with approval:

- The intention to develop robust turnaround strategies (including addressing capital structures that are too reliant on debt), accompanied by good governance, and capable Boards and management, to address chronic overspending in State Owned Companies (SOCs) and focus on their core mandates.
- The commitment by government to finalise a framework on guarantees for SOCs aimed at reducing the exposure to and improving the quality of its guarantee portfolio, as well as the commitment to disposing of non-core assets and bringing in the private sector where possible and appropriate.
- The Minister’s announcement that government intends to limit public sector wage increases to fair and sustainable levels.
- Reduction in national Departments’ operating budgets, including the reduction of cabinet, without compromising social spending.
- Capacity support and interventions, including turnaround strategies, to ensure municipalities reflect the full cost of services, particularly water, collect the funds that are owned to them and adopt credible budgets.

BUSA cautioned there is much work remaining in achieving fiscal consolidation, with the increase in the debt-to-GDP ratio to 56.2% by 2022/23. In light of this, adherence to fiscal targets and achieving economic growth forecasts was critical, stated BUSA.

Revenue Generation
BUSA acknowledged the need to raise revenues through a variety of tax measures including: the 1% increase in VAT, below inflation increases to personal income tax rebates and brackets, higher excise duties on luxury goods alcohol and tobacco, estate duty for estates greater than R30 million, and the increase in the fuel levy.

"While no tax increase is welcomed, the increase in VAT by 1% to 15% is the least damaging option to generate the majority of the revenue increases earmarked by the budget. The combination of the VAT increase, together with the compensatory mechanism of ~~an~~ above inflationary increases in social grants will offset some of some of the impact of the VAT increase on the poor. Ideally, we would have liked to have seen the VAT increase accompanied by an increase in zero rating for basic goods to further compensate the poor and most vulnerable in society", stated BUSA CEO, Tanya Cohen.

Policy Certainty and Pro-Poor Growth Stimulating Interventions
BUSA noted and welcomed the projected fall in the budget deficit from 4.3% in 2017/18 to 3.6% in 2018/19. However, Treasury projections have in the past proved overly optimistic with regard to the budget deficit and GDP growth. Achieving GDP growth of 1.5% in 2018 will require a suitable and certain policy environment, which was clearly acknowledged by the Minister of Finance.

BUSA expressed concern about the announcement of the implementation of the Carbon Tax by 1 January 2019 when there are significant implementation challenges, and the country is on track with nationally determined contributions to reduce greenhouse gases. It welcomed, however, the indication that further environmental taxes would not be introduced in the absence of a policy brief which BUSA trusted would be fully consulted upon in Nedlac.

Pro-poor spending relating to social grants, basic education, higher education, subsidised public housing and services for poorer households was welcomed, particularly given the limited fiscal space to do so, said BUSA.

"We welcome the reprioritisation towards supporting the growth of small and black owned enterprises in agriculture", stated Cohen, indicating that this would go some way towards accelerating food sustainability, growth and transformation in the sector.

The allocation of funding to industrial incentives, while significant, was regarded as insufficient to support the growth and employment objectives of the country, stated BUSA.

BUSA appreciated the acknowledgment by the Minister of the role played by the Nedlac's Public Monetary and Finance Chamber in identifying options with respect to expenditure reduction and revenue increases. BUSA has participated extensively in these discussions, as the apex business organisation represented at Nedlac. "We welcome Treasury's engagement with social partners and believe that a collaborative approach harnessing the resources, commitment and experience of business is critical if South Africa is to achieve its economic potential", stated BUSA Vice President, Martin Kingston.

BUSA indicated that it remains committed to working with National Treasury and other government departments, within and outside of Nedlac, to ensure that inclusive economic growth can be achieved through the intentions detailed in the 2018/19 Budget.

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