



B U S A
BUSINESS UNITY SOUTH AFRICA

2010 BUDGET

SUBMISSIONS TO THE PORTFOLIO COMMITTEE ON FINANCE

BY BUSINESS UNITY SOUTH AFRICA (BUS A)

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1. BACKGROUND

BUS A is a confederation of chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. It represents South African business (See Annexure B - list of members) on macro-economic and high-level issues that affect it at the national and international levels. BUS A's function is to ensure that business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

As the principal representative of business in South Africa, BUS A represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUS A also represents businesses' interests in the National Economic Development and Labour Council (NEDLAC).

Internationally, BUS A is a member of the International Organisation of Employers (IOE), the Pan-African Employers' Confederation (PEC) and the Southern African Development Community (SADC) Employers' Group. BUS A is also the official representative of business at the International Labour Organisation (ILO), African Union (AU) Social Affairs Commission and World Trade Organisation (WTO).

2. INTRODUCTION

BUSA appreciates the opportunity afforded to make a presentation on the 2010 Budget as tabled by the Minister of Finance, Hon Pravin Gordhan on the 17th February 2010. The 2010 Budget “laid the basis for doing things differently setting out the core elements of the new path for the economy and public finances”. Our organisation believes that the budget continued on a proven macroeconomic framework, whilst simultaneously being pragmatic in addressing underlying economic challenges facing South Africa.

Overall, BUSA believes that the Budget Speech was useful in enhancing investor confidence about South Africa as an investment destination. The content and the tone of the speech will assist in improving investor confidence – both the currency markets and the JSE have already responded positively to the budget statement. The clarification of government’s stance on key macro-economic issues provides certainty and predictability and will further support both consumer and business confidence.

In the context of our current economic and social challenges, and that of a small open economy integrated to the global marketplace, a commitment to a prudent macroeconomic framework is crucial. However, fiscal policy alone cannot be expected to successfully address South Africa’s challenges. Whilst macroeconomic policy can go a long way in creating a favourable macro-economic environment – it is important that other policy instruments are used contribute their share to unlocking South Africa’s growth potential.

The debate on improving economic growth and development must go beyond macro-economic issues, to include micro-economic challenges. In this regard, it is crucial to address the underlying micro-level challenges which continue to inhibit the attainment of service delivery and economic growth priorities identified in the budget. This requires, amongst others, that continued investment is made in developing capacity in all three spheres of government as well as in the legislative and judicial barnacles of government, to ensure appropriate measures that enhance accountability and monitoring framework within the public sector. BUSA stands ready to support government in ensuring that these objectives are met.

Our organisation is already playing a leadership role in fighting corruption. Business is currently chairing the National Anti-Corruption Forum. It is our conviction that corruption negates economic growth and development by undermining the efficiency of public and private sector spending. We welcome therefore, the strong stance adopted by the Minister in the budget and pledge our support to combating the scourge of corruption together. Furthermore, our organisation has been at the forefront at dealing with competition related issues within our own ranks. Last year, 2009 BUSA launched the Business Competition Forum, as part of our broader commitment to promote competition in the local economy.

We will also actively campaign to increase the levels of competitiveness and productivity in the national economy. These are difficult issues, but they are not impossible to achieve. Business is committed to doing things differently this time!

The broad approach is outlined as follows:

- Response to the budget
- Micro Economic Areas

3. RESPONSE TO THE 2010 BUDGET

BUSA submits that the budget statement struck a skilful balance of prioritising economic growth, job creation and poverty eradication. The continuation of an expansionary fiscal programme should support domestic demand, and provides much needed stimulus to the economy. It is expected that this programme will create the necessary buffer during the period of fragile economic recovery.

Macro-economic Policy Issues

The Budget built on a solid macroeconomic framework, which has been widely acknowledged for mitigating South Africa's economy from the full impact of the global economic crisis. It is therefore appropriate that these policies are maintained as South Africa develops strategies to address economic growth, unemployment and poverty.

The current global economic developments, with significant risks emanating from developments in some EU countries (for example Portugal, Ireland, Italy, Greece & Spain), will inevitably lead to risk aversion towards emerging markets. Policy certainty and predictability is thus required to provide a counter-balance to this aversion. Policy certainty is considered an important element of improving global competitiveness. This is primarily because global competitiveness can be defined as the "the set of factors, policies and institutions that determine the level of productivity in a country". BUSA also believes that the primary goals of economic policy are to achieve higher economic growth, to address underlying problems of unemployment, poverty and inequality.

Policy Levers

The focus on the key levers to achieve our economic policy objectives is broadly supported. On the balance, these are areas which might receive the greatest attention as we seek to improve long-term competitiveness of the domestic economy.

BUSA is keen to be involved in further discussions on some of these areas namely:

- The proposals on wage subsidy and addressing youth unemployment require a further discussion on the necessary preconditions to ensure that this programme can achieve its stated goals.
- On Industrial Policy, BUSA will be engaging with the details of the recently released Industrial Policy Action Plan at the NEDLAC Trade & Industry Chamber.
- BUSA concurs that a low savings rate is an impediment to further economic growth in South Africa. Our organisation will explore various approaches to addressing this issue through the NEDLAC Public Finance & Monetary Policy Chamber.
- Addressing the underlying issues in our labour and product markets is critical in our review of impediments to long term competitiveness.
- BUSA has long advocated for greater efforts to reduce the regulatory burden on business. In this regard, we await further details on the mechanism to be employed in these processes.
- We welcome the specific mention of the ongoing consideration of social security reform. However, we would like to a progression of the process to the point where we deal with the detail content. This would help enhance certainty in this area, where a lot of speculation has plagued the economy for a while now.

Monetary Policy

On monetary policy and the exchange rate regime, BUSA concurs that “monetary and exchange rate considerations are also important elements both in adapting to global development and in creating an environment supportive of growth and employment creation”. These are essential shock absorbers which no amount of policy skill would replace. We also agree that central banks must, in conducting their affairs, implicitly balance broader economic indicators including “price stability, economic growth, employment, financial sector stability & a competitive exchange rate”. It is also important that a credible anchor for monetary policy, in our instance inflation targeting is BUSA’s preferred anchor. We are supportive of the continuation of the existing stance and regime.

BUSA further supports the commitment to a flexible exchange rate management regime. We believe that “leaning against the wind” is the least costly and most credible option in dealing with volatility of the rand. This approach combined with reserve accumulation and exchange control reform can further alleviate volatility of the local economy.

BUSA welcomes the reassurance that “government will maintain prudent macroeconomic policies that promote a favourable environment for investment and job creation through low and stable inflation and interest rates, a competitive real exchange rate and measures to support financial stability”.

Fiscal Policy

BUSA continues to support the counter-cyclical framework approach. We are comfortable with a budget deficit at 7.3% of GDP for 2010, to the extent that it is temporary and will not lead to structurally high deficits. That means, we would like to engage with government on the need to withdraw some of the fiscal interventions, as well the timing for this to happen. We have noted the significant increase in the public borrowing programme. It is understandable under the circumstances. We need to exercise discipline and ensure that the country has a credible path to return to sustainable budget balance. However, we remain concerned about the potential for rising borrowing costs as credit demand rises, both in domestic and external markets. This is particularly, given the capital programme that we should be running through our parastatals. What may seem as a sustainable borrowing programme, may turn out completely differently if the costs go to unsustainable levels.

Indeed, we are comforted by the view that “responsible management of fiscal policy will prevent an unsustainable rise in debt that would limit the ability of the country to grow at a faster rate in the future” We implore that the focus should now centre on improving outcomes from our budget. The “quality of our deficit” determines the multiplier effect of government spending on the domestic economy.

Economic Outlook

Our organisation contends that the upward revision of the growth forecast to 2.3 % GDP for the 2010/11 period and 3.6% for 2012 respectively is realistic. These targets are a significant improvement from the negative growth experienced in 2009. Necessary care must be exercised

to avoid complacency – much higher levels of economic growth are still required to meet our underlying objectives of addressing unemployment and poverty. Further, our recovery and economic prosperity is also dependent on developments emanating from elsewhere in the global economy. It is thus important that we act timeously to address underlying competitiveness issues, which continue to impact negatively on our prospects. Our approach in dealing with the economic growth challenge is faster implementation of micro-economic reforms which are “required to increase private investment, and support competitiveness by lowering costs, raising productivity and taking advantage of changing patterns of global demand to raise exports”.

Revenue Estimates

Lower government revenues are not unexpected, and partly reflect the extent of the losses suffered by business as a result the recession. Lower revenue should further support the case for an economy that supports private sector development. We concur that broadening the tax base is the most optimal approach to achieving higher revenues in the long run. We have noted that tax revenue for 2009/10 is projected to be R68.9 billion lower than the budgeted R69.3 billion announced in February 2009 reflecting a general decline amongst all tax instruments.

BUSA view is that tax policy should be used to stimulate investment in the South African economy. This approach will ensure that in the long there is higher growth, and can be useful in assisting government to generate higher revenues in the long run, by broadening the tax base. The use additional taxes and special levies as revenue generating instruments can be counter-productive, as it invariably reduces South Africa’s competitiveness. Further, we believe that they can distort economic activity leading to sub-economic outcomes in the economy.

We have noted the Minister’s pronouncement that further tax increases might be considered to fund the infrastructure programme. We believe that such an approach could result in “double-taxation” since the Budget speech explicitly states that the “costs of these investments are largely met by users, and will in several cases require higher tariffs.

BUSA recognises that private sector participation in PPPs is far from optimal and has recently canvassed its membership on the barriers to participation. We have developed a list of issues that we believe could increase private sector participation and have been seeking an engagement with the PPP unit in this regard. We look forward to reaching agreement on a range of interventions that we believe could improve participation.

Carbon Taxes

Business recognises the need to move towards a lower carbon economy not only as a result of the recent climate change commitment but also in terms of the carbon border taxes that are being contemplated in some of South Africa’s trading partners. We have consistently raised concerns about the imposition of focussed carbon taxes, particularly when the revenue is not used to promote the behavioural change that is supposed to result from the imposition of the tax. (Make a firm proposal here...)

We have consistently expressed concerns that environmental taxes are levied as a means to increase revenue rather than achieve environmental performance improvements. We therefore welcome the publication of a “discussion document exploring the feasibility of a more

comprehensive carbon tax” for public comment.. We are sure that government will find that BUSA will be an enthusiastic commentator on this document.

BUSA has established a task team to investigate the potential for an emissions trading scheme and looks forward to engaging with the discussion document on “the possible scope and administrative feasibility of emissions trading in South Africa. In this regard we have just completed a FRIDGE study into this matter and trust that officials from National Treasury will participate in the Nedlac debate on this report which is expected to commence in March.

We note the variety of additional environmental taxes and charges that will be investigated and trust that the results of the investigations are also subjected to public consultation.

EXPENDITURE PRIORITIES

Implementation of concrete actions to improve effectiveness and efficiency of expenditure

We welcome the commitment to improving efficiency in government spending; we are keen to explore areas where we could support efforts to improve the value for money on projects. In this regard the commitment to combating corruption remains a cornerstone of such a commitment. A programme of comprehensive evaluations is supported and we believe that another important instrument in the endeavour to increase value for money is to apply regulatory impact assessment on a comprehensive basis.

Spending Priorities

BUSA believes that the 2010 Budget outcomes, of improving the quality of education, upgrading of health care, promoting public safety, supporting rural development, creating decent jobs, building sustainable human settlements, and improving efficient government are reasonable. We expect positive returns on the investment in human capital and urge the necessary vigour in monitoring outcomes from these investments.

We are encouraged by the “specific departmental performance targets” that will be overseen by the new functions within the Presidency with the R180 million allocated over the MTEF for this purpose. We agree that this approach will improve coordination and ...

Industrial Development

BUSA welcomes the additional allocation of an additional R3.6 billion for the Department of Trade and Industry in support of industrial investment and employment creation to support the broader industrial policy objectives. BUSA would like to be part of the design of this programme. On the one hand, there is the long standing view that a broad based lowering of the corporate tax burden is the better policy route because governments seldom have a clear quantitative and qualitative understanding of the effectiveness or the revenue impact of specific incentives. On the other hand, there is the view that we have reached the stage where some of the sector specific binding constraints can be addressed through well targeted and managed tax incentives. We are currently reviewing the Industrial Policy Action Plan and look forward to intensive engagement in Nedlac.

Infrastructure Programme

BUSA supports the additional investment in infrastructure that is planned by government. The increase in allocations by a total of R6.7 billion to support municipalities and the R2.5 billion additional Municipal Infrastructure Grant should alleviate service delivery pressures at the local government level. The public sector infrastructure programme at R846 over the next three years is also supported. The outcomes from these investments are not automatic – it is important that the capacities of the implementing agencies are strengthened to ensure maximum returns. And in particular best value for money. The high and ever escalating cost of the Eskom build programme remains a cause for concern.

4. CONCLUSION

Our presentation summarised our assessment of the 2010 BUDGET. We reiterate our commitment to partnering with other social partners to deliver “a better South Africa for our children and grandchildren”. We concede that these are difficult challenges – which require an inclusive approach. We believe that the private sector has a crucial role in ensuring that our common goals are met. We are committed to mobilising all of our resources to strengthen “national service delivery” which lies at the heart of South Africa’s competitiveness.

We are committed to matching our words with action and will through “sheer grit” work with government and other stakeholders to “build a durable, developmental just and prosperous nation.”