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# BUSINESS RESPONSE TO THE 2019 NATIONAL BUDGET

**Nedlac Exco: 22 February 2019**

*Delivered by Martin Kingston: BUSA Vice President*

## 1. Summary messages

- Business would like to congratulate Minister Mboweni on his maiden Budget Speech, which presented a realistic, although concerning, assessment of the challenges confronting our public finances.
- In a context where many of the exogenous risks outlined in the Medium Term Budget Policy Statement (MTBPS) were realised, a delicate balance was struck between moderate revenue increases and expenditure reduction. The Minister is to be commended for presenting a Budget that seeks to represent the broader interests of South Africa, based on the six fundamental tenets outlined in the Budget.
- As repeatedly emphasised by Business, the necessary task of expenditure reduction cannot be at the expense of social spending given the urgent developmental needs of our society. We therefore recognise the efforts made in the Budget to maintain real increases in spending over the medium term on social spending, including education and skills development, health and social support. We will expect various government departments to prioritise, manage and administer the funds allocated ethically and professionally to ensure appropriate impact and value for money.
- In light of the conflicting requirements to reduce expenditure whilst increasing fiscal support to SOEs in the short to medium term, adhering to targets will be essential.
- Whilst acknowledging the difficult conditions under which the Budget was formulated, we believe we need to have a very frank and considered discussion about what is needed to radically shift the economy onto a higher, more inclusive growth path that can significantly reduce unemployment.

## 2. Growth-enhancing reforms

- Business agrees with the sentiments expressed by the President in the State of The Nation Address (SONA), as well as in both the MTBPS and Budget that ultimately only inclusive

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economic growth has the potential to balance the budget. This is the first of the five tasks set us by the President in the SONA and arguably the most urgent.

- At the same time we must acknowledge, as did the President, of the damage done by corruption to many of our institutions – in some cases with the involvement of private sector actors. This has undermined confidence in our country and must be fundamentally reversed.
- In this regard, we would wish to explore with you, Minister, how business can play a more significant role alongside our social partners in achieving the tasks set us by the President. Only with renewed confidence in our collective ability to implement reforms will the investment required to substantially grow the economy materialise.
- One such example of how business can play such a role is in designing, building and operating key infrastructure assets. This is a timely recognition of the capacity of the private sector to alleviate the burden on the fiscus and grow the economy.
- The announcement that government will work towards facilitating skilled migration to address skills bottlenecks is to be welcomed. However, this is a short to medium term intervention which needs to be accompanied by a coherent roadmap for effective implementation of the skills and education interventions announced to address longer term structural constraints. In this regard, support from all social partners for the President’s announcement of a modernisation of the curriculum to position South Africa to benefit from the Fourth Industrial Revolution is of paramount importance.
- Given the importance of small business to the economy and job creation, the launching of the Small Business and Innovation Fund (to the amount of R3.2. billion over the medium term) is an important initiative. We call on the various agencies charged with SME development, such as SEDA, to coordinate efforts and leverage the private sector wherever possible.
- We support the allocation of R18.4 billion over the medium term to accelerate land reform. Business has previously warned that in recent years inadequate funds were made available for land reform, with poor implementation and policy mis-steps compounding the challenge. Implementation and adequate support for emerging farmers in entering the mainstream economy will therefore be key.
- The policy interventions on easing visas, the imminent licensing of high demand spectrum and the announcement of a new Public Procurement Bill are acknowledged as interventions whose implementation we would support as a matter of urgency.

- Lastly, although the allocations to Water & Sanitation are to be welcomed (R132 billion over the next three years, accounting for just over 15% of public sector infrastructure expenditure) in the context of challenges facing water infrastructure, some indication of policy changes or allocations to address challenges in the Department of Water and Sanitation (along the lines of the announcement made in the MTBPS to resolve challenges at SARS) would have been beneficial in addressing concerns. Support from Treasury for drafting a financial recovery plan is not sufficient given the emerging crisis in the sector, which (like energy) is a key input into the economy.

**3. Revenue and expenditure projections**

- While largely anticipated, we are concerned at the deterioration in a number of metrics, including the deterioration in the global and local growth forecasts, the decline in tax revenue and increase in the budget deficit in 2019/20 to 4.5%. Of particular concern is the projected increase in the forecast debt-to-GDP ratio to 60.2% in 2023/24. The direction is concerning as this undermines confidence in our ability to anticipate these ratios with any degree of accuracy.
- Regarding revenue proposals, we agree with the assessment made by Treasury that significant increases in taxes would prove counter-productive in the current economic climate and we therefore endorse the decision not to hike the “big 3” taxes, i.e. Personal Income Tax, VAT or Corporate Income Tax. The absence of inflation-adjusted changes to Personal Income Tax brackets, while difficult for the consumer, is acknowledged as arguably the least damaging available option.
- To avoid further such steps to address the deficit over the medium term, with the implications this has for consumer spending and levels of indebtedness, the stabilisation of SARS, which we recognise, will need to be expanded. We therefore look forward to the announcement of a new SARS Commissioner in the coming weeks. We also hope to work closely with Judge Dennis Davis in assessing the tax gap.
- We are mindful of the potential consequences of the increases in excise duties on alcohol and tobacco products, which are likely to inadvertently increase the price differential between legitimate and illegitimate products. This has the unintended effect of growing the illicit economy at the expense of the legitimate and incentivises customs fraud. Alongside these increases, we therefore urge a stringent clampdown on the illicit economy which currently

costs the fiscus in the region of R8 billion in lost revenue a year. We therefore welcome the resuscitation of the illicit trading unit at SARS.

- The success of any fiscal consolidation process depends in large part on the credibility of government's commitment to sustainably manage its debt and, when concerns arise regarding this, on its willingness to implement reforms to grow the economy. Whereas the Budget has identified objectives, we as a matter of urgency need to determine a roadmap to achieve these objectives in the shortest timeframes and most effective manner. This requires capacity and to the extent that capacity is in shortfall, this will need to be urgently addressed. We no longer have the luxury of being given the benefit of doubt. Implementation of challenging reforms is required.
- In view of this, we have consistently represented that the public sector wage bill is unsustainable and we believe, as originally identified in the MTBPS, that the various interventions outlined send the right signal to South Africans who have been asked to fund the deficit through various revenue increases. However, business is of the view that a full and substantive review of the public sector human resource requirements should be undertaken in order to pave the way towards an efficient and service orientated public sector. This will need to include the development of appropriate incentives for performance and consequences for non-performance.
- As business has requested, government has correctly identified that alleviating the pressure of debt service costs is one of the critical steps in managing the deficit. However, this needs to be considered in the context of a much broader reorganisation of Eskom and other SOEs to render them fit for purpose, competitive and able to play an appropriate role in supporting the economy.
- The restructuring of Eskom needs to be considered in the broader context of a holistic evaluation of the energy sector and electricity supply industry. A review of Eskom's capital model, operating structure and tariff regime where demand can be maximised and costs minimised is urgent. We believe that this is a long term proposition where business can be of significant assistance as a partner.

**4. Conclusion**

- We are committed to working with government in promoting the principles set out in the Budget as a key social partner in the hope that we can maintain our investment rating.

- However, in order to see a significant improvement in our growth trajectory, we need to resource and implement the interventions without delay. The public narrative that has emerged on matters such as the restructuring of Eskom and the public sector wage bill act as a deterrent to the credibility we are trying to project and the confidence levels we are trying to build.
- We recommit ourselves to working with social partners and government in addressing the key principles set out in the State of the Nation Address and in the Budget.