BUSINESS UNITY SOUTH AFRICA

BLACK BUSINESS COUNCIL

BUSINESS INPUT TO THE NEDLAC SPECIAL EXECUTIVE COUNCIL MEETING ON THE EMERGENCY SUPPLEMENTARY BUDGET: 19 JUNE 2020

Delivered by Martin Kingston, BUSA Vice President

1. Introduction

- Good afternoon Minister Mboweni, Deputy Ministers Masondo and Moloi, the team from National Treasury, Nedlac Executive Director, and leaders of the Nedlac social partners. At the outset, we would like to express our appreciation to Minister Mboweni and Nedlac for today's opportunity to proactively engage on next week's emergency supplementary Budget and take us into your confidence
- At the Nedlac Executive Council meeting convened in March – a few short weeks following the Nedlac engagement on the 2020 National Budget – it had already become apparent that confronting the COVID-19 pandemic would be akin to a war and that every effort would need to be made to save lives and livelihoods. The intervening period has shown that our initial prognosis was far from alarmist. We remain confronted with what in many ways is an existential crisis, which requires careful management of our national resources if we are to prevail.
- While the fiscal outlook has deteriorated significantly due to the current pandemic, the structural weaknesses bedevilling our economy over a number of years combined with a lethargic response in the form of fiscal consolidation and implementation of investment-promoting reforms, have served to significantly worsen the situation.
- In this context, the forthcoming budget will require firm and decisive action in expenditure allocation, providing support to the economy over the short to medium term, while setting the foundation for credible fiscal consolidation and a growth-friendly policy environment over the medium term.

2. Risks to the fiscal outlook

- While business has repeatedly used this forum, including in the recent past, to rehearse the key risks to the fiscal outlook, these bear repeating given the immense shock to the economy and millions of livelihoods arising from the COVID-19 pandemic.
- By Treasury's own estimations, the current crisis will lead to South Africa's worst recession since the Great Depression, dwarfing even the Financial Crisis of 2008/2009. According to Treasury's forecasts, GDP is expected to fall by 5.8% in 2020 – a forecast which is significantly below that of Business for South Africa, which forecasts a GDP decline of between 8% and 11% in 2020, recovering steadily in 2021 and 2022 with muted growth thereafter. We agree that it will take between three and five years to revert to pre COVID levels of real GDP
- The implications of this are severe: Even in our most optimistic modelling, the budget deficit is forecast to increase from the baseline 2020 figure of -6.8% as per the February 2020 Budget to 13.3% in the current fiscal year, with debt escalating to record levels in absolute terms and as a percentage of GDP. In the absence of structural reforms, budget deficits are anticipated to remain elevated and Debt: GDP is expected to exceed 100% in 2023 (vs. 26% in 2008). Continuing along the path of the last decade will lead to accelerating economic decline, material job losses, and ultimately a lower standard of living for our citizens, even after the coronavirus crisis has passed.
- In the short term, much of the debt increase is unavoidable and directly related to countering the effects of the pandemic. Business fully endorses the fiscal and monetary policy measures deployed in this regard, including the R500bn emergency response package and monetary and tax policy measures. Those funds need to flow, in particular with regard to supporting our health services which are in dire need given the impending surge in infections and potential mortalities.

3. Fiscal policy interventions

- Considering the many variables inherent in combatting the effects of the pandemic, business cautions against an overly hasty retreat from fiscal and monetary support for the economy. Continued, and where necessary enhanced, social protection should be considered for workers excluded from current UIF provisions, as well as the unemployed.
- By the same token, and as the extent of the economic contraction becomes apparent, further support for businesses may be necessary. In particular, adjustments to the bank

guarantee scheme (characterised by limited uptake) should be urgently explored. An extension of tax relief measures for employers and businesses may in addition require consideration.

- The fiscal crunch has also confirmed the need for public sector wage restraint even in the midst of significant demands on the public service arising from the COVID-19 response. Business urges government to stay the course in relation to wage restraint while exploring other avenues for maximising efficiencies in the public sector.
- In terms of funding requirements B4SA's work indicates a baseline total funding requirement of approximately ca. R3.4tn over the next three years. Included in the funding requirement is R2.4tn of anticipated public sector budget deficits over three years, R1.1tn more than the medium-term projections in the February 2020 budget. The increase is ascribed to lower tax revenues and higher social costs, some of which have been accounted for in the R500bn rescue package.
- This estimate does not account for potential rescue funds for large corporates or an unforeseen worsening financial situation at State Owned Companies. We therefore believe that public sector debt could increase from R4tn to more than R6.4tn over three years, whilst the economy is anticipated to recover to 2019 levels over the same period. As a consequence, in the absence of significant structural reforms, debt-to-GDP levels will increase to unsustainable levels over the next three to five years, anticipated to exceed 100% in 2023, as budget deficits remain above 13% of GDP.
- Importantly, we have limited access to both financial and human capital and must compete with other countries also struggling with the impact of Covid-19. It is therefore of paramount importance that we prioritise ruthlessly and deploy resources so as to have the largest possible impact in the shortest possible time.
- Growth requires both domestic and international investment, and this investment will only be value-creating and job-rich if it is sustained. Domestic savings will be insufficient to fund the investment required to deliver the necessary level of economic growth, and therefore capital will have to be found internationally, where South Africa must compete with other emerging markets as a globally attractive investment destination.

4. Growth-enhancing reforms

- In the recent past, business has argued for a combination of spending restraint and the urgent implementation of growth-enhancing reforms. While spending reductions where possible are required, particularly on the public sector wage bill and SOEs, it is equally apparent that the overall debt-to-GDP ratio in the context of COVID-19 will continue to climb over the medium term, creating a debt trap. In this perilous scenario, the credibility of government's commitment to creating optimal conditions for private sector-led investment and economic growth will be essential.

- The envisaged reforms and interventions are well-known, and many have been articulated by National Treasury. These include:
  - Tackling crime and corruption;
  - Improving the ease of doing business;
  - Mobilising large scale infrastructure projects;
  - SOE reform and rationalisation;
  - Clarity on land reform;
  - Education and skills development;
  - Reviewing trade policies;
  - Labour market reform;
  - Simplifying mining investment regulation;
  - Aligning national energy strategy across all key plans; in that respect we need to question the timing of raising the profile of new nuclear and coal based projects;
  - Rollout of broadband through partnerships with the private sector and finalising spectrum auction; and
  - Financial inclusion and fiscal support where required.
- This non-exhaustive list forms the basis of key interventions to drive the economic turnaround. Business, through B4SA, is in the final stages of developing an Economic Recovery Strategy with detailed analyses and policy recommendations across major sectors of the economy, as well as overarching policy and funding recommendations.
- Business is encouraged by government's recent efforts in some of these areas, such as the increased focus on African trade in the context of AfCFTA, and the establishment of the SOE advisory council. The work of this council must now be supported and accelerated with urgency, and the relevance and systemic importance of individual SOEs in the context of a modern economy has to be evaluated closely. State Owned Companies which are to be retained must be resourced appropriately in terms of both capital and skills, and the balance must be migrated off the state's balance sheet in a suitable manner. In that context and at a time when our most vulnerable citizens are in need of additional support, we cannot be contemplating further transfers to loss making and unsustainable SOCs such as SAA.

- Business also acknowledges and welcomes other actions taken by government which have not been explicitly noted here but which are also important, in particular with respect to strengthening the capacity of key departments, such as the South African Revenue Service. A tax collection system based upon the principles of equity, transparency, effectiveness and accountability is essential to optimising tax revenue. Ensuring that revenue so collected is then distributed through the fiscus appropriately, and spent effectively, is an important component in restoring business and citizens' confidence.

5. Conclusion

- Colleagues, the domestic economy was already in a precarious position prior to the advent of the Covid-19 crisis, which has significantly exacerbated the economic and social consequences of the choices made over the last decade. South Africa has fallen behind its African and global competitors, as the country failed to address its primary challenges of inequality, poverty, and unemployment all of which have been thrown into stark relief and compounded by COVID-19
- We recognise that the nation will only be able to address these challenges, materially improve the lives of all South Africans, and deliver on the promise of 1994, if we are able to kick-start, and sustain, high levels of inclusive growth.
- Taking decisive rather than incremental action now will allow the country to return to growth, delivering material employment gains, reduced inequality, and ensure a better quality of life for all citizens. In taking the decisive action needed, we must constantly bear in mind the need to ruthlessly evaluate the necessity and efficiency of every spending choice, maximise revenue where economically feasible and remind ourselves that there are no quick fixes, free lunches or “magic money”. With regard to the latter, we welcome the consistent reminders of this by you, Minister, as well as the comments by the SARB Governor yesterday. Recklessly printing or borrowing money will only result in devastation.
- We know what needs to be done and we call on all social partners to support government in its efforts to do so. On this basis, Business looks forward to the post-budget engagement scheduled for 26 June and further, ongoing high-level engagements with Treasury and social partners on budget-related matters.

- However, in light of the urgent need for reform, we recognise the necessity of shifting the focus of our engagements to what needs to be done to create an enabling environment for investment and growth based on competitiveness and the ease of doing business.
- We therefore propose an engagement in the near future on an accelerated economic Recovery Strategy as an input for action on the reform agenda.

ENDS.