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FEDUSA

FEDUSA SUBMISSION

ON THE

2013 MEDIUM TERM BUDGET POLICY STATEMENT

The Joint Budget Portfolio Committee

Cape Town

TABLE OF CONTENTS

FEDUSA SUBMISSION ON THE MEDIUM TERM BUDGET POLICY STATEMENT 2013

"No political democracy can survive and flourish if the mass of our people remain in poverty, without land, without tangible prospect of a better life. Attacking poverty and deprivation must therefore be the first priority of a democratic government."

-The Reconstruction and Development Programme, 1994-

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1 INTRODUCTORY COMMENTS ON THE 2013 MTBPS

It is almost 20 years since the dawn of the new democracy in our country and South Africa is identified as an unequal society in the world, with the highest unemployment rates amongst the emerging economies and the majority of black South Africans are living in absolute poverty according to Census 2011 and experts argue that many young people are unemployed and the situation of inequality could become a major source of civil unrest and instability.

Certain strategic imperatives were identified in the National Development Plan (NDP) and the social partners need to pay urgent attention to these challenges. These strategies are specifically aimed at eliminating poverty, reducing inequalities and unemployment. The strategic imperatives for transformation are important within the context of change management and new leadership mind-set. The identified strategic imperatives involvement of all in strategic decision making, deploying intelligence through enhanced market sensing capabilities, integration of cross-functional contributions into coherent value offers, social dialogue in NEDLAC to conclude a new strategic to increase employment, policies to drive higher inclusive economic growth and notions to lower income inequality as articulated in the NDP.

Other than the yearly budget, the MTBPS is only a framework for expenditure and revenue over the next three fiscal years and based on economic assumptions as well as government's priorities. As such there are no specific tax or expenditure announcements. The MTBPS gives a clear picture of Government's expenditure and revenue plans that forms the basis for departments of how to align their plans for the medium term.

FEDUSA welcome the overall focus on the implementation of the National Development Plan initiatives. The creation of sustainable jobs is the only way to broaden our tax base. Measures announced under the MTBPS are welcomed and would go further to enhance employment growth.

The wide range of measures to lead investment such as the rail and road logistics; the special economic zones framework introduced; increasing the vigilance by foreign affairs; and measures addressing the industrial support are welcomed.

While the GDP figures was adjusted in line with inflation expectation the budget deficit figures are keeping in target with budget deficit and is a positive move. The way in which Treasury is reducing expenditure in this mini-budget is the most positive commitment to address growth constraints.
FEDUSA also welcome the provision allocated to employment and the aspects dealing with social security. FEDUSA is extremely concerned with the scourge of rape and domestic violence and believe the allocations mentioned will go a long way to address the judiciary processes but we need more to this aspect which erodes the strides made.

2 MACRO-ECONOMIC OUTLOOK

2.1 Impact on Economic growth

This year's MTBPS was compiled against the background of slow jobless economic growth due to global developments but also serious domestic structural problems. Continued slow growth in the euro zone, our largest trading partner and an imminent downscaling of open market operations, providing liquidity to markets by the US led to increased vulnerabilities, in the form of a widening deficit of the current account of balance of payments and a large budget deficit. Since September 2012, citing the lacklustre growth, rising vulnerabilities, and structural and social problems, all three major credit rating agencies have downgraded South Africa's sovereign rating. Two would maintain a negative outlook.

Structural factors such rigid labour and goods markets, mismatch between labour supply and demand contribute to South Africa's lacklustre growth and the resultant high unemployment, export performance and low productivity. Research show that structural reforms can play an important role to lift a country to a higher growth and employment path, while a lack of progress would build up vulnerabilities inexorably and could lead to increased economic vulnerabilities and could lead to heightened social tensions.

The economic consequences of the global financial crisis, following the collapse of the bond market in the USA during 2008, are still with us. At the time of the 2009 MTBPS it was expected that the economic growth would start picking up late 2009 and to reach 3.2 percent in 2013. Although the Euro zone is re-emerging from the recession, its weak banks and high sovereign debt make them vulnerable to any changes in shifts in sentiment. Although there are signs of relatively strong economic activity in the USA, the tapering of quantitative easing by the United States have generated capital outflows, rising financing costs and currency depreciation and thereby negatively impacting on our long term growth prospects. In the first quarter of 2013 economic growth fell to 0, 9 percent, the lowest since 2009. At the time of this year's budget it was expected that the economy would grow by 2.7 per cent in 2013, 3.5 percent in 2014 and 3.8 percent in 2015. The growth rate was scaled down in this year's MTBPS to 2.1 percent for 2013 and 3.5 percent for 2016. This forecast is in line with expectations of economists and also of the IMF.

2.2 Budget deficit

During 2009 it was expected that the consolidated government budget balance would increase from a small deficit of 1 percent in 2008/09 to not less than 7.6 percent in 2009/10 where after it would gradually fall to 4.2 percent in 2012/13 and later to 3 percent. As was the case in previous economic downturns, it was assumed that automatic stabilisers would kick in and correct the budget deficit as the economy grows again and revenue pick up. Projections in the 2013 MTBPS however shows that the deficit will only reach 3 percent by 2016/17 through strict expenditure control.

2.3 Spending priorities

Government is commended in its efforts to keep expenditure low. Government budgets for real expenditure to grow by 2.1 percent during the MTBPS period, compared to an annual average of 8 percent over the period 2003/04 to 2011/12. Expenditure was already reduced by R10.4 billion in the 2012 MTBPS by way of moderating the growth of allocations to national departments and a reduction in unallocated portion of spending by trimming the contingency reserve. This year reprioritising allocations and drawing down on the contingency reserve did it. A spending limit has also been set for 2016/17, holding real non-interest expenditure growth to an annual average of 2.2 percent over the three-year spending period. However spending on key social and economic programmes is maintained. Health, education and social assistance will claim the largest share of government spending over the medium term.

To further demonstrate that there is earnest with fiscal discipline authorities will also proceed cautiously with pension reforms and the implementation of the national health insurance to ensure their affordability and consistency with fiscal sustainability.

Given the high level of public debt, it is understandable that the fastest-growing expenditure item in the consolidated framework is interest payments. A matter of concern is the fast increase in employment and earnings in the public sector. The Minister stated that over the medium term government would ensure that growth in employment and earnings does not threaten the expenditure ceiling. Further that specific attention will be paid to restraining growth in administrative posts. Since 2005, more than 250 000 personnel have been added to national and provincial government payrolls, with the largest increases in education, health care and criminal justice. While most of the new positions were created for teachers, nurses and police officers, the Minister expresses his concern about the growth of managerial and administrative staffing across government. Compensation budgets, which now account for 39.4 per cent of consolidated non-interest spending, continue to outpace inflation, but grow at a slower rate than over the past three years.

A welcome development is the fact that Capital spending is the fastest-growing component of non-interest spending, exceeding inflation by 4.1 per cent in the next three years. Other than current expenditure, investment spending would lead to increased future income and employment.

On the revenue side, it was surprising; given the slow growth that total tax revenue was only about R3 billion less than budgeted. Revenue has been revised down by R3 billion to R895 billion. Personal income tax collection remains strong as a result of high wage settlements, and corporate income tax has been robust. Taxes on imported goods have been buoyant because of high imports for infrastructure equipment. The revised estimate for corporate income tax revenue is virtually unchanged, but there is a degree of uncertainty about the second half of the fiscal year as there is usually a lag in receiving the revenue by Government. In aggregate, nominal gross tax revenues for the first six months of the fiscal year increased by 9.5 percent year-on-year.

2.4 Deficit on the Current Account of the Balance of Payments

The second matter of concern to overseas investors and credit rating agencies is the deficit on the current account of the balance of payments. After averaging 3½ percent of GDP in the previous three years, the current account deficit deteriorated to 6.3 percent of GDP in 2012 and will remain over 6 percent for the remaining of the medium term framework. According to the IMF the deficit reflects a wider trade deficit and a 2 percent fall in the terms of trade. Further that savings fell while investment was broadly constant. Export volumes stagnated despite a re-orientation away from Europe and towards Sub-Saharan Africa and Asia. Import volumes grew rapidly, partly owing to the high import intensity of infrastructure projects. In the first quarter of 2013, the current account deficit improved marginally to 5.8 percent of GDP.

South Africa's current account deficit reflects competitiveness problems, which remain significant despite the recent depreciation and have contributed to a declining share of global exports. Before 2008, improving terms of trade mark weak export performance—had the terms of trade remained at the 2005 level, the 2012 current account deficit would have reached 11 percent of GDP. The share of manufacturing exports has fallen to just below 40 percent from above 50 percent in 2002, while commodities account for almost all the rest. According to the IMF the deficit is sustainable.

The vulnerability arises if there is a sudden withdrawal of liquidity, although a depreciation of the Rand could soften the effects thereof to a certain extent. A prolonged stop in capital inflows, which could force a disorderly adjustment of the twin deficits and cause a recession, is the main risk.

2.5 Social dialogue for Inclusive Economic Growth and Employment Creation

FEDUSA supports the call of the Minister of Finance that there is much to be gained from more effective partnerships and cooperation between government, labour, business and civil society. The Federation stresses the necessity of speedy but thorough social dialogue processes in NEDLAC to strengthen government performance, to create an enabling environment for investment, enterprise development, employment creation in the private sector, spending on infrastructure for quality education, health and social assistance. It is important for FEDUSA that the new Framework for Inclusive Economic Growth and Employment Creation should consider the low hanging fruit to place the economy on a higher inclusive growth trajectory. It is also essential to not that the current gross domestic produce (GDP) growth of 2.1 percent expected in 2013 and then rising to 3.5 percent in 2016 is too low to make an meaningful impact on high unemployment, poverty and inequality.

FEDUSA propose that the social partners meet in NEDLAC and urgently confront the constraints and obstacles preventing higher inclusive economic growth and employment creation. It is necessary for the social partners develop implementation strategies to deal with each constraint and obstacle in a proactive manner and monitor the implementation of the strategies bi-annually to ensure effect implementation. The short-term and long-term constraints and obstacles include the following:

1. Peaceful resolution of labour disputes in the mining and manufacturing sectors by strengthen collective bargaining and bargaining councils,
2. The future development of the mining and manufacturing sectors and additional foreign direct investments to support labour intensive employment creation,
3. Addressing the gaps in the social wage and working conditions, the implementation of a national living wage for promote inclusivity and a new dispute resolutions process to deal with lengthy labour disputes,
4. Investing in freight capacity to support faster movement of goods and directly confront the bottlenecks in logistics within in the region and the rest of the world,
5. It is important to improving pricing, high profit mark-ups, the exclusion of the SMMEs and new entrance in the to economy by larger enterprises, efficiency and competiveness in the economy and at ports,
6. The manufacturing sector need to modernise and invest in new production processes, supported by research and development to make the country globally competitive and to surpass and be identified as the number one emerging economy for foreign direct investment,
7. Developing the clothing, textiles and leather competitiveness programme, to strengthen the value-add downstream with the agriculture sector to ensure rural economic development through partnership with SMME and large producers,
8. Tariff protection in response to unfair trade practices by importing firms and exporting countries that seek to undermine employment creation in South Africa,
9. Supporting the motor assembly and motor retail and parts through grant-based incentives and tax offsets on condition that it support more intensive local labour creation and additional investment,

10. Introduction of designated products for local production and employment creation through the government procurement policy, and
11. Broadening support and access to finance and services for SMMEs and historically disadvantage groups in country and;
12. Reflecting on the above, it is important support the notion of President Zuma stressing need that the decent work agenda would influence economic-decision making, as well as the investment magnetism and job creation proposals of the country and again confirmed that decent work would be at the centre of economic policies as we collectively take action to promote a more inclusive economy.

FEDUSA understands that rebalancing and transforming the economy will take time but it is important for the social partners to work together and find complementary polices and strategies to enhance employment and economic participation, basic education and skills development. The Federation also realises that greater competition, the elimination of anti-competitive behaviour and innovation will provide for local enterprises to access and develop new local and international markets and create demand for employment creation. It is therefore critical to plant the seeds over the next three years for more electricity, rails, roads and broadband communication to support inclusive economic growth.

3 COST CUTTING MEASURES INTRODUCED

The most welcoming aspect in the MTBPS is the Cost cutting measures dealing with curbing costs and minimising abuse within Government. The measures to apply are welcomed such as the aspects announced pertaining to Cabinet cars; overseas delegations to be limited and the type of travel be limited; housing allocation measures and the cancellation of credit cards and the limits introduced.

The exception this year in the MTBPS was the demonstration of the seriousness of Government with expenditure control when the Minister announced the withdrawal of perks to government officials and downscaling on consultancy fees.

4 THE ALIGNMENT WITH THE NATIONAL DEVELOPMENT PLAN

Given the abovementioned structural problems and given the fact that South Africa's unemployment and poverty is one of the largest in the world, a development plan built on sound best practice and where all role players are harnessed around a common vision are a crucial items to ensure growth in all the areas of the economy. The very high unemployment rates and poverty levels make such a plan the more urgent. The unemployment rate is about 25 percent (34 percent including discouraged workers), with the youth unemployment rate at 50 percent despite one of the lowest participation rates and labour productivity in the world.

The mismatch between labour supply and demand is a serious matter of concern. Being an international role player, it is crucial that the labour force should be aligned to the needs of business. To this end, FEDUSA is of opinion that education and training should receive high priority in the NDP.

Elements of the NDP that was launched in August 2012, was already included in the 2013 fiscal framework and in this year's MTBPS is aligned with the NDP and focuses on a range of policy areas, especially infrastructure, education, health care, social protection, building a capable state, and promoting accountability and fighting corruption.

FEDUSA is of the opinion that the NDP could go a far way in making progress in solving our structural problems, but urge government to bring on board all the roll players. FEDUSA is however concerned about the opposition by some sectors of the society against the NDP. This together with government's implementation record of structural reforms may leave many investors sceptical about prospects for major structural change.

South Africa can only overcome the various challenges in the economy if all role players work in the same direction and harness them behind a common vision. Although lessons can be learned from overseas experience, countries differ from one another and every country should work out what is best for the country as a whole. It is however interesting to note that in countries where they have lifted their educational and training levels the country performs well in the global environment. A case in point is where Singapore, a small multicultural country used the development of human capital investment as their engine of growth and where the ability of the government to successfully match supply with demand of education and skills is a major source of Singapore's competitive advantage. Other elements in its success include a clear vision and belief in the centrality of education for students and the nation.

A suggestion as made that the authorities should in the beginning focus on a few high-impact reforms, quick wins, to build support for the plan and demonstrate the government's effectiveness in implementing structural reforms. Communication of such quick wins would help persuade investors that South Africa's fundamentals are improving and could create positive feedback loops by reducing risk premium and vulnerabilities. The National Treasury's proposed youth employment incentive is an example of a potential quick win: pilots need to start as soon as possible and, if successful, this scheme should be rolled out nationally.

5 THE EMPLOYMENT TAX INCENTIVE AND EMPLOYMENT CREATION MEASURES

The Minister announced that a youth subsidy scheme would be announced in next year's budget. FEDUSA fully endorses such a scheme. The unemployment problem and especially youth unemployment is however a much wider phenomenon, namely the mismatch between labour supply and demand and as such should be linked to education and training. It is important to augment future human resource development to ensure that the country maximise employment creation and skills development to meet the future economic needs of the country and to ensure wealth creation for all. It is critical to gain a deeper understanding of the negative effects of the admission requirements of our public higher education institutions and the quality of education that flow from these institutions both on secondary and tertiary levels. The situation of the public further education training also require more attention by the social partners, specifically with regard to the low pass rate and the impact it would have on technical skills in the country.

FEDUSA supports the proposal to relax the regulations relating to the immigration of skilled workers. This is necessitated to make up for the brain drain of skilled workers leaving the country due to lack of opportunity for white workers. It is important for the social partners to rethink the admission requirement at our tertiary institutions and to adopt new admission requirements based on academic merit and not on race.

FEDUSA supports the employment tax incentive based on the principle of linking training and skills development to ensure the focus is two-fold, one on creating a demand for unskilled young people and secondly on skilled transfer and capacity building.

5.1 Future Production and Employment

FEDUSA recognises the work of government to stimulate future production and employment creation and to provide support strengthening inclusive economic growth in our country. We look forward to studying and commenting on the shale gas exploration draft regulations and we understand that government intends dealing with applications in 2014. The renewable energy independent power producer programme also has huge benefits for foreign direct investment and employment creation and call on government to rapidity award the third round contract awards in a transparent manner. The publishing of blending regulations for bio-fuels is expected in 2014 and this is an area that the FEDUSA is particularly keen to work with the other social partners because of the rural dimension and employment creation. It is important for government to finalise the proposals for the next coal-fired power station to be released by 2014.

6 STEPS TO PROMOTE INVESTMENT AND LOWERING THE COST OF DOING BUSINESS

FEDUSA supports the process to streamline and centralise the acquisition of mining and water licenses within the Department of Minerals Resources. It is critical for the inflow of foreign direct investment specifically in the mining sector to create an environment of certainty, transparent, effective and efficient approval of these licences. It is also necessary to release quarterly reports of the approval of mining licences to promote accountability and good corporate governance. The Federation proposes that it is critical to table the Amendments to the Mineral and Petroleum Resources Development Act in NEDLAC to ensure a detailed discussion are held with the social partners to address ambiguity, streamlining administration, clarifying governance issues and encourage beneficiation.

FEDUSA is concerned about the lack of competition in the manufacturing and services sectors of the economy and calls on the government to embark on a process to provide support for emerging enterprises to ensure the fair competition for all South Africans. The Federation supports the proposal to strengthen the Competition Commission to confront the challenges of anti-competitive behaviour and collusion.

The Federation looks forward to comment on the draft Promotion and Protection of the Investment Bill to reinforce and secure property rights and to seek ways how the judiciary could provide cost effective and efficient services. Certainty about the rule of law is important for the attraction of foreign direct investment and it is critical for the social partners to strengthen their capacity in this area.

The finalisation of the two new financial sector regulatory authorities is also important for investment, inclusive economic growth and employment creation. FEDUSA looks forward to further comment on the bills when cabinet has approved it for public comment.

7 SOCIAL SECURITY OVERHAUL AND THE RETIREMENT REFORM PROCESS

The transformation of retirement funds and the entire social security system in SA is at a critical point, due to the imminent tabling of far-reaching proposals to Cabinet for approval. Comprehensive social security is a process and as workers we all need to determine how we can influence the process to the benefit of all. The recently adopted (2012) ILO Social Protection Floor Recommendation indicates what the elements of the system would be. South Africa has one of the most beneficial social grant systems in the world with free water and free basic health access, subsidised health care and unemployment benefits which would be the basics from which to proceed.

All stakeholders have agreed that there should be a comprehensive overhaul and transformation of the social security dispensation to introduce a set of coherent changes that will better the lives of all workers and that transformation of retirement funds needs to be located in this comprehensive reform.

FEDUSA believe the correct tract is the current focus of South Africa by overhauling the extremely complex existing system by enhancing support and addressing failures within the system. Treasury already demonstrated the intention to simplify the retirement environment through various discussions documents and amendments to existing legislation. For consumers, it means less hassle to understand all the complexities and differences between pension, provident and retirement funds as well as to enhance the transferability between the different funds. One of these simplification measures with regard to the retirement space is to change the mechanism of the tax system between the different retirement systems. Discussion documents detailing the system were released for public comment in May 2012 and February and June/July 2013. Treasury released the five discussion papers on retirement reform entitled:

a. Enabling a better income in retirement;

b. Preservation, portability and governance for retirement funds;

c. Incentivising non-retirement savings; and

d. Improving tax incentives for retirement savings;

e. Charges in the SA Retirement Funds.

The proposed implementation for such amendments is envisaged to take effect from 1 March 2014 onwards. FEDUSA is of the view that proper consultation needs to take place with all the social partners within NEDLAC on various principles as envisaged by Treasury such as preservation and vested rights etc prior to the envisaged implementation in 2014 and 2015.

8 FRAMEWORK FOR THE 2014 BUDGET

FEDUSA emphasises the need for government to build a more resilient framework to confront the complex dynamic global economic environment to reinforce the fiscal stance within the context of slower growth in expenditure and debt stabilisation needed to re-establish fiscal space. The Federation supports the concept of public investment of 10 percent of GDP to build new infrastructure and maintaining current infrastructure. Infrastructure investment is an effective approach to stimulate economic growth during recessionary periods.

Investments in the construction of ports, roads, railway systems, electricity plants and dams could rapidly contribute toward sustainable inclusive economic growth, job creation, increased productivity,

augmentation of the tax base and revenue. It is essential to realise that public infrastructure investment crowd-in private sector investment and these combine investments stimulate new investments in the future. FEDUSA supports the notion that fast economic growing countries are those who have extraordinary high rates investments in public infrastructure such as education and health.

Since 2008, government and state-owned enterprises have issued more than R1 trillion in debt to invest in infrastructure and to maintain core social and economic programmes. Government should guard against overspending on social grants and rather target these interventions with conditions supporting human resource development and good health. It could happen in the complex dynamic global economic environment that expenditure overtakes revenue growth.

FEDUSA advocates for an efficient fiscal stance for the 2014 Budget, which includes the following broad points:

1. It is important for government to take steps to reduce fruitless and wasteful and inefficient spending in government beyond what the Minister of Finance proposed.
2. It is necessary to narrow the gap between revenue and consumption so that borrowing can increasable finance capital and investment spending.
3. It is critical to reduce the budget deficit over the medium term to steady the path of public debt and to ensure value for spending within the predetermined prerogatives of the 2013 budget.
4. It is necessary to limit the growth in the wage bill and consultancy fees.
5. The social wage is important for workers.

The above is based on the view that government's contribution to the improved performance of the economy is to better utilise the current resources, rather than higher expenditure. The Chief Procurement Officer could play a vital role in this regard to minimise waste and corruption and to ensure that the taxpayers derives maximum social and economic benefits from every rand spend. We look forward to receiving the first report of the Chief Procurement Officer.

9 CONCLUSION

FEDUSA want to commend Government with the bold steps it took in this year's MTBPS to control its expenditure and to make progress in aligning the budget to the NDP. Government is however urged to make all efforts to harness all role players to promote the NDP. FEDUSA supports Governments in its implementation of the Youth Employment Scheme and regard it as an important first step to increase youth employment.

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