



**BUSINESS UNITY SOUTH AFRICA (BUSA)
AND CHAMBERS OF COMMERCE AND
INDUSTRY (CHAMSA)**

**Presentation to the
Portfolio Committee on Finance
On the 2007/08 National Budget
2 March 2007, Cape Town**

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OUTLINE OF THE PRESENTATION:

- Introductory remarks – Mr Jerry Vilakazi CEO BUSA
- Economic assessment of the budget – Mr Roger Baxter, Chairman – BUSA Committee on Economic Policy
- Taxation aspects of the budget – Adv. Abri Meiring.
- Concluding Remarks - Mr Jerry Vilakazi CEO BUSA
- Questions.

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ECONOMIC ASSESSMENT OF THE BUDGET



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Economic assessment of the budget :

- The 2007/08 National Budget is another example of government's outstanding fiscal management.
- Complementary fiscal and monetary policies, combined with trade liberalisation and the gradual re-entry of SA back into the world economy have created a sound macroeconomic platform for growth.
- The 2007/08 budget provides for a further progressive strengthening of investment, economic growth, employment growth, transformation and poverty alleviation.



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Economic assessment of the budget :

“BUSA believes that the broad decisions in the budget embody a realistic balance between the need to build on the already sound macroeconomic foundation for growth, employment creation, transformation and poverty alleviation on the one hand, as well as displaying a high degree of fiscal responsibility.”

Economic assessment of the budget :

The budget builds on the key themes of:

- Reducing poverty and inequality.
- Strengthening delivery by government.
- Lowering the costs of doing business.
- Developing and promoting human capital
- Tackling bottlenecks (regulatory and infrastructural) which impede investment.
- Tackling crime.

As embodied in the ASGISA initiative under the astute leadership of our Deputy-President. ASGISA targets a 6% growth rate by 2009.



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Trends in fixed investment and economic growth

- Growth in real GFCF has gone from 5.4% over the past decade to 12.5% in 2006.
- GFCF has improved to 18.6% of GDP.
- Economic growth was 5% in 2006.
- South Africa's economic growth rate is tracking the global economic growth rate.
- But growth tends to be driven by the demand side (non-tradable sector), with the supply side remaining fairly muted.
- With gross domestic expenditure growing faster than gross domestic product, a large amount is being imported which is manifesting in a growing current account deficit).

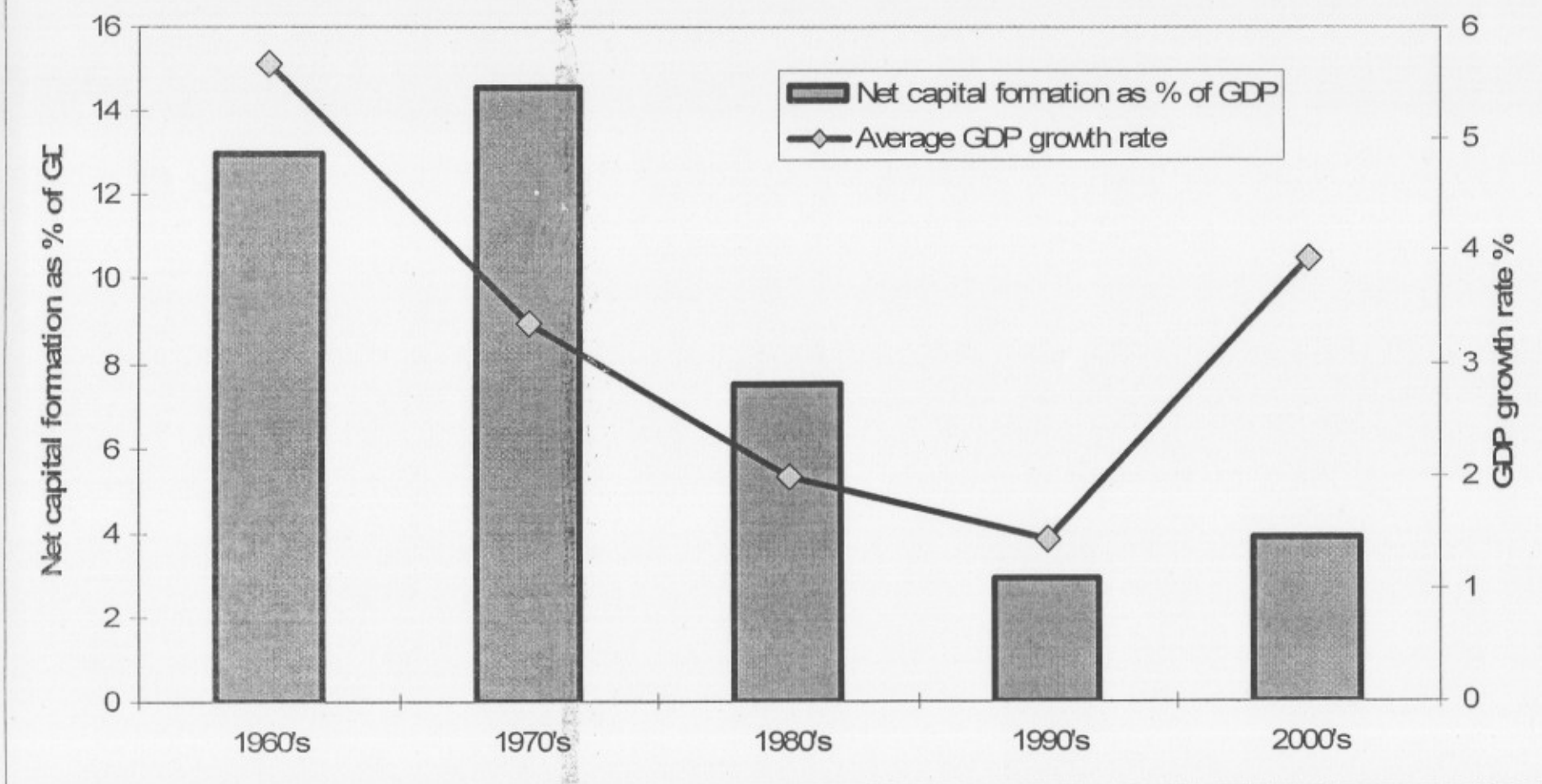
Economic assessment of the budget :

Nevertheless, BUSA agrees that the following microeconomic challenges are being confronted by the budget (B:) -

- The scarcity of local savings and the reliance on short-term capital flows to fund the current account deficit (B: fiscal surplus, elimination of retirement funds tax, plans for social security system).
- Need to raise investment to 25% of GDP to sustain high growth rate (B: eliminating STC, government capex plans, macro stability).
- Capacity constraints in key infrastructure and critical inputs are constraining investment (B: R415 billion MTEF capex).
- Regulatory red tape continues to undermine investment (B: focus on improving capacity of state to deliver, RIAs, lowering red tape).
- Skills shortages (B: teacher bursaries, bursaries to FET and HE, extra funds for education).
- Reducing crime (B: extra allocations to crime/justice)

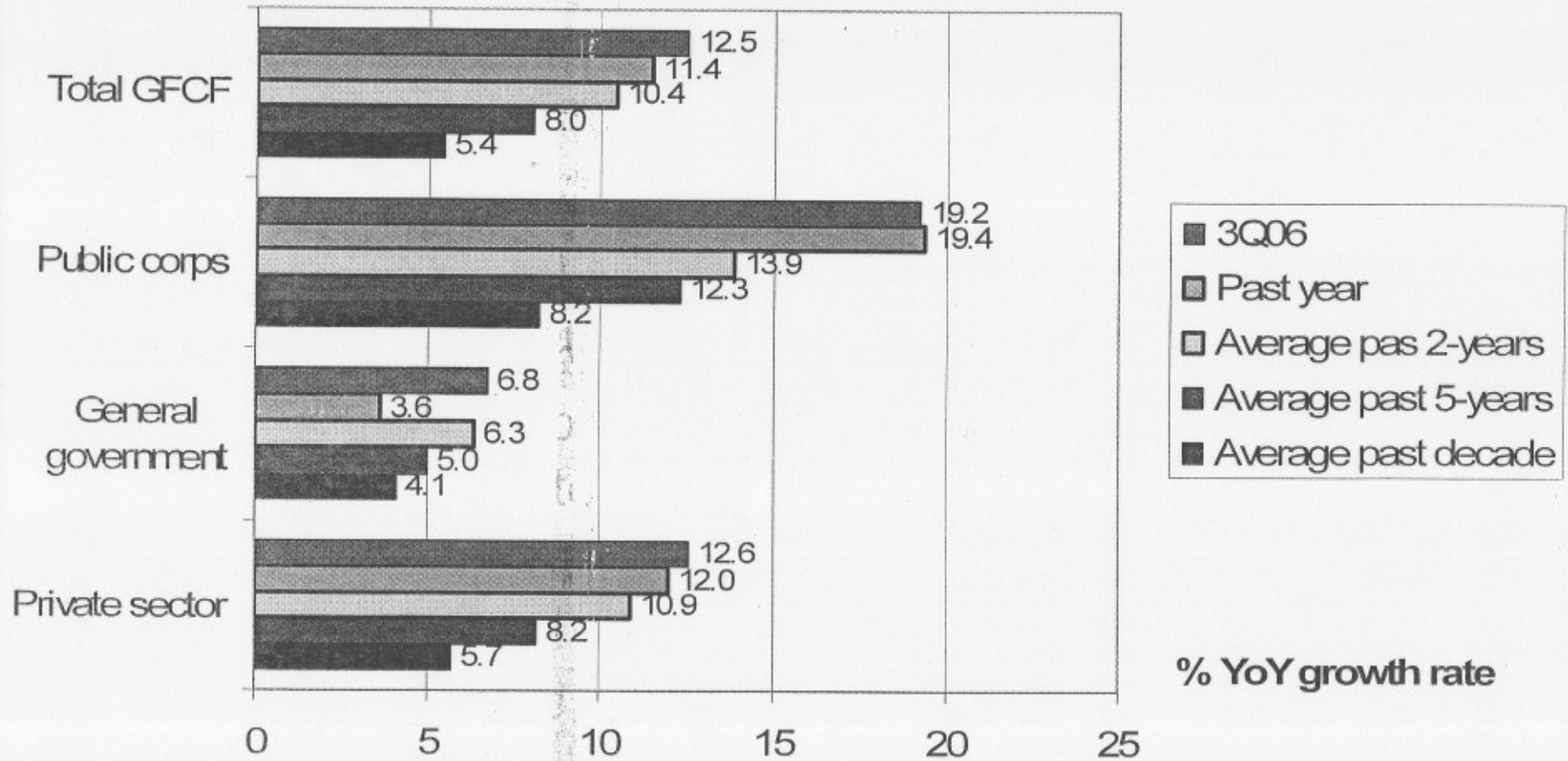


GDP growth rates versus net investment (to fuel growth)



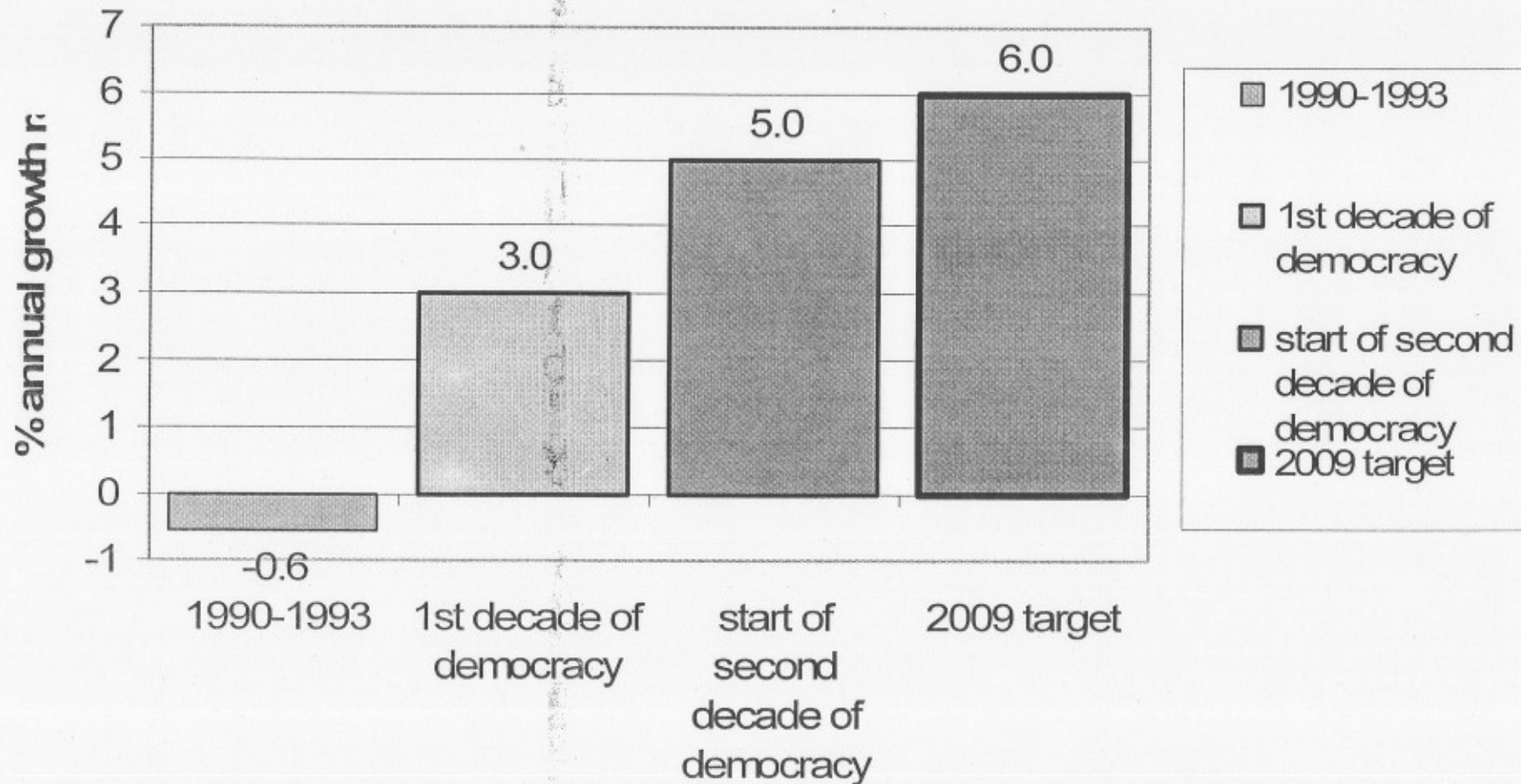


Growth rates in real fixed investment (GFCF), averages for past decade, past 5 years, past 2 years and past year



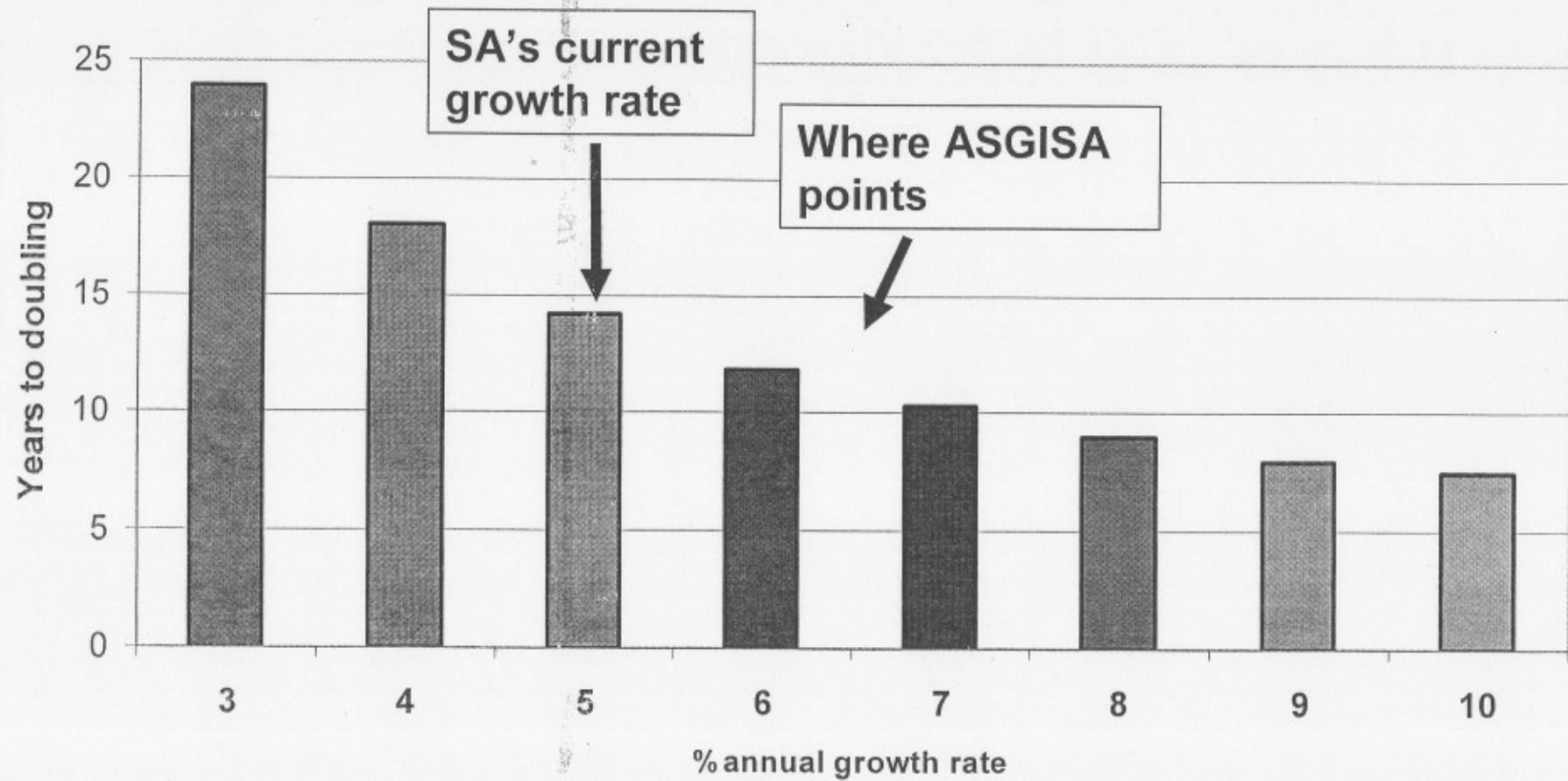


South Africa's improving economic growth performance



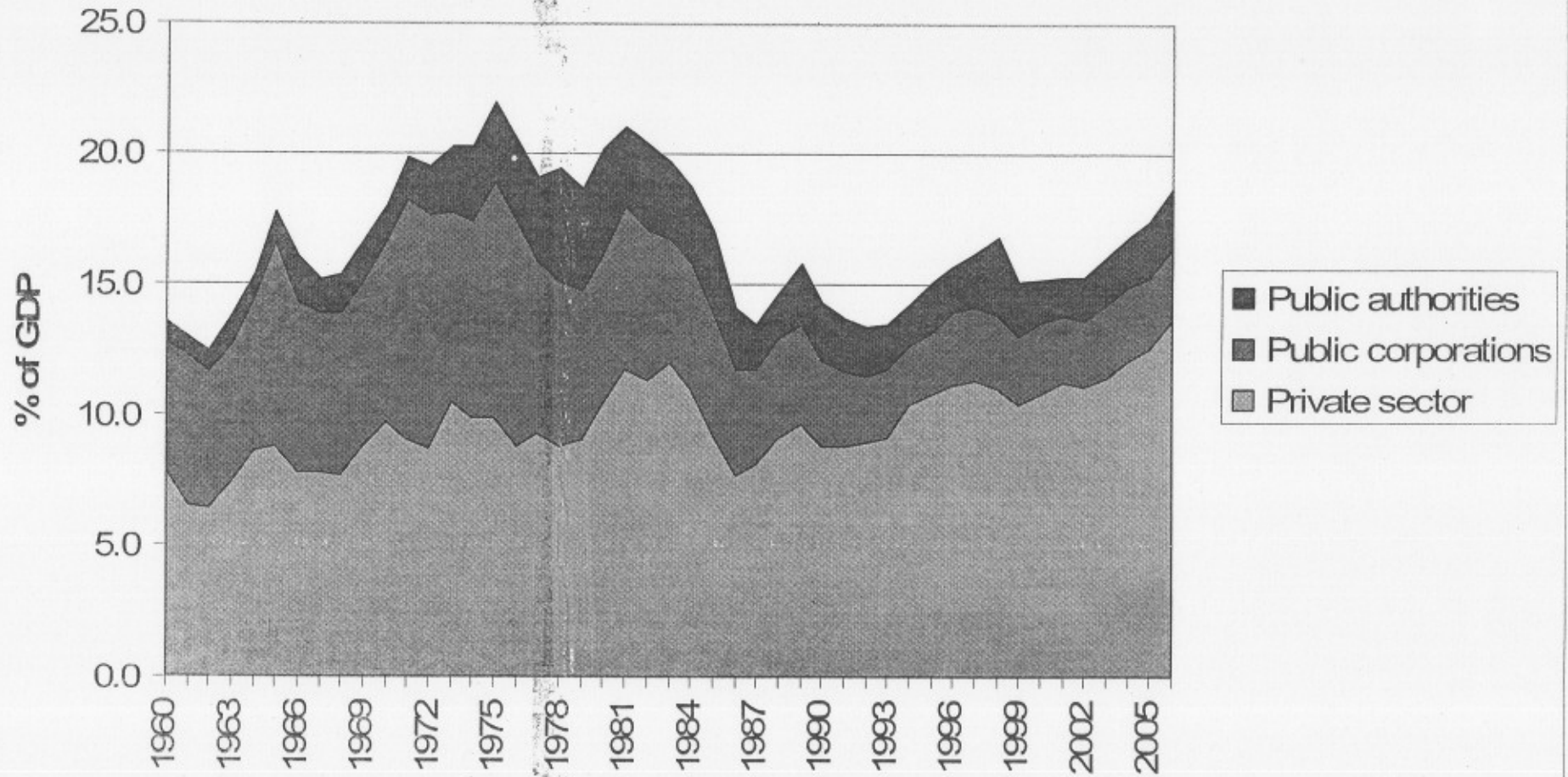


The time it takes to double the size of an economy at different growth rates (compounded)



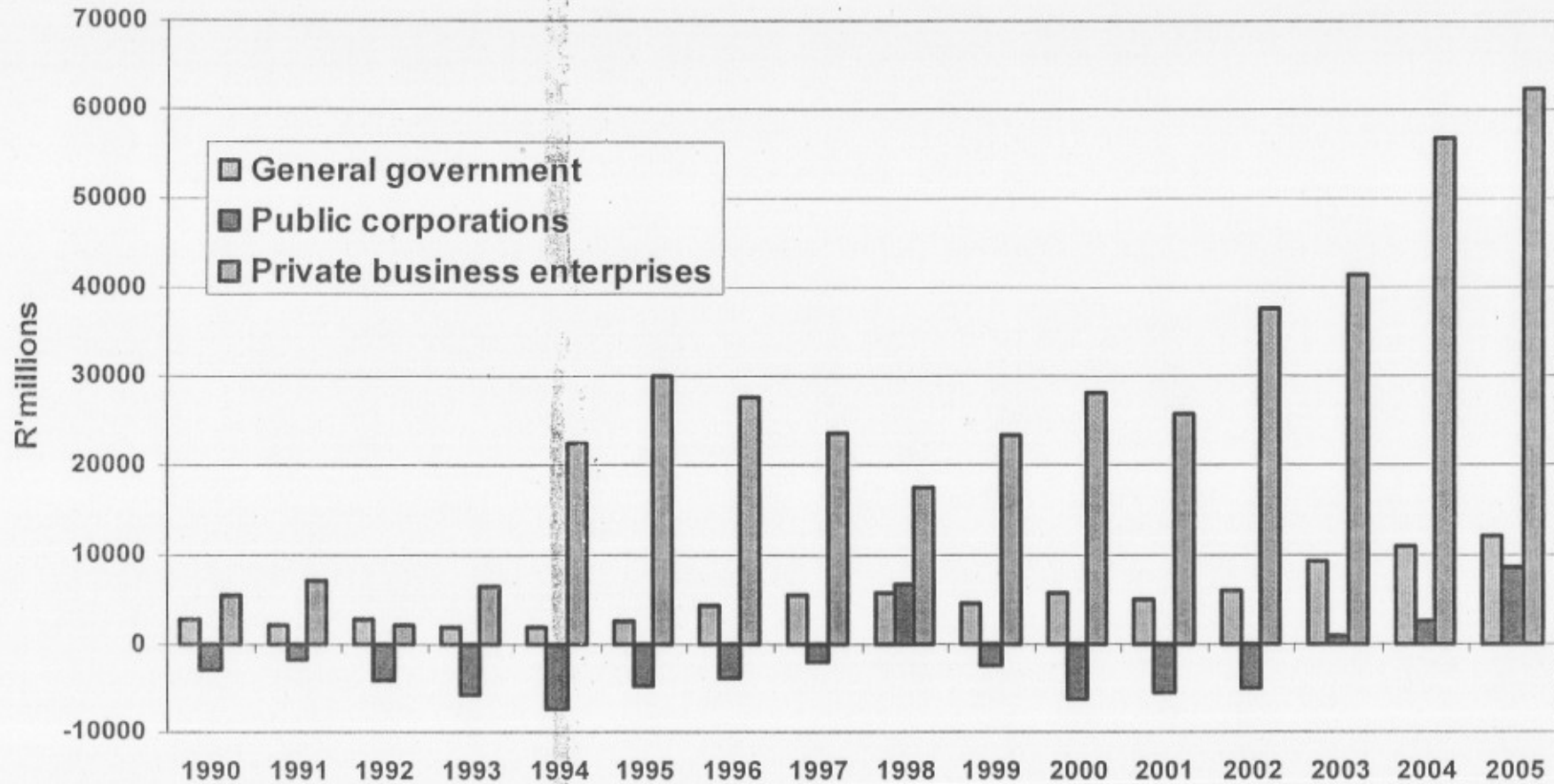


South Africa: Gross fixed capital formation by type of organisation as % of GDP (real 2000 money terms)





Net investment (Gross investment less provision for depreciation) by sector, 1990 - 2005





South Africa: Sector GDP growth rates in real terms, average 2002 to 2006

