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AmCham Parliamentary Report

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Gordhan pleases most

In a budget that put a stop to the idea that government intended challenging the Reserve Bank's mandate to protect monetary policy as independents, minister of finance Pravin Gordhan also announced he was not about to increase corporate taxes and debunked the idea of moving away from inflation targeting. He also announced that Treasury was shortly to commence discussions on further liberalising exchange controls.

With such facts cleared up, the minister appears to have sailed down the middle line between business expectations and consumer fears with considerable expertise, especially with the news of no VAT increases (another concern expressed earlier) and tax relief of R6,5bn for lower income and old age persons.

In a direct effect on business, however, the following is relevant and a hard bullet to bite in terms of inflationary effect following the existing energy worries. There is:-

- A proposed ad valorem carbon emissions tax on new passenger cars which is to be converted into a flat rate emissions tax effective from 1 September this year underlining fuel efficiency.
- An increase of 25.5 cents a litre in fuel taxes.

Insofar as more generalised business issues are concerned, the following directly affects business:-

- The SITE employee's tax system is to be discontinued from 1 March next year.
- Company car and other fringe benefit taxing rules are to be "tightened"; including an increase of the value threshold for company car tax and the fact that employer-provided life insurance will be taxed as a benefit.
- Tougher measures are to be taken against cash-based businesses avoiding VAT and PAYE systems.

BUSA has found the budget "balanced and appropriate", whilst Zille of the DA was most positive, especially on the issue of the plan to give a subsidy to employers that would lower the cost of hiring young people without work experience, a preliminary estimate being that about 800 000 people would qualify.

On the other side of the political spectrum, SACP welcomed the "broad approach" of the budget and particularly liked the idea of investigations into bank charges and of finance charter delays, calling for more competition commission investigative work on banks generally. They also disliked the idea of private sector participation in any national health process announced by Gordhan.



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COSATU's complaints, echoed through an interview with Vavi after the Budget speech, demonstrated that a political turf battle may have been won within cabinet on the subject of middle-of-the-road economics.

Plenty of economic observations will and are about to be made on growth paths, economic outlooks, fiscal policy and the burgeoning public debt and such readings are outside of the brief followed with this report. Suffice it to say that Gordhan re-confirmed his objectives as keeping inflation low; striving for a competitive exchange rate; providing a buffer against global volatility; raising productivity and competitiveness; opening up the economy to investment and trade opportunities to boost exports.

This, in our humble opinion as non-economists, is a good shopping list which the market will like to hear.

Following upon President Zuma's comment that government's public servants must work "faster, harder and smarter", Gordhan followed this up with promises that treasury will "improve the performance and effectiveness of the state, especially the provision of quality education and training at all levels".

In terms of regulatory issues, the minister announced several new initiatives:

- The idea of a formal council of regulators will be tabled to strengthen the framework for accountability, co-ordination and performance of the financial regulator
- The country's adherence to global regulatory standards in banking is under review and various changes to the Basel II framework will probably be made.

Returning to the Reserve Bank mandate issue, Gordhan elaborated on this to say that the Reserve Bank should continue to aim for a CPI inflation target of between 3-6% and that the Bank's role in maintaining financial stability would be "enhanced".

He said government was in favour of a stable and competitive real exchange rate, but that "in today's world this cannot be translated into a straightforward fixed price of the rand". Steps to counter the volatility of the exchange rate would be exercised, he said, and his department would continue "to lean against the wind during periods of rapid capital inflows, including practising reserve accumulation and further exchange control reform".

Complaints have come from South African Chamber of Commerce that not enough was said on crime, corruption and hospitals, echoing similar complaints from earlier this week on Jacob Zuma's state of nation address. We repeat last week's comment that one should await the report back next week of the various minister's concerned, as they apply for their slice of Gordhan's budget allocations totalling R907bn. (Up 8.6% from 2009/10).

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