

16 October 2020

BASA's response to the Economic Reconstruction and Recovery Plan

The Economic Reconstruction and Recovery Plan (ERRP) unveiled yesterday by President Ramaphosa – the product of months of consultation with NEDLAC social partners – lays out a clear and inclusive path to recovery and reconstruction.

While BASA wholeheartedly supports the plan, we are also keenly aware that many of the initiatives outlined were on the cards long before the onset of Covid-19 and should have been implemented years ago. We are encouraged, however, by the president's acknowledgement that the severity of the current crisis leaves us with no choice but to execute even the most ambitious aspects of the plan with the utmost urgency.

True to the president's characteristic approach of tackling endemic and structural challenges through social compact, the plan calls upon business, the public sector and the broader society to assist in mitigating the devastating impact of the pandemic and consequent lockdown on our already struggling economy.

Many of the initiatives identified – large-scale public works, employment stimulus, re-industrialisation and rapidly expanded energy generation capacity – were included in the "Economic Transformation, Inclusive Growth and Competitiveness" paper that the Minister of Finance published in August 2019. But the ERRP goes further in identifying specific government-led interventions. One of the boldest involves more than R1 trillion in targeted infrastructure development projects over the next four years. These projects could be the catalyst required to set our economy on an upward growth path. However, as the President noted, the level of investment needed to fund such an ambitious infrastructure programme will only be forthcoming if there is confidence in this government's ability to carry out the plan efficiently, following principles of clean governance. The government also needs to demonstrate the will to implement desperately needed economic reforms.

Apart from infrastructure development, the focus on SoEs, and the tough decisions required on their future, is again something which has been on the cards for many years. President Ramaphosa said we need investor, consumer and public confidence to help transform South Africa. This can be achieved only by continuing the fight against corruption, addressing energy constraints, and ensuring fiscal stability through prudent spending. In particular, government needs to address the public sector wage bill and ensure proper governance of all state institutions, especially the SoEs.

The banking sector will continue to play a critical role, assisting companies with the funds needed to stabilise and ultimately grow their businesses, thereby creating employment opportunities, expanding the tax base and contributing to the inclusive growth of the economy. At the same time, banks will remain mindful of their responsibilities as the custodians of the deposits and salaries of South African workers.

Since the onset of the crisis in March 2020, banks have voluntarily provided relief to individuals and companies amounting to about R50 billion. In the first three months following the declaration of the state of national disaster, 84% of individuals and 95% of firms who requested help from their banks received the assistance they sought. Banks are negotiating further financial relief with those customers who need it on an individual basis.

In addition, through the Loan Guarantee Scheme – a joint initiative with government and the South African Reserve Bank – commercial banks have provided companies with a further R16bn in concessionary loans. We acknowledge, as has the president, that the uptake of the scheme has fallen significantly short of original expectations. This is largely due to the prevailing weakness in business and economic conditions. Business owners are reluctant to incur more debt, while an uncertain business climate and subdued consumer spending encumber their ability to generate the sustainable income needed to repay loans.

As the President indicated, we still don't know how long this pandemic will last. However, by addressing the issues that have historically hampered business confidence – policy uncertainty, the slow pace of economic reform, unreliable electricity supply and endemic corruption – the ERRP has the potential to create opportunities for enterprise, bolster demand for credit and unlock funds for productive investment.

BASA believes that by mobilising all state institutions with urgency, efficiency and proper governance, and delivering on plans for infrastructure development and other key priorities, government can build business and investor confidence and set the country on the long road to reconstruction.

ENDS

For further enquiries please contact:

Naledi Sekoati – Ogilvy South Africa

Cell: 062 768 2522

Email: Naledi.Sekoati@ogilvypr.co.za