**Dear Minister, Mboweni, Deputy Minister Masondo and Director-General Mogajane,**

Normally we are only treated to two budget instalments per year – in February and October, but this year it will be three. Three opportunities to correct the direction of travel South Africa's economy is on and three opportunities to help business in South Africa create jobs, invest and grow the economy. To make long-term investment decisions, businesses require certainty about the path forward for government finances.

For all the talk of structural reform, next week's Medium-Term Budget Policy Statement (MTBPS) is, of course, a fiscal event – yet fiscal credibility in South Africa is equal parts about where the trend of long-term growth will be as about tax and expenditure measures.

The interests of business and Treasury, therefore, align in wanting to see the most conducive environment that leads to the fastest growth in output, and therefore revenue for the fiscus that would then support government expenditure on the pressing needs in our country – in the most sustainable way.

Fiscal sustainability is a constant topic of conversation in the boardrooms of companies large and small in our country. There is concern about various risks: bond market dislocations including the risk of failed auctions, through to banking sector disruptions and increases in the cost of borrowing. These all make investment that will create jobs difficult. Indeed, you have highlighted clearly a fiscal crisis is on the horizon without corrective action to "close the hippo's jaws".

**Recovery spending**

Business, therefore, backs a tough budget which aggressively trims remaining fat, concentrated on revenue collection efficiency, with meaningful restraint on the public sector wage bill and priority given to necessary social and recovery spending. Cuts must be in a targeted way that protects growth and government revenue.

Whilst the desire to see a 'primary balance' by 2023/24 sounds rather dry, business understands it is important as a step towards balancing the books and stabilising debt levels as a share of GDP. Equally, expenditure on the compensation budget must fall toward 10.5% of GDP from 14.2% this fiscal year. Healthcare, education and the National Prosecuting Authority must be prioritised, while poor past decisions mean substantial commitments to

SOEs also have to be met (particularly Eskom). Pain has to be taken on budget lines where the growth impact will be smallest. It is important, too, to set out a roadmap toward the elimination of SOE subsidies and bailouts that is more credible than past promises.

Many issues that were clear in the emergency budget at the end of June were thrown forward, some to the Budget in February 2021. Business wants to hear some detail at the MTBPS to reduce doubt and aid planning for the year ahead in such uncertain times. An MTBPS that can establish credibility and a path out of this crisis will boost confidence and tilt the dial on investment and hiring decisions that are so uncertain at present. Decisions are always made in business at the margin and Treasury should affect trust and faith at the margin to make a real difference.

Government must also recognise, however, through this MTBPS and expenditure choices where government has the capacity to do things. Business, through BLSA, B4SA and other forums have provided an incredible amount of technical support, personnel and expertise into government over the past two and a half years, pro bono, in response to the President's thuma mina call. Yet a recovery from a crisis of this depth cannot be micro-managed and must be unleashed with the state assembling the right foundations.

The government must understand where it does not have the capacity (let alone the funds) to drive elements of the recovery. As Operation Vulindlela – the Treasury-led process – grows into something much bigger at the level of the Presidency hopefully in the coming months – this must be a central rallying point.

There are three key areas in this regard which are interlinked.

1. First, the government's infrastructure push is welcome but cannot be fully centrally directed at every stage and must see a greater degree of private-led provisioning and financing of bankable projects. Our member firms, including banks and asset managers – stand ready to fund bankable and economically positive infrastructure in significant size in the coming years. Yet uneconomical and pet projects distract.

2. The second issue is that the private sector has the capacity to rapidly solve our current and growing future energy crisis. The private sector can finance and deliver the projects rapidly and on budget for their own use embedded in their operations, or into a smart future-facing grid managed by an Independent Transmission System Market Operator either to be bought by specific buyers or for general use. Government simply needs to stand out of the way, change its mindset (and make some small amendments to regulations) and allow others to solve the problem. Government can then be free to direct a pro-jobs and pro-local content industrialisation that helps effectively manage a Just Energy Transition (as development theorists now call the inevitable process of shifting energy production from fossil fuels to renewable sources).

3. The third area is the need for business to have the freedom to find the right technical mix of skills in their businesses to make the maximum impact that will allow us to hire the largest number of South Africans. This means a liberalisation of the key skills visa list and far more efficient administration of it.

**Illicit economy**

The partnership of business and state should be very simple – we want to grow as fast as possible, which allows us to hire the most people possible. With growth comes increased tax revenue, but tax can also stimulate or restrain growth. Increased tax rates divert money from investment, which slows the recovery. Tax collection can be improved by clamping down on the illicit economy and continuing to invest in improved collection capacity at SARS.

At the same time we must ensure that state expenditure is free of vested interests, and as efficient as possible, particularly in spending on education, skills and health care for all. Our interests are aligned. We are interested in a conducive environment that is eliminating poverty and reducing inequality for our member firms to flourish in. Cutting expenditure can only get one so far if there is no growth.

The same growth that will help Treasury with revenues, and shareholders and employees with income, is the growth that will lead us away from the fiscal cliff edge and the path to an IMF programme.

The credibility of government's reform and recovery plan will combine with the fiscal credibility set out in the MTBPS to lay out the train tracks from here. We certainly do not want a path that leads to an IMF programme, given we know it can be avoided by the right choices being made with strong leadership that sweeps away vested interests and stale thinking. The choices outlined in the coming week will dictate if we are on that path and those steps are being taken.

It really is now or never, and we wish you luck on the 28th.