

# The 2017 Budget Speech from an agribusiness perspective

According to Agbiz CEO Dr John Purchase this year's budget speech, from an agribusiness perspective, comes against the backdrop of high food price inflation, a recent positive upturn in agribusiness confidence, and a convergence of factors that are now generally more favourable to agricultural production. "This follows on severe drought conditions over the past few years that resulted in the agricultural sector going into an extended and severe recession since early 2015," says Dr Purchase.



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"That said, the budget speech itself presented a fairly positive and optimistic outlook, projecting economic growth of 1.3% in 2017, up from 0.5% in 2016; and a declining consolidated budget deficit of 3.1% of gross domestic product (GDP) in 2017/18, down from 3.4% in 2016/17. However, interest on gross debt will still amount to a significant R169 billion," Dr Purchase stated.

## Budget allocated for land redistribution and restitution

Of particular interest to agriculture and agribusiness, is the extent to which the budget speech reflected the new emphasis on "radical economic transformation" and inclusive growth, vis-à-vis, land reform (redistribution and restitution). Spending on agriculture, rural development, and land reform will increase by 2% from just under R26 billion in 2016/17 to R26.5 billion in 2017/18, and amounting to nearly R30 billion in 2019/20.

Of this amount, the budget allocated for land redistribution has declined by 3%, from R1.23 billion in 2016/17 to R1.19 billion in 2017/18. Meanwhile, the allocation for restitution increased by 2.5%, from R3.17 billion in 2016/17 to R3.25 billion in 2017/18. In light of the fiscal discipline required by Minister Pravin Gordhan, there is limited evidence to suggest a new radical transformation agenda in light of the budget allocations outlined in his speech.

## A modest pace in the sector's transformation expected

However, the budget speech seems to offer some scope for improved sector transformation through farmer support and development, with budget allocation increasing by 10% to R3.79 billion, from R3.43 billion in the previous fiscal year. Important to note that the effectiveness of this quantum increase will largely be contingent on how efficiently the departments utilise and implement their line programmes.

“So, while the message of radical economic transformation has been emphasized, both in the budget and the SONA, it appears the sector will likely experience more of the same. In that sense, in the medium term – where budget allocations for agriculture, rural development, and land reform are set to increase by an average annual rate of 4.7% up to 2019/20 – we can expect a modest pace in the sector’s transformation.

Obviously, transformation of the sector is not incumbent on the public sector only, and the private sector also needs to implement sustainable transformation, including through the long-awaited new AgriBEE Sector Code. But to transform, sustainable economic growth is an absolute imperative, as Minister Gordhan correctly emphasized,” Dr Purchase added.

## **Impact of tax hikes need to be assessed**

Of concern to the agribusiness sector is the above-inflation rate increases in excise duties on alcohol, specifically wine, and tobacco. A further concern is the introduction of a tax on sugary beverages, including for both intrinsic and added sugar beverages, this year. While the indication is that of a reduced rate of tax, the impact on the industry, including potential job losses, will need to be assessed as a matter of urgency.

“All in all, Minister Gordhan and his team have done an exemplary balancing job under extremely difficult economic and political pressures. Under the circumstances, he has inspired and shown courageous leadership and statesmanship,” said Dr Purchase.

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