MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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NHLANHLA NENE, MINISTER OF FINANCE

Good afternoon ladies and gentlemen

Thank you for the opportunity to share with you some thoughts on the global and domestic economy and to recap the various measures currently being implemented by government to assist the private sector, a key partner in growing the South African economy. But most importantly, I would also like to reflect on how business and government can work together to place our economy on a higher growth path.

Economic Developments

The global economy has emerged from five years of uncertainty, financial sector turmoil and significant job losses. This has been a tough economic environment for governments and businesses.

Global economic growth is picking up, albeit at a slower pace. The IMF projects global growth at 3.6 per cent in 2014, rising to 3.9 per cent in 2015.

Economic activity in advanced economies continues to improve albeit at varying speeds. Economic growth in advanced economies is expected to increase by 2.2 per cent this year. Despite a disappointing GDP outcome in the first quarter, the US recovery appears to be gaining traction, with a clearer path of fiscal consolidation and stronger bank and corporate balance sheets. Economic activity in the Euro Area continues to rebound.

Emerging and developing economies continue to support global growth, with growth projected to increase to 4.9 per cent this year and 5.3 per cent in 2015.

The recovery is not without risks though. These include the risks of deflation in the Euro area, market volatility and financial instability in emerging markets in response to the monetary policy normalization in the US as well as a significant slowdown in China.

On the home front, economic activity contracted in the first quarter of 2014, mainly driven by production losses in the mining and manufacturing sectors. Unlike in preceding years, the slowdown in domestic economic activity has been largely driven by local developments.

The RMB/BER Business Confidence Index has remained below the neutral 50 level in the first half of 2014 as business conditions remain subdued and growth in private sector investment lost further momentum during the first quarter 2014, slowing to 1.0 per cent from 2.4 per cent in the fourth quarter of 2013.

The private sector formal employment declined by 0.4 per cent q/q with 5 500 jobs shed in the last quarter of 2013 – this was the third consecutive quarter of job losses in the sector. The majority of job losses were recorded in the finance, insurance, real-estate and business services sector and the mining sector.

The ending of the strike in the platinum sector should have a positive impact on sentiment and ultimately economic growth. Of the total mining sector contraction of around 25 per cent in the first quarter, the drop in platinum production as a result of the strike accounted for about 19 percentage points. To this end, the news of a settlement is most welcome.

While the constrained electricity supply has had an adverse impact on investment decisions and on our growth potential, Eskom is on track to commission the first unit of Medupi power station by year end.

The recovery in global growth presents opportunities and risks for our economy. The global economic recovery is an opportunity for our firms to increase exports, enter new markets, and expand the scope for product innovation.

However, as we benefit from the rising tide of global growth we should also review the structural composition of growth; assess our levels of competitiveness as well as the roles played by government, business and labour.

The National Development Plan provides us with a menu of options to boost our development and growth prospects. The business before us now relates to the prioritization of options and working through some tough tradeoffs. Government initiatives announced in the 2014/15 Budget, and reiterated by President Jacob Zuma in his recent State of the Nations demonstrate government’s commitment to working with the private sector to remove obstacles to investment, create jobs and achieve inclusive growth.

How the government intends to improve competitiveness of the private sector

A competitive, diversified and more inclusive economy is essential to improved trade performance, the expansion and sustaining of job creation, the strengthening of revenue generation. While the global economic outlook has improved moderately, South Africa cannot rely on external developments to alleviate domestic growth constraints. Progress will require more collaborative partnerships across our society. The next phase of growth is about the dynamism and agility of the private sector and the synergies between the private sector and government.

The NDP provides a strong platform for such collaboration and the transition to a faster-growing, more inclusive economy. The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities and accelerated rural development. It also prioritises measures to build a capable and effective state.

During the State of the Nations address, President Jacob Zuma reiterated some of the initiatives government will undertake to boost private sector investment, support small businesses and create jobs.

Government measures as outlined in the Budget

A stable macroeconomic environment remains essential in providing an environment where the private businesses can thrive. In addition, there are a wide range of initiatives aimed at reducing the cost of doing business through accelerating infrastructure investment, reduction in regulatory burdens, and more generally making it easier for firms to do business in South Africa.

Let me cite a few of these measures:

- The 2014/15 budget commits R847 billion over the next three years for infrastructure investment as National Infrastructure Plan, the bulk of which will be for power generation and freight logistics;
- We have simplified further the trade and investment regime for firms that do business with the rest of the continent. Africa presents great opportunities for South Africa's private sector. Approximately 25 per cent of our manufactured exports are destined for Sub-Saharan market. The stock of South African direct investment in the rest of Africa equals approximately 5 percent of our country's GDP. So, the simplified tax and foreign exchange framework for companies with operations on the continent and elsewhere has been extended to unlisted companies, and the cap of such benefits for listed companies will be increased.
- The suite of industrial incentives has also been increased and adapted to cater for the varying needs of businesses, including process improvements, machinery upgrades, industrial finance and export promotion. These include:
  - R2.4 billion budgeted for clothing and textile production incentives;
  - R1.75 billion for service sector development incentives. To date 128 projects have been approved under the Automotive Investment Scheme, and more than 460 companies have benefited from the Clothing and Textiles Competitiveness Programme;
  - R10.3 billion over the next three years for manufacturing development incentives. This is in addition to tax relief offered which will allow

manufacturing businesses to acquire new machinery and expand operations;

  - R15.2 billion in economic competitiveness and support programmes to enable businesses to upgrade machinery and increase productivity over the medium period; and

  - R3.6 billion for special economic zones (SEZs) to promote value-added exports and generate jobs in economically disadvantaged parts of the country.

- Government understands the importance of small and medium-sized firms for economic growth and job creation and has allocated R6.5 billion to fund small and medium-sized enterprises. Further to this, the Budget accepted two recommendations from the Judge Davis Tax Committee that will ease the compliance burden of small business, namely: the turnover tax regime will be amended to further reduce the tax burden on micro-enterprises; and, replacing the graduated tax structure for small business corporations with a refundable tax compliance credit is under consideration. Amendments will be made to the venture capital company tax regime and the rules related to accessing foreign capital will be eased to enhance support for entrepreneurial development. SARS is also taking further steps to lower the cost of tax compliance.

- To overcome the spatial fragmentation of South Africa's built environment and to improve the utilization of cities as economic hubs, an integrated city development grant has been introduced to strengthen long-term city planning and encourage private investment in urban development. In addition, an employment tax incentive has been introduced as a cost sharing measure to incentivise firms to provide work opportunities for young people.

Increasing collaboration and implementing the NDP

As recent developments indicate, the above measures alone will not translate into higher economic growth and more jobs. Government, business and labour must work together. We must find a balance between meeting the earnings expectations of shareholders, the realization of vision of economic transformation required by the electorate, and occupying our rightful place as global corporate citizens. Such a balance is possible. The political settlement that brought about democracy in 1994 is but one example of what can be achieved if we all commit to finding such a balance.

Indeed, government and business are working together, under the leadership of the Presidency. On such collaboration relates to the cutting of cut red tape. The Director General of the National Treasury and Mr Bobby Godsell co-chair a process that has yielded results in terms of addressing blockages to the issuing of water licenses. This process is also dealing with environmental regulations relating to mining as well as bottlenecks relating to business registrations. I invite you to approach these two gentlemen with examples of red tape, but most importantly proposed solutions.

To kick start your dialogue today, allow me to add three possible areas that business and government can collaborate on. They are:

- The identification of sector specific interventions to increase productivity and innovation;
- The development of housing rental stock for workers near places of employment; and
- The identification of opportunities for growth on the continent and the furthering regional integration to grow the size of our market.

In conclusion, economic progress is about mobilising resources, using them optimally and increasing innovation. But it is also about ensuring that the benefits of economic growth are shared equitably.

The National Development Plan presents us a menu of solutions. Our joint responsibility now is to break the plan into smaller, bite-size chunks.

The downside risks in the global and domestic economy will make the implementation of the NDP difficult and will require that tradeoffs to be made in light of limited fiscal resources, the demands of shareholders, and those who help us fund our national ambitions. BUT whatever the constraints, we should not, and cannot, lose focus on, and our passion for, the creation of a better South Africa for all.

Government is committed to supporting the private sector through maintaining macroeconomic stability, addressing the country's infrastructure deficits, and improving the competitiveness of labour-absorbing industries. The Presidency has opened the door to dialogue and joint problem solving by government and business.

As the global economy recovers, our opportunities to grow will increase. Let's work together to reclaim our place in the world.

Thank you