



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**SPEECH BY DEPUTY MINISTER OF FINANCE DR DAVID MASONDO AT THE
PRIVATE INVESTORS FOR AFRICA EVENT**

Theme: LAYING THE BASIS FOR GROWTH

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Ladies and Gentlemen, thank you for the opportunity to speak here today.

Low Economic Growth and Fiscal Policy

South Africa is facing a huge problem of low economic growth since the 2007/08 global economic crisis. In the first quarter of this year, real GDP declined by a revised 3.1 percent, and in the second quarter we experienced 3.1 GDP growth, which was from a very low base.

The low economic growth is also exclusive. Unemployment, inequality and poverty levels are still high. Furthermore, savings rates are low and our export performance is very poor. The low economic growth also shows up in all aspects of our fiscal policy, and therefore our fiscal options are increasingly becoming limited, if not already limited.

Revenue

Our tax revenue is very low mainly due to low economic growth; and the institutional challenges at SARS associated with what is now known as state capture have affected revenue collection. Raising taxes in the context of low economic growth is not an option. Growing the economy is the only option in order to build a broader economic base for revenue generation. Raising revenue will require South Africans to pay for the services they receive from the government.

Borrowing and Growing Debt-to GDP

Our government debt, including the budget deficit, is seriously worrying. In the February Budget Speech, the Minister of Finance, Tito Mboweni, highlighted that Government is now borrowing approximately R1.2 billion a week, if we exclude

weekends. This figure has risen even higher over the past few months as revenue growth has slowed.

We are borrowing more and more from banks. Over the last four years, banks have increased their holdings of South African government securities by over 40 per cent, with debt holdings rising from around R237 billion to around R410 billion.

Debt-servicing costs are now negatively affecting other areas of government expenditure.

Expenditure

It makes sense for government to borrow if the borrowing is used to deliver a greater return to society. But I don't have to tell the people in this room that much of that borrowing is now going to state-owned enterprises.

Currently a significant part of our expenditure goes to the wage bill and bailouts of our state-owned companies, with Eskom being one of the biggest recipients of government recapitalization. These bailouts have become unaffordable. Therefore, we have to bring in private-sector participation; and ensure that SOEs that remain in public hands become commercially viable; and rationalize some of them.

Furthermore, restoring good governance and creating sustainable business models is critical. We should also consider that SOEs cannot receive blank cheques; there must be strict conditions in place, and they must also share in the pain of any fiscal adjustment.

We also have to look at a wage-freezes starting with us public office bearers at all levels of the state if we are to seriously tackle our looming fiscal crisis.

Economic Growth and Investment

To turn around our economic crisis in order to address unemployment and poverty, we need more investment by increasing business confidence.

Business confidence fell to its lowest level in 20 years, according to the RMB/BER Index. We have to intensify the implementation of measures to increase rates of investments.

We need to increase our export performance, notwithstanding the rise of economic nationalism in the global north associated with trade wars and Brexit.

National Government Economic Growth Strategy

Government has now released an Economic Strategy for South Africa to help us obtain higher economic growth and export performance.

I am certain that many of you are saying we now have to implement government strategies and plans. It is time for implementation.

We have put a plan in place so that we can hold each other accountable. The proposed plan is based on five areas, namely:

1. Building economic infrastructure to ensure that our network industries, such as electricity, water, transport and telecommunication, contribute towards economic growth by enhancing our competitiveness.
2. Lowering the barriers to entry by increasing competition and growing small businesses. This will include supporting small businesses through finance, skills, technology, and more importantly markets, which may include building strong partnerships with big companies.
3. Prioritizing labour- intensive sectors such as agriculture in order to increase the labour absorptive capacity of our economy.
4. Implementing the Re-Imagined Industrial Strategy in order to diversify our industrial structure by increasing manufacturing's contribution to GDP; and improve export performance.

The plan released by the Minister of Finance has also crystalized many aspects of the NDP. As I said earlier, the plan lays the basis upon which we hold each other accountable in our quest to achieve higher and more inclusive economic growth.

Financing the Economic Strategy

Growing the economy will require the increase of both foreign and domestic financial capital. At this point, let me be clear about our views. Firstly, from a Finance Ministry perspective, the savings of workers must be protected. In this regard, they should never be exposed to risks emanating from poor financial management in either the public or the private sector.

Second, the onus must be on economic actors to ensure that the value proposition of the investment is sound. Government can never compel asset managers to invest their clients' money in unsound or poor-return projects.

But let us not forget that the size of long-term fund managers such as pension funds alone is a source of enormous power and influence in driving economic growth and

reform. They have the ability to secure longer-term returns by insisting on high standards of delivery, governance, and social responsibility.

We need to ask ourselves that: what prevents the full potential of these instruments from being unleashed on the economic potential before us?

Conclusion

In as much as we are in a tough fiscal position, we will have to undertake serious budget adjustments, but also spend on growth-enhancing expenditure in line with the strategic intent of the Economic Strategy released by the Minister of Finance, Tito Mboweni.

Realising economic growth will require us to build growth coalitions and alliances with labour, business, government and civil society.

The anti-state capture coalition has played an important role in defending and protecting public institutions. But the coalition was an oppositionist coalition. We need to think about the minimum platform for inclusive growth coalition.

Thank you.