



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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SPEECH BY DEPUTY MINISTER OF FINANCE

INFORMATION UNDER STRICT EMBARGO UNTIL 05:00 19 MAY 2023

REMARKS BY DEPUTY MINISTER OF FINANCE DR DAVID MASONDO AT THE LAUNCH OF RAND MERCHANT BANK UNITED STATES 18 MAY 2023

Good evening, ladies, and gentlemen,

Fellow South Africans and friends of South Africa,

It is a great privilege to be with you this evening at the launch of Rand Merchant Bank (RMB)'s presence here in New York.

It is always great to be back in New York, as I lived here for almost 5 years studying towards my Ph.D. at New York University (NYU), which I completed 12 years ago. It was such a wonderful educational, political, and economic experience. I was here when the 2008 global economic crisis hit, in another time of upheaval and crisis.

The launch of RMB's presence here in New York today signals that South Africa is open to investment and trade and demonstrates our deep and longstanding economic ties with the United States.

We are living through a time of great disruptions, from the coronavirus pandemic and its aftermath to the threat of climate change and the war in Ukraine. Disruption creates risk, but also generates opportunities for those who can see them.

South Africa has always rewarded those investors who see its potential. While many have predicted its demise over the years, it has proven them wrong every time.



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We are unique among emerging markets for several reasons. Since 1994, we have established a strong and sophisticated financial sector, in which RMB plays a key role. We have robust institutions and capital markets; and are a growing and sometimes noisy but resilient democracy.

We are governed by a Constitution that is respected across the world, with an independent judiciary that upholds the rule of law alongside an active media and civil society. And we have a strong macroeconomic framework underpinned by a strong National Treasury and a fully independent Reserve Bank.

We have a growing agricultural sector focused on high-value exports; a cutting-edge automotive manufacturing sector producing more than half a million units each year; rich mineral resources, including platinum, vanadium and other “green minerals”; and a fast-growing services sector with a wide reach into the continent.

We are also a leading destination for digital services and call centres as a result of our broadband infrastructure, English-speaking workforce, and time zone.

South Africa is well positioned as a base for multinational companies to access the African continent and to harness the benefits of the African Continental Free Trade Area, with a combined estimated GDP of \$624 billion. Africa is a continent with rich solar and wind resources as well as the mineral resources necessary for the global transition to a low-carbon economy. These minerals should not only be exported but should be used to spur the low-carbon industrialization of the continent.

These are the foundations of our success, and the reasons to invest in South Africa.



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ECONOMIC GROWTH

Like many countries, South Africa is also grappling with real challenges. Our GDP growth slowed to 2% in 2022 and, like many countries in the world, is facing a significantly weaker economic outlook this year. Our national debt is currently at 70% of GDP, but is expected to rise to 73.6% due to the Eskom debt relief package.

Despite these challenges, we remain committed to a prudent monetary and fiscal policy framework. We are on track to narrow the budget deficit, produce a primary budget surplus and stabilize our debt in the coming years. This means that we cannot turn to monetary policy, which is constrained due to high inflation, or to fiscal stimulus to fuel economic growth.

As we implement this strategy, we are clear that achieving price stability in an environment of high inflation involves short-term trade-offs. But it is necessary to firmly anchor inflation expectations and ensure lower interest rates and higher economic growth in the longer run. While higher interest rates have implications for sovereign debt service costs, very high inflation is bad for growth and public revenue. It is thus critical that the right balance is struck to support the economic recovery in the short to medium term.

This highlights the importance of coordination between fiscal and monetary policy in this challenging economic environment. This has been and continues to be a key part of our macroeconomic framework.

With all of these constraints, growth must be stimulated from somewhere. It is for this reason that in addition (a) to provide a clear and stable macroeconomic framework and fiscal strategy as presented in the 2023 Budget, which seeks to direct expenditure towards growth-enhancing interventions such as infrastructure, (b) the government has embarked on a structural reform agenda that is aimed at liberalizing the network industries dominated by inefficient state-owned companies.



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STRUCTURAL REFORM AGENDA

We are implementing the structural reform agenda because our economy, since the 2008 global economic crisis, has faced binding constraints on growth. The most obvious of these is a shortfall of electricity supply and an inefficient freight logistics system, both a legacy of the past era of corruption and mismanagement of our state-owned enterprises.

As severe as these constraints may be, they also present an impetus for change and opportunities for investment.

Through Operation Vulindlela, which is the name we have given to our economic reform programme, we are driving a far-reaching reform agenda to modernize and transform South Africa's economy.

A key objective of the structural reform programme which we are implementing through Operation Vulindlela is to liberalise and enable private sector participation in network industries, which have historically been dominated by state-owned monopolies like Eskom or Transnet.

In the **energy sector**, the reforms we have embarked on aim to enable private sector investment in electricity generation for the first time and achieve energy security.

We have already implemented regulatory changes to allow private investment in generation facilities of any size, which have unlocked a massive pipeline of investment with more than 10,000 MW of new wind, solar and battery storage capacity already in development. These projects will both help to address the shortfall in supply and facilitate our transition away from coal power towards clean energy sources.

The tax incentives announced in the 2023 budget have supported an exponential increase in rooftop solar installations by households and businesses, which is already evident in customs and registration data.



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The debt relief package for Eskom, which totals R254 billion or USD 14 billion over the next three years, has allowed Eskom to approve major capital investments in necessary maintenance as well as transmission infrastructure over this period. This will address the financial constraints which have contributed to a lack of investment until now.

We are establishing an independent system and market operator to create a level playing field for private generators and have tabled legislation in Parliament to enable a competitive electricity market.

These are radical changes, and they will fundamentally transform South Africa's energy sector over the coming years. As difficult as the impact of load shedding may be, the energy crisis has enabled us to push through the necessary reforms that will spur investment and propel economic growth.

The power system will remain constrained in the short term due to the high degree of volatility in the performance of Eskom's existing power stations, many of which are reaching the end of their design life and have been poorly maintained. Once all of these units, including the poorly designed power stations such as Kusile, are back online (between October 2023 and April 2024), the system will stabilize and load shedding will reduce significantly.

This progress and the significant work underway gives us confidence that we will be able to reduce the severity and frequency of load shedding by the end of this year, and eventually to end load shedding altogether.

In the **logistics sector**, we are implementing reforms to open access to the freight rail network, so that private rail operators can compete with Transnet. This includes establishing an independent Infrastructure Manager, which we expect to be in place by October this year, to maintain the network and provide access to public and private operators.



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Transnet is also partnering with international terminal operators at our two largest container terminals in the Ports of Durban and Ngqura, which will crowd in private investment and management expertise to bring our ports up to world-class standards.

Reforms in the **telecommunications sector** aim to increase network speed and quality, expand broadband access and reduce costs.

Last year we completed the auction of spectrum for mobile network operators to enable the rollout of 5G networks across the country, unlocking billions of Rands of new investment in telecommunications infrastructure.

We have also launched an innovative Broadband Access Fund which will provide subsidies to accelerate the expansion of broadband internet access to low-income households.

South Africa plans to invest significantly more in **water resource infrastructure** (dams and associated infrastructure) to supply water to grow the economy. We should be investing around R30 billion or USD 1.6 billion per annum in such infrastructure. This is infrastructure that has sustainable revenue streams associated with it (from the sale of water) and is therefore appropriate for private sector investment.

This is the reason why we are in the process of establishing a National Water Resource Infrastructure Agency. The agency is expected to have a substantial balance sheet and associated revenue streams, which can be used to raise finance without requiring National Treasury guarantees.

We expect the agency to be established within the next year.

Finally, we are implementing reforms to our **visa regime** to attract skilled immigration, including a points-based system for skilled applicants and a trusted employer scheme to make it easier for companies to recruit the talent they need and establish regional offices in South Africa.



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These structural reforms will propel economic growth over the next decade, with significant upside for investors.

SOUTH AFRICA AND FIGHT AGAINST FINANCIAL CRIMES

As you are aware, the FATF made its decision to list South Africa as a “jurisdiction under increased monitoring”, more commonly referred to as the “grey list,” on 24 February 2023.

We have taken several remedial actions to address these concerns, including the amendment of six Acts of Parliament that are key to combating financial crimes, that is, money laundering and terror financing. The South African Parliament enacted these amendments in record time.

We are confident that we will be able to address the remaining 8 outstanding items by January 2025, as agreed with FATF. Given the strength and sophistication of our financial sector, we expect that this will have a limited impact on financial stability and the cost of doing business with South Africa.

There has been concern in recent weeks about South Africa’s position on the Russia/Ukraine conflict. Let me state our position clearly. South Africa supports a rules-based international order, underpinned by the UN Charter and the sovereignty of all nations. We have consistently taken a non-aligned stance on the conflict in Ukraine. We do not accept that our non-aligned position favours Russia above other countries. Our view is that the international community needs to work together to urgently achieve a cessation of hostilities and to prevent further loss of life and displacement of civilians in Ukraine.

With regard to the allegation that arms were loaded onto a Russian vessel that docked in Simon’s Town late last year, we have made it clear that no sale of arms to Russia was authorized by our National Conventional Arms Control Committee (NCACC), which is required to authorize all such transactions under South African law. Indeed, since 1994, South Africa has put in place a strict arms control regime that ensures full transparency and oversight. Since we do not have concrete evidence



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to support these allegations, the independent inquiry headed by a retired judge is meant to establish the facts.

We have seen the negative impact that this allegation has had on our currency and bond market. While the US dollar strength (resulting from robust economic performance, favourable interest rates and slowing inflation) has contributed to some weakness in the Rand/dollar exchange rate, the uncertainty caused by this matter has exacerbated this. Therefore, it is crucial that we urgently close the matter to ensure certainty in the market.

Despite these, South Africa's bilateral cooperation with the US continues uninterrupted. The US is a key partner for South Africa on issues of trade, peace, security and development agenda. We have a strong and longstanding relationship that we can rely on.

The US is currently South Africa's 3rd-largest trading partner (after the European Union and China), importing a substantial amount of manufactured goods from South Africa. South Africa is the top supplier of goods from sub-Saharan Africa to the United States. The US remains the largest single source of Foreign Direct Investment (FDI) into SA.

South Africa has been endorsed by the African Ministers of Trade and the US Government to host the 2023 AGOA Forum. South Africa will use this opportunity to reinforce the African Common Position on the extension of AGOA beyond 2025 and to solicit US support for the AfCFTA.

CONCLUSION

I have spoken this evening about the work of the South African government is undertaking to improve the conditions for economic growth and investment in SA. There are real domestic challenges and some exacerbated by the global disruptions, but the steps we are taking will result in material improvements and vindicate the confidence of investors.



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Those who are able to look beyond the immediate challenges will indeed see the benefits of the actions we are taking today in years to come.

Thanks, RMB once again for setting up here in New York. You are a proudly South African corporate citizen.

We are looking forward to more investment flowing into South Africa and the African continent.

I thank you!