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DG'S SPEECH: BER CONFERENCE

SA's Economic Landscape: Celebrating the Past, Embracing the Present and Envisioning the Future

VENUE: Maslow Hotel, Sandton | **DATE:** 31 July 2024

Good morning, ladies and gentlemen, and thank you for the opportunity to address you today. And let me extend my thanks to the BER for inviting us to make a few remarks at today's event.

I have been asked to reflect on South Africa's economic landscape from the perspective of the National Treasury and I want to start with our most recent history.

We all know that South Africa is grappling with an economy that is growing slower than the growth rate of its population. As a result, real incomes of the average South African have seen a significant decline over the last 10 years or so.

In practical terms, this means that the size of the economy is unable to sustain the country's spending priorities. A situation that has been exacerbated by the effects of the Covid-19 pandemic and the economic turmoil which followed.

As a result, our government's fiscal position remains strained, limiting the resources available to address our many challenges. Our strained fiscal position means that we are forced to live in an environment of scarcity where not all of the needs of our citizens can be met adequately given the resources we have.

So the question becomes how do we alter this trajectory? And in our view, the answer lies in making better policy choices to support growth and development.

In this regard, I want to talk today a bit about the key elements that underpin how we as the National Treasury have approached our policy mandate in recent years.

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We have focused on three areas that we believe, over time, will generate better macro-fiscal outcomes:

1. Providing a clear and stable macroeconomic framework that supports growth;
2. Implementing reforms that increases the competitiveness of our economy; and
3. Prioritising investment in infrastructure through improvements in the infrastructure pipeline, the execution of that pipeline and the financing thereof.

We believe, that if we continue to focus on these areas, over time, we will create an environment that encourages businesses to invest and employ more people – thus amplifying the impact of public policy and creating the resources required to deliver on our social objectives.

Let me take some time to unpack why these policy choices matter so much to our growth prospects.

Providing a Clear and Stable Macroeconomic Framework that Supports Growth

First, maintaining a sound macroeconomic framework means keeping inflation low and stable, while ensuring that our public finances are sustainable. Collectively, these measures provide the foundation for sustainable growth. Low and stable inflation, coupled with a sustainable fiscal outlook, reduces uncertainty for all decision makers in the economy, lower borrowing costs, and reduces the cost of capital for investment.

Business confidence and productivity improve as a result, and both are vital for a small and open economy like South Africa, where our domestic savings rate is low, and competition for growth-enhancing investment in global markets is fierce. Sound macroeconomic policy also serves as a critical buffer against external shocks because the more fiscal and monetary policy space we have, the better we are able to manage future economic shocks.

Because of the policy choices we have made in the past, debt-service costs now consume a larger share of the budget than social development, health, community development, economic development, or peace and security.

Therefore, and as articulated in the Budget this year, South Africa's fiscal policy will continue to focus on:

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1. **Stabilising debt and debt-service costs.** Over the medium term, the debt-stabilising primary budget surplus will anchor fiscal policy. Debt-to-GDP will stabilise in 2025/26, barring any materialisation of fiscal risks. Debt-service costs will peak as a proportion of revenue in 2025/26.

2. **We will ensure that capital investment** continues to grow faster than consumption expenditure. And I will talk in a lot more detail about our plans in this regard later.

3. **And finally, we will continue to support the most vulnerable households**. A significant share of our consolidated non-interest spending will go towards the social wage, ensuring that critical services in health, education, and social protection are maintained and improved.

These interventions will in our view collectively improve our fiscal position and allow macroeconomic policy to create an enabling environment for sustainable and inclusive growth.

Implementing Structural Reforms to Improve Competitiveness

Second, we intend to continue our progress on the implementation of structural reforms to improve productivity and the competitiveness of our economy. These reforms make it easier and cheaper for businesses to operate and invest in South Africa, employ people and support a growth in government revenue.

Historically, we have seen strong linkages between microeconomic developments like energy provision and logistical capability and overall growth outcomes. We have witnessed declines in total factor productivity, which encompasses innovation, technological improvements, and more because of these binding constraints to growth.

To address this, our economic policy has been geared to directly tackle the microeconomic roots of the growth slowdown, particularly focusing on the drivers of productivity decline.

Network industries like electricity, rail and telecommunications are a primary concern, as productivity shocks within these industries have significantly impacted the rest of the economy. Estimates suggest that around 35% of the growth slowdown from 2007 to 2021 can be attributed to these network industries or the utilities sector.

To address this, phase 1 of Operation Vulindlela, a joint initiative between the Presidency and National Treasury, was launched in October 2020 to accelerate the implementation of structural and economic reforms to drive growth and job creation.

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By the end of phase I of Operation Vulindlela, 94% of reforms were either complete or progressing well. And by our estimates, these reforms have generated investment potential of R500bn. You will all be aware of the BER's own estimates that confirm the large impact that these reforms can have on investment and GDP over time.

The bulk of this is in the energy sector, where, for example, raising the embedded generation licensing threshold, has catalysed the development of a pipeline of 22 500 MW of projects totalling over R390bn.

Unlocking investment through reforms in the electricity sector is important to end load shedding and achieve energy security and will be the main driver of economic growth in the decade to come.

Similarly, reforms in the logistics sector, which phase 1 of Operation Vulindlela has pioneered, will enable greater investment in the rehabilitation of the rail network as well as in rolling stock, as we implement the freight logistics roadmap that will fundamentally change our logistics sector over time.

We have also implemented reforms in the telecommunications sector to increase network speed and quality, expand broadband access and reduce costs.

In addition, this first phase of Operation Vulindlela has taught us new ways of working to implement reforms quickly and collaboratively with public and private actors.

Structures such as the National Energy Crisis Committee (or NECOM) and the National Logistics Crisis Committee (or the NLCC), have become a blueprint for a new form of public-private partnership to deliver on our reform agenda.

The success of these structures lies in the systematic processes in place to track progress and solve problems supported by clear lines of reporting and accountability.

NECOM, which was established to implement the Energy Action Plan, has facilitated the development of the energy project pipeline that I spoke about earlier.

The NLCC, which was established to tackle challenges in the logistics industry, is making steady progress to support the recovery of freight volumes, port operations, border post processing times and an improvement in the operations of our passenger rail system.

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As we move into Operation Vulindlela Phase II, a second wave of reform, it is important that we maintain the momentum already developed across the five key sectors identified in the first phase to realise their full impact as well as to look into new areas that will drive growth going forward.

Prioritising Investment in Infrastructure

Finally, allow me to talk about our efforts to prioritise investment in infrastructure through improvements in the infrastructure pipeline, the execution of that pipeline and the financing thereof. Mobilising private sector resources to augment public sector capability and finances is necessary to fast track the provision of infrastructure and improve effectiveness. Government has initiated various reforms to systematically crowd-in greater private sector participation to improve spending and delivery outcomes.

Work is also underway on capital budgeting reforms; strengthening institutional arrangements and governance across the ecosystem to enable the private sector to co-invest in public infrastructure. Let me share a few examples:

- Earlier this year, we published revised PPP regulations, which aim to improve the quality of our infrastructure pipeline by simplifying the rules that govern public-private partnerships. We have, for example, proposed a differentiated and simplified approach for smaller projects, we are reducing various administrative and compliance burdens and we are streamlining the mechanism for unsolicited proposals.

- We are also working with various departments to drive private sector partnerships in several sectors. For example, in the case of the Department of Water and Sanitation, we have worked with our colleagues there to set up the Water Partnerships Office to drive innovative financing and delivery models for water infrastructure delivery.

- As we announced in the Budget earlier this year, government has worked with the International Finance Corporation to develop options for off-balance sheet financing to accelerate private sector investment in transmission. We are on track to implement a pilot project during the course of this year.

- Finally, we are making several changes to the Budget Facility for Infrastructure or BFI, our multi-disciplinary facility for large strategic infrastructure projects. We launched a special BFI window earlier this year and we are using it as an opportunity to gain insights into how to strengthen to capital budget system, link infrastructure projects with innovative financing mechanisms and create infrastructure as an asset class.

Currently in the fiscal framework, planned infrastructure budgets are expected to increase at 4.9 per cent over the medium-term, driven by energy and transport. And we intend to improve on these efforts going forward.

Conclusion

Allow me now, to make a few concluding remarks.

The future growth of our economy and the sustainability of our public finances relies on our ability to be clear-eyed about where we are as a country, and what set of choices and circumstances have gotten us to where we are.

Our strategy for addressing the enormous challenges of accelerating growth, creating jobs and reducing poverty relies on a clear and stable macroeconomic framework, implementing structural reforms, and investing in infrastructure.

We believe these elements are crucial for boosting growth, enhancing inclusivity, and setting the economy on a more sustainable trajectory.

These efforts will also generate more fiscal space by increasing revenue, enabling private sector participation, lead to more productive public spending on infrastructure and create a virtuous cycle that supports inclusive economic growth.

It is with this in mind that National Treasury welcomes this opportunity to reflect on the recent economic past to understand how to shape our choices going forward.

Thank you.