MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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SPEECH BY DEPUTY MINISTER OF FINANCE

THE METALS AND ENGINEERING INDUSTRIES MINISTERIAL CONFERENCE

17 SEPTEMBER 2024

Opening and Welcome

Honourable Ministers and Deputy Ministers,
Distinguished Dignitaries and Guests,
I am delighted to be here and thanks for allowing me to participate in this Metals and Engineering Industries Ministerial Conference. As you may be aware, in a little over a month, the Minister of Finance will table the first Medium Term Budget Policy Statement (MTBPS) for the 7th Administration.

The MTBPS, apart from setting the tone for the fiscal framework for the next national budget, amongst others, also provides Parliament and the country with an update on how the National Treasury perceives the current economic situation as well as the outlook thereof.

Having said that, today, after providing some economic context, I will reflect on some tenets of the fiscal policy framework, with emphasis on managing public debt, taxation, and incentives to stimulate industrial growth. I will then elaborate on the complementary structural reforms that the government is undertaking, all of which may indirectly or directly support the reindustrialization efforts in the metals and engineering sector.

Current Economic and Fiscal Context

To have a more informed discussion of the macroeconomic policy environment, we must have an honest evaluation of the economic challenges we face as a country. The number one challenge that South Africa faces today is persistent low economic growth. South Africa's growth has averaged just 1.8 percent a year between 2010 and 2019, and even less if the Covid-affected years of 2020 and 2021 are included. We will revisit the growth outlook next month during the MTBPS presentation but let us be reminded that in the 2024 Budget Review, economic growth was revised down to 0.6 percent due to continued power

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shortages and rail network disruptions, amongst others. This is a low-growth trap South Africa faces. Slow growth created a vicious cycle in which there are fewer resources available to address the pressing challenges of unemployment, poverty, and inequality.

Moreover, low economic growth generated high unemployment, as demonstrated by high unemployment rates statistics published by Statistics South Africa. Furthermore, low economic growth implied low government revenue. Low government revenue together with higher levels of spending generated high levels of deficit which had to be financed by borrowing. This has resulted in the elevated debt levels that we see in South Africa today. The challenges faced by our State-owned companies have not made fiscal policy-making any easier.

It is therefore not surprising that sustained and inclusive economic growth is at the top of the economic agenda of the Government of National Unity (GNU). Macroeconomic policy, particularly fiscal policy, can and should continue to play a role in this regard. However, the extent to which fiscal policy can play a role in stimulating economic growth is constrained by the need to strike a careful balance between supporting a growth-enhancing agenda and stabilizing the public finances, while maintaining support for other socioeconomic policy priorities, in the context of declining fiscal revenue.

Therefore, macroeconomic policy, especially fiscal policy, alone is not sufficient to sustainably accelerate long-term economic growth. It is for this reason that the 7th Administration is increasingly focusing attention on the complementary role of structural reform policies in promoting more balanced, sustainable, and inclusive economic growth.

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Building Resilience through Reducing Public Debt

As elucidated in the 2024 Budget Review, the gross public debt stock is expected to increase from R5.2 trillion (73.9 percent of GDP) in 2023/24 to R6.3 trillion (74.7 percent of GDP) in 2026/27. In line with the government fiscal strategy, gross loan debt is expected to stabilize at around 75.0 percent of GDP. Despite the expected debt stabilization, debt-service costs currently consume roughly one out of every five rands of government revenue.

These developments in public debt make a compelling case for continued fiscal consolidation to stabilize debt and thus fiscal policy continues to prioritize stabilizing debt and debt service costs. Fiscal consolidation and debt stabilization are essential in improving investor confidence and attracting private sector participation in key sectors.

High and rising public debt and debt costs hamper service delivery and investment. By reducing debt and debt costs, we can free up fiscal space to invest in critical infrastructure, including enhancing the ability to meet the significant challenge of building a resilient economy more effectively.

Moreover, with lower debt levels, we can allocate more resources towards industrialization initiatives without compromising other essential services, such as investments in sustainable transport and logistics infrastructure and renewable energy, amongst other sectors. These investments will have material benefits to the metals and engineering sector.

Prioritising Investment in Infrastructure

Infrastructure is the backbone of any successful economy, and we are committed to prioritizing investment in this critical area. Over the medium term, planned infrastructure budgets are set to grow by 4.9 percent, with a focus on energy and transport. These investments are central to addressing the bottlenecks in our network industries and stimulating long-term growth.

To accelerate the provision of infrastructure, we have introduced revised Private Public Partnerships (PPPs) regulations aimed at simplifying the rules governing PPPs. This includes a differentiated and simplified approach for smaller projects, reducing administrative burdens, and streamlining mechanisms for unsolicited proposals. These changes will make it easier for the private sector to participate in infrastructure projects, ultimately improving delivery outcomes.

In the water sector, the Water Partnerships Office, was set up in collaboration with the Department of Water and Sanitation. This office is driving new financing models for water infrastructure and ensuring that we meet the needs of our communities while reducing the burden on the public purse.

In the energy sector, we are working with the International Finance Corporation (IFC) to explore options for off-balance sheet financing, a strategy that will accelerate private sector investment in transmission projects. A pilot project is already in the works, and this initiative will be a blueprint for how we leverage private sector resources to meet our infrastructure needs.

Innovative Approaches to Financing Growth

Given the constraints on our fiscal space, we must continue to explore innovative approaches to financing growth. Innovative financing models are crucial for infrastructure given the constrained fiscal outlook. We are exploring various strategies, including PPPs and new institutional arrangements to mobilize financial resources for sustainable development. These models are crucial for maintaining a stable and predictable fiscal environment, which in turn, will enable us to attract private sector investments, leveraging public funds to achieve greater impact and making South Africa a more attractive destination for foreign investments.

As we have seen through the work of NECOM and the National Logistics Crisis Committee, public-private collaboration is essential to delivering on our reform agenda. These structures are helping us systematically track progress, solve problems, and ensure accountability in the implementation of reforms. The Energy Action Plan, for instance, has already facilitated the development of a robust pipeline of energy projects, and the freight logistics roadmap is supporting the recovery of freight volumes and improvements in rail and port operations.

Furthermore, the Infrastructure Fund demonstrates our commitment to blending public and private financing to stimulate infrastructure investment. This approach seeks to mobilize resources, mitigate risks for private investors, and foster an environment where collaborative financing models can thrive. Such measures are part of a broader effort to ensure that infrastructure development not only supports South Africa's immediate economic needs but also lays the groundwork for long-term resilience and progress.

Taxation Policy and Incentives for Growth
Our taxation policies always strike a delicate balance between supporting economic activity and raising sufficient revenue to meet the nation's needs. In 2024/25, we projected a gross tax revenue of R1.86 trillion. To alleviate fiscal pressure, the government has proposed tax increases of R15 billion. These include no inflation adjustments for personal income tax and higher excise duties on alcohol and tobacco. However, we have decided not to increase the fuel levy, recognizing the strain it places on consumers.

Additionally, we are committed to reforms that will promote investment. The Section 12B renewable energy allowance will be reconsidered to reflect the removal of the private electricity generation threshold, creating new opportunities for private investment in energy production.

Incentives to stimulate local electric vehicle production are also on the horizon. From 1 March 2026, producers will be able to claim 150 percent of qualifying investment spending on the production capacity for electric and hydrogen-powered vehicles. This initiative, estimated to cost R500 million in 2026/27, will position South Africa as a key player in the global transition to green transport solutions.

The learnership tax incentive is another vital tool in our policy framework aimed at boosting skills development and employment. By extending this incentive until 31 March 2027, we are ensuring that employers continue to invest in workplace education and training, a critical component of our broader employment strategy.

As we focus on building a sustainable and resilient economy, the implementation of the global minimum corporate tax will play a pivotal role. By ensuring that large multinational corporations are subject to a minimum effective tax rate of 15 percent, we will bolster our corporate tax base and reduce opportunities for profit shifting to low-tax jurisdictions.

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Implementing Structural Reforms: Operation Vulindlela

Our economic policy continues to focus on structural reforms that enhance productivity and competitiveness, key drivers of economic growth. Over the past few years, we have made significant progress, particularly through the work of Operation Vulindlela (OV), a joint initiative between the Presidency and the National Treasury aimed at accelerating economic reforms across key sectors. OV has prioritized a thorough revitalization of our network industries, such as electricity, rail, and telecommunications.

In these industries, we have seen how bottlenecks such as load shedding, transport, and logistics challenges can have wide-reaching consequences for the economy. Through OV, we are directly addressing these bottlenecks, which constrain growth, by removing regulatory barriers and enabling greater private sector investment and participation. Overall, OV's first phase has generated investment potential of over R500 billion.

Reforms in the electricity sector, for example, have unlocked a pipeline of over 22,500 MW of embedded generation projects, valued at over R390 billion. This has ushered in an energy market in which ESKOM is not the only energy supplier and has set conditions for private-sector investment. These reforms are pivotal in ensuring energy security and ending load shedding, which has been a major drag on our economy. The metal and engineering sector suffered considerably from load shedding, and I hope that it is beginning to see the benefits of the recent reduction in load shedding.

In the logistics sector, which is also critical for the metals and engineering sector, we are working to rehabilitate the rail network and improve rolling stock, aligning with the freight logistics roadmap. These investments will improve South Africa's logistics capabilities and re-establish us as a competitive player in global trade.

In telecommunications, our reforms have expanded broadband access, reduced costs, and improved network quality. These reforms are laying the foundation for a more competitive and dynamic economy, amongst others, by facilitating the conduct and improving the outcome, of macroeconomic policies.

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Conclusion

Ladies and gentlemen, our less-sympathetic observers have sometimes said that *societies manage decline, fail to manage decline, and then finally decline to manage*. It is our task, on this most important of tasks, to prove our critics wrong. Indecision and inaction are not options that we have on our menu. We must act! We must act with common purpose, we must act with a unity of spirit, and we must act with steadfast determination! Acting in this way we can, and we will, build a resilient and sustainable South Africa.

Thank you.