MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 • 40 Church Square, PRETORIA, 0002 • Tel: +27 12 315 5372, Fax: +27 12 406 9055 • www.treasury.gov.za

SPEECH BY DEPUTY MINISTER OF FINANCE

SPEECH BY DEPUTY MINISTER, DR DAVID MASONDO, AT THE SA FINANCIAL SECTOR COMPETITIVENESS LEKGOTLA

FOCUS: MOBILISING CAPITAL AND ENHANCING THE COMPETITIVENESS OF SOUTH AFRICA'S FINANCIAL MARKETS

02 June 2025

Ladies and Gentlemen,

Good morning. I'm appreciative of the opportunity to address you on an issue central to our country's economic future: **how we mobilise capital for investment and enhance the competitiveness of South Africa's financial markets**.

Economic Growth Challenge

South Africa has been experiencing severe economic growth challenges, manifested by high levels of unemployment, fiscal imbalances, among other weaknesses in macro-economic fundamentals. Our economy has not been growing due to a variety of constraints in the power supply, telecommunications, water, and freight logistics sectors. Other global economic and geo-political factors are also playing a role in generating a low growth environment.

To illustrate the magnitude of the growth challenge, the South African economy grew by only 0.6% in 2024, and growth averaged 2% between 2021 and 2024. This average growth rate lags our comparable peers. For example, the growth rates for Brazil, India and Turkey have been well above ours between 2021 and 2024. Recently global economic headwinds and increased uncertainty have triggered the revision of our growth projections from 1.9% in February 2025 to

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

1.4% by May 2025, while our comparable peers are registering the relatively higher growth rates projections.

The economic growth challenge in South Africa is dire and need to be addressed as a matter of urgency.

Amongst others addressing economic growth challenges will have a positive impact on labour absorption and thus on employment, poverty and inequality. According to Statistics South Africa, South Africa's unemployment rate reached 32.9% in the first quarter of 2025. During the same period, the unemployment rates in Brazil, India and Turkey were 7%, 5% and 8%, respectively. This comparative reflection highlights the gravity of our economic challenges and should instill greater collective commitment to growing the economy.

As we work to tackle low growth and thus unemployment, poverty and inequality, we must also unlock the power of our financial system to serve as a platform for better economic growth and development outcomes.

South Africa’s financial sector is a national asset—but it must also become a driver of inclusive development, regional leadership, and global relevance.

The Financial Sector: A Pillar of the Economy

South Africa’s financial services sector is not only robust—it is a cornerstone of our economic architecture.

- It contributed approximately **22% of GDP** in 2023—the single largest sector in the economy.

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

- It provides direct and indirect employment to nearly **3 million South Africans**.
- It contributes about **25% of corporate income tax revenues** and plays a key role in funding our national budget.
- The Johannesburg Stock Exchange (JSE) is **the largest and most liquid exchange in Africa**, with over **R20 trillion in market capitalisation** and ranked among the **top 20 globally by market turnover**.

In short: we already have the foundation. But we must do more to **unlock capital**, **deepen access**, and **position South Africa as a truly global financial hub**.

Mobilising Capital for Growth and Transformation

To meet our economic development needs, the South African government continues to create a conductive environment and incentives, to enable capital to move into priority areas.

1. Unlocking Domestic Institutional Capital

South Africa's fiscal space, like in many African countries, is constrained primarily due to high public debt, which, *inter alia,* increase the cost of capital. We must mobilise capital towards infrastructure, whilst ensuring better returns to investment.

South African pension funds, insurers, and asset managers control over **R6 trillion in assets**. We have revised **Regulation 28** to facilitate investment into infrastructure. Additionally, the **Infrastructure Fund**, supported by R100 billion in public finance, aims to catalyse **R500 billion in blended capital** over the coming decade. Through better Public Private Partnership (PPP) frameworks, faster approvals, and risk-sharing instruments, we will accelerate this deployment.

2. Expanding Access to Finance for SMEs

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

Small and Medium Enterprises (SMEs) contribute over **60% of employment** but access less than **10% of formal credit**. This gap is unacceptable.
We are working to:

- Expand credit guarantees and co-investment through specific vehicles like credit guarantee schemes that National Treasury has introduced. These initiatives can be expanded to housing finance, SME finance and infrastructure finance.
- Reform and streamlining regulatory frameworks like the securitisation framework and commercial paper regulations to boost debt and equity finance to support early-stage and black-owned ventures.
- Build out local long term and impact financial ecosystems—including consolidation and simplification of the current byzantine framework of social, transformation and sustainable growth frameworks which make it difficult to assess the impact of social investment.

3. Financing infrastructure and the Just Energy Transition

Our **Just Energy Transition Investment Plan (JET-IP)** outlines a R1.8 trillion opportunity to transform our energy system and industrial base.

We are creating a pipeline of investable projects, launching a **green taxonomy**, and positioning South Africa to become a leader in **green hydrogen, battery storage, and electric vehicles**. This transition is our opportunity not just to decarbonise—but to reindustrialise and compete globally.

Infrastructure is both a short-term job creator and a long-term productivity enhancer. Yet, South Africa's infrastructure investment as a share of GDP has fallen to just under 13%, far

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

below the National Development Plan (NDP) target of 30%. Public sector balance sheets—across all three spheres of government—are constrained, and execution bottlenecks have held back delivery.

We are tackling this challenge head-on with a bold, coordinated infrastructure finance strategy.

1. *Enhancing private sector participation*

New regulations for PPPs in national and provincial government was published earlier this year that comes into effect in June 2025. We also expect new regulations for municipal PPPs in the coming months.

The aim of these new regulations is to reduce the regulatory burden in PPPs by reducing the number of approvals for projects below R2 billion. We are also making it easier for government to respond to unsolicited proposals.

To increase the number of projects in preparation, a programmatic approach similar to the renewable energy independent power producers programme is being undertaken in the transport and water sectors. The Transport PSP unit issued a request for information for various corridors and the Water Partnership Office has developed standardised frameworks to support municipalities in project preparation and procurement of PPPs.

We also believe that PPPs can augment the balance sheets of state-owned companies in electricity and transport in delivering infrastructure upgrades and expansions.

2. *Budget reforms to improve infrastructure investment*

The capital budgeting system is being reformed to improve the allocative efficiency in fiscal resources for infrastructure investments. Recognising that blended financing can happen in different ways, the budget facility for infrastructure is being expanded in 3 ways. Firstly, we now

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

have 4 evaluation windows compared to an annual evaluation window. Secondly, it is a central gateway for considering viability gap financing from the fiscus, from on-budget support to guarantees and PPPs. Thirdly, the facility will evaluate projects that are in early stages of preparation to ensure that a pipeline of projects can be directed to the various technical support facilities to maximise the likelihood of taking projects to financial close.

A new performance based conditional grant to metropolitan municipalities is being introduced this year to strengthen the governance and institutional arrangements in water and sanitation, electricity and solid waste management in our cities. The aim is to create an enabling environment that would allow for increased long term infrastructure financing on the balance sheet of these business units in municipalities by creating a virtuous cycle in governance, management and financing to improve the quality of services being delivered.

3. *Mobilising Private and Institutional Capital*

We are actively engaging market participants including many represented in this room to channel long-term capital into infrastructure by, amongst others, creating a favourable regulatory environment. The initial reform was to revise Regulation 28, to explicitly allows pension funds to invest in infrastructure. In addition, we are exploring options for specific developing infrastructure investment vehicles and channels, including:

- Dedicated Infrastructure Investment Funds;
- Project bonds and securitised infrastructure debt;
- Retail infrastructure investment vehicles – similar to REITs.

Working with the JSE and other stakeholders, we aim to deepen the local infrastructure capital market, including support for:

- Municipal bonds and pooled funding instruments for metros and secondary cities;

- A growing market for project finance instruments and credit-rated infrastructure portfolios;
- Development of a local currency guarantee facility in partnership with multilateral lenders like the World Bank and AfDB.

4. *Embedding Sustainability and Resilience*

Our infrastructure plan is not just about "more"—it's about better infrastructure.

That means:

- Climate-resilient infrastructure, aligned with the Just Energy Transition;
- Gender-sensitive and pro-poor infrastructure, particularly in informal settlements and rural areas;
- Digital integration, so our infrastructure serves the economy of the future.

We are embedding environmental, social, and governance (ESG) principles in the Infrastructure Fund's investment criteria and supporting the development of green infrastructure standards and disclosures.

Enhancing the Competitiveness of South Africa's Capital Markets

While our markets are strong, **competitiveness is not static**—it must be earned. Other financial centres on the continent are innovating quickly. We must act decisively to maintain and extend our leadership.

Here is our agenda to make South Africa a **financial powerhouse**:

1. Deepen Domestic Capital Markets

The Financial Sector Conduct Authority (FSCA), and National Treasury are working to:

- Simplify and modernise listing requirements;
- Reduce the cost and complexity of raising capital;
- Improve liquidity and retail investor access to listed equities and bonds;

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

We aim to reverse the decline in IPOs or initial public offerings and support the growth of home-grown, high-impact firms that choose to list domestically.

2. Expand Access through Innovation and Inclusion

Fintech, digital assets, and open banking present an opportunity to leapfrog traditional models. South Africa is home to over 500 fintech startups, and we are proud to be the first African country to pilot **tokenised securities** through a project run by the South African Reserve Bank called Project Khokha.

To secure our advantages in this area, we are:

- Finalising a regulatory framework for digital financial assets and stablecoins;
- Supporting interoperability and open APIs (Application Programming Interfaces)between banks, insurers, and startups;
- Scaling mobile and digital banking to bring millions more into the formal economy.

3. Position South Africa as the Financial Gateway to Africa

South Africa already hosts:

- The **continent's top-ranked financial centre** (GFCI);
- Regional operations of over **30 global investment banks and asset managers**.

We will build on this by:

- Promoting South Africa as the **structuring jurisdiction of choice** for pan-African funds;
- Attracting global listings, green bonds, and sustainability-linked products to the JSE;
- Deepening our role as a hub for **infrastructure, energy, and climate finance**—not just for South Africa, but for the continent.

We are also working with the African Continental Free Trade Area (AfCFTA) Secretariat to ensure our capital markets are fully aligned with the broader goal of a single African financial market. The Public Investment Corporation (PIC) as the largest fund on the continent can play a particularly important catalytic role here but cannot and should not bare this responsibility alone.

A Compact for Competitiveness and Confidence

To succeed, we need a new compact—between public and private sectors, investors and regulators, innovators and incumbents.

A compact rooted in:

- **Confidence** in the rule of law, fiscal discipline, and sound regulation;
- **Clarity** in the investment environment and government policy;
- **Collaboration** in building the financial systems of the future.

We are not asking the financial sector to take unjustifiable risks—but we are asking it to take **developmental risks**, in partnership with government, with shared accountability.

Whilst South Africa has deep, relatively developed and resilient capital markets, inadequate supply of affordable capital remains a challenge. The inadequacy of loanable capital is compounded by our low savings rate, which is estimated to be around 14% of GDP in 2024. During the same period, Turkey and India recorded savings rate (as a percentage of GDP) of 24% and 31 % respectively.

This amplifies the need to attract foreign capital. Affordable domestic and foreign capital flows are crucial for growing the economy. Foreign capital flows could be enabled through **non-ZAR listings and regulatory architecture** that makes South Africa an attractive and preferred investment destination for both local and foreign investment managers. Given the importance of small and medium scale businesses in the growth potential of our economy, it is our view inward

capital flows will contribute towards reduction in the cost of capital, particularly for small and mid-cap companies with less economies of scale.
It is not only the flow of capital that matters, but also the cost and affordability of the investment capital. While the cost of capital is a function of demand and supply dynamics, we call upon investors to target projects that promote and enhance sustainable growth of our economy.

The cost of capital
One of the capital cost drivers for the African continent is the perceived risk. There is a tendency to undervalue African economies and overestimate risks. As a result, Africa remain "unattractive" to capital due to perceived riskiness in lending to the continent leading to unbridled risk premium payments.
Some African countries pay higher rates than riskier developed countries due to bias in these ratings. Study by the AU and UNDP have found that "biased assessments" of African economies could have cost some $75bn in lost opportunities.

Macro-economic stability
We are fully aware that sustainable economic growth will require, amongst others, a conducive macro-economic environment, stable inflation and interest rates together with inflow of long-term investment capital. Investment in our infrastructural capacity is an important economic growth enabler. We recognize the need to build confidence in the financial instruments used to mobilise pools of infrastructure-related investment capital. Government is committed to pursuing prudent fiscal policy that seeks to crowd-in private investment and stabilize of public debt.

To address the cost of both public and private capital, government is seized with debt stabilization and sustainability measures. As we are all aware, sovereign debt risk would typically trigger spikes in bond yields, which inevitably weakens the attractiveness of our debt instruments and increases the cost of debt capital. The rising cost of debt will spill over to the stock market, where investors will seek greater compensation for assuming additional risk. This, ladies and gentlemen, weakens South African's ability to attract investment capital and the desired inward listing trends.

Low and stable inflation also decrease the cost of capital through different channels, including interest rate and risk premium. This enables investors to have better forecast on future cashflows.

The South African Reserve Bank has played a pivotal role in bringing about low and stable inflation.

The work by the National Treasury and SARB on the appropriate inflation target framework for South Africa is on-going.

Addressing the FATF Greylisting

Capital would not freely flow in jurisdictions whose financial system is susceptible to use for terror finance and money laundering. It is for this reason that the South African Government has been working closely with the Financial Action Task Force (FATF) and other global partners to fully and speedily address all the deficiencies that were identified by FATF in February 2023. As acknowledged by the FATF Plenary at its last meeting in February 2025, South Africa has taken steps towards improving its Anti-Money Laundering and the Combating of the Financing of Terrorism regime including by demonstrating that all supervisors apply effective, proportionate, and effective sanctions, ensuring competent authorities have timely access to

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

accurate and up to date beneficial information on legal persons and arrangements and applying sanctions for breaches of violation by legal persons to beneficial ownership obligations. These reforms are crucial in enhancing the integrity of the South African and the global financial system and for maintaining global investor confidence.

Out of the 22 action items that are contained in an Action Plan that was approved by the FATF Plenary at the time of South Africa's greylisting in February 2023, South Africa is now deemed to have addressed or largely addressed 20 of the action items in its Action Plan, leaving two items to be addressed in the current reporting period that runs from March 2025 to June 2025. Government continues working to address both outstanding action items to enable an exit from greylisting in October 2025. These improvements are critical not just for getting off the greylist, but, critically, for strengthening the fight against financial crime and corruption.

The collaborative efforts with the FATF and other global partners to address the FATF greylisting deficiencies are a testament to South Africa's commitment to transparency, compliance, and international cooperation in the fight against financial crime, and in contributing to the integrity of the global financial system. The South African government is steadfast in its commitment to these reforms with the aim of strengthening South Africa's financial system further and enabling the financial sector to remain globally competitive and contribute to balanced and sustainable growth in the country.

Conclusion: From Aspiration to Action

The time for half-measures is over. If we are serious about growth, about inclusion, and about transformation, then we must make capital work harder, smarter, and more equitably.
Let us seize this moment to:

MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY DEPUTY MINISTER OF FINANCE

- Unlock the trillions of Rands sitting in low-yielding instruments;
- Channel investment into the infrastructure, enterprises, and innovations that will define our future;
- Make South Africa not just a financial centre—but a **developmental capital market**, with Africa as its footprint and the world as its opportunity.

We have the institutions. We have the capital. We have the urgency. Now we need the collective will.

Let us build the financial system—and the economy—that South Africa deserves.

Thank you.