MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MEDIUM-TERM BUDGET SOUNDS A CLEAR WARNING ABOUT THE STATE OF SOUTH AFRICA'S PUBLIC FINANCES

Johannesburg, 1 November 2023. The Medium-Term Budget Statement (MTBS) laid bare the consequences of the failures of state-owned entities like Transnet and Eskom, which is negatively affecting the mining sector's profitability and government tax revenue.

In a stark illustration of this, the mining corporate tax take in the first half of 2023/24 is down by R24.6 billion, or 55.4%, relative to the same period a year earlier. This is an important factor in the R56.8 billion downward revision in gross government tax revenue compared to what was expected in the February budget.

The scale of the fiscal problem was further emphasised by the fact that, despite cuts to non-interest expenditure over the next two years of R85 billion and the signal of R15 billion worth of tax hikes in 2024/25, government debt is now expected to peak substantially higher at 77.5% of GDP compared to 73.6% forecasted in the February budget.

"These are necessary but insufficient steps to put South Africa's public finances on a more sustainable path. The task is so large that even R85 billion worth of cuts are not making a dent. The solution is to grow the economy faster. It's the only sustainable solution we have. There is only so much that can be cut and there are risks to the economy by raising taxes," said Hugo Pienaar, the Minerals Council's new Chief Economist.

Given this worrying situation, the Minerals Council South Africa welcomed Minister Enoch Godongwana's realistic diagnosis of the structural constraints on the economy and the interventions in conjunction with the private sector as a key partner to address these bottlenecks.

Without an urgent acceleration in the implementation of growth-enhancing structural reforms, South Africa is headed for a fiscal crisis. The mining sector will not be isolated from this crisis, and it cannot be left out of a response to develop a solution.

“This medium-term budget statement lays bare how crucial the mining sector is for government revenue. We saw it on the upside for the past two years during our response to the COVID-19 pandemic, and now on the downside this year”, said Mr Pienaar.

Over the next three fiscal years, relative to the February 2023 budget forecast, government tax revenue is now expected to be R121.4 billion less.

“Minister Godongwana’s comments about declining revenue reinforces what the Minerals Council has been warning of in recent years. It is a clear illustration of the strain on profitability in the mining sector because of rising input costs, lower commodity prices and declining production and sales. The mining industry can’t do anything about commodity prices, but there are levers to pull to reduce the costs faced by the industry amid double-digit electricity price hikes and transport logistic inefficiencies, particularly the rail network and ports operated by Transnet,” said Mr Pienaar.

According to the MTBS, coal and iron ore exports forfeited because of rail and logistics operational failures could have added 1.3 percentage points to the current account balance in 2022, resulting in a current account surplus. The cost to the economy of rail inefficiencies last year is estimated at R411 billion.

In the first six months of 2023/24, VAT refund payments are R21.5 billion higher relative to the same period last year due to increased investments in embedded generation and higher costs of doing business, including more expensive road rather than rail transport. Out of the R21.5 billion in refunds, the mining sector alone accounted for R5.7 billion in VAT refunds. This illustrates the sector’s reliance on road in the absence of efficient rail logistics and the scale of self-generation projects initiated by the sector.

Minister Godongwana’s commitment that there will be a separation of infrastructure management from the operations in Transnet in coming months is a welcome development because it will clear the major hurdle blocking the private sector’s involvement in operating trains on the rail network.

The Minerals Council further notes Minister Godongwana’s comments that only once there is a clear path for the Transnet Roadmap, which includes enhancing efficiencies, and facilitating increased private sector competition and capital investment, will government consider financial support for Transnet.

The Minerals Council and its members are working through the Business for South Africa body to engage the Presidency and Ministers on urgently arresting and stabilising the deterioration in rail and port services provided by Transnet, finding solutions to South Africa's energy crisis as well as crime and corruption. The private sector is a critical partner in addressing key constraints on the economy and, in so doing, improving perceptions of the country, attracting investment and ensuring inclusive, sustainable growth and job creation.

"While we remain positive on recent reform announcements from government to effect change and include private sector participation to drive the economy, we need far more urgency in dealing with these constraints," said Mzila Mthenjane, CEO of the Minerals Council.

Hugo Pienaar has joined the Minerals Council as Chief Economist with effect from 1 November after the retirement of Henk Langenhoven who spent eight years in the role. Mr Pienaar previously worked at the Bureau for Economic Research for 17 years.

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